?

What have we been doing?

Mercantile Investments and Finance PLC

Integrated Annual Report 2017/18

An
Year in
Review

Scan to view this
Annual Report
online at
http://mi.com.lk/value-creation/annual-report-2017-18/

Mercantile Investments has over 50 years of industry experience, financial expertise and understanding of local needs; strengths that have kept us at the forefront of our competitive industry sector while retaining the trust of the many stakeholders we partner.

As one of the nation's most successful finance companies, we have always believed in the value of long term sustainability achieved through prudent yet progressive policies, rigorous governance and a deep commitment to the work we do. We are proud of what we have achieved over five decades of operations, strengthening our reputation as a preferred employer and as a stable and trustworthy finance company that keeps the best interests of its shareholders and partners always at its heart.

This report describes an impressive year, where we have maintained our position as one of Sri Lanka's best managed companies; expanding our footprint to deliver excellence in financial solutions to thousands of people across the island, even as we strengthen our long-term relationships, creating and sharing value with the diverse stakeholders we serve.

And that's what we have been doing.

Contents

Overview

We're committed in our visionary aspiration to excel in our sphere of business; providing access to financial capital and attractive returns.

What make us unique

Overview

About the Report & Our Unique Value Creation Story

Mercantile Investments takes a long term perspective of its business actions for the betterment of its investors, customers, employees, suppliers and also the economy, society and the environment.

An Integrated Report following GRI standards

The company is proud to present an Integrated Annual Report for the fifth consecutive year, prepared in accordance with the International Integrated Reporting framework of 2013, issued by the International Integrated Reporting Council (IIRC). As an organization embracing integrated thinking and an integrated business approach, it is our prerogative that we present our performance against the key capitals we manage, in order that our investors and other key stakeholders can make a fair assessment of our efforts for the recently concluded financial year. Our report is structured to capture the key elements of our unique business model and how we managed to create the required sustainable value for our stakeholders, touching upon the essence of our performance and matters deemed material for reporting.

Mercantile Investments takes a long term perspective of its business actions for the betterment of its investors, customers, employees, suppliers and also the economy, society and the environment. We continued to be receptive to societal needs and acted responsibly within the communities and environment that we operate. As an organization that spans over five decades, we are not only proud of our business successes but also has continued to display excellence in corporate reporting standards. Accordingly, as another leap in reporting excellence, we voluntarily early adopted Global Reporting Initiative (GRI) Standards, starting from this financial year, to report on our sustainability performance.

How we create value

Through a highly successful business enterprise, MI over the last five decades has been a source of strength to all those who have sought our financial services and business acumen. As a company built on sound fundamentals, our philosophy has always been to give the best in whatever we do and when doing so to retain the trust and loyalty of people, as a true test of our brand promise. In pursuit of our wider aspirations and goals, we operate our own unique business model with embedded value creating processes. In constantly responding to the opportunities and challenges of our external environment, we have honed our business acumen, knowledge and competencies over time, to generate the required stakeholder value. We continue to enhance and sustain investor wealth, which remains the primary focus in our business journey.

As a financier, we provide the capital required by entrepreneurs in key industries, to customers in pursuit of improving their life styles in tandem with the growth of per capita income levels. We have added value to the various initiatives of our customer base with our knowledge and business acumen in guiding their investment decisions and being a supportive and responsible financier. Our financial strength reflected from our strong capital base coupled with the sound governance and risk frameworks we embrace have safeguarded the investments of our depositors even in volatile challenging times for the industry. The investment returns to our depositors have been guaranteed by our prudent approach and stringent regulatory compliance and adjusted for risk.

As employers we have been known for our commitment to developing careers and creating the opportunities for knowledge development and skill and competency building. Our investment in our employees has gone beyond compensation and reward. We are an employer of choice and earned the coveted position of being among the 'Great Places to Work' yet again in 2017. Our strong bonds with our community through our interactions have led to spawning entrepreneurial skills and development of cottage industries which we have supported and nurtured through our business expertise.

We have uplifted the less privileged through our corporate philanthropy and corporate social responsibility initiatives that have given us the social license to operate across Sri Lanka as a socially acclaimed responsible corporate citizen. However, we do not rest on our laurels, as for us, value creation does not end with investor wealth creation, but extends beyond commercial boundaries to touch lives, hearts and minds of people and communities we transact business with, by contributing to their own individual wealth creation and development. Our efforts towards this purpose are further underlined by our continued commitment to reduce our carbon foot print and conserve the environment for future generations.

Integrated Business model

In creating stakeholder value that is sustainable and progressive, we adopt a unique business model that strives to enhance the six capitals we manage and aligns MI's business operation to its well defined corporate strategy over the short, medium and long term. At the heart of our business model is the primary goal of sustainable wealth creation for our investors, based on our visionary aspirations of striving for excellence in our sphere of business.

The different business elements and processes depicted in MI's integrated business model given in the next two pages explains how we transform and enhance the capital we input. As a responsible corporate, we carefully manage our operations in a way that the final outputs being our products and services and various value outcomes and impacts resulting from our corporate actions are kept to expected high standards, while eliminating or minimizing any perceived negative impacts along the way.

We remain a socially responsible enterprise that is receptive to the needs of society and protective of the environment. In managing risk and potential negative outcomes, we adhere to effective governance and risk management frameworks that encompass high level risk management techniques and a strong control environment supported by sound corporate policy, procedures and practices, and continuous assurance and review, best suited for the finance industry. Moreover, the success of MI's business revolves around its people who manage it and make the organization's mission and objectives a reality. We possess the required intelligence and know-how to stay ahead of competition and our brand is known for its financial strength and stability, the foundation upon which we have built our integrated business model.

For us, stakeholder value creation is a continuous process of perfecting our model as we continue to analyze, revisit and fine-tune the components of the model each year. This has resulted in improved business acumen and improvisation of strategy that is a result of the dynamics that prevail in both the internal and external environment in which we operate. More importantly it has also motivated us to aspire to greater heights.

The various components, outputs and outcomes of the model have been page referenced in the diagram, taking our readers through our unique value creation process. These sections discuss our performance for the year under review in detail and explain how such efforts contributed towards enhancing the six forms of capital that we manage and their impacts on the various stakeholders.

Our Integrated Business Model

Vision, Mission & Values (Pages 30-31)

Strategic Goals (Pages 54-57)

Capital Inputs

Financial Capital
Represents the pool of funds available (Pages 58 to 75)

Manufactured Capital
Tangible Infrastructure in place (Pages 76 to 81)

Social & Relationship Capital
Our relationship with business stakeholders and society (Pages 82 to 97)

Intellectual Capital
Brand strength and knowhow (Pages 98 to 101)

Human Capital
The skilled experience workforce. (Pages 102 to 111)

Natural Capital
Natural resource inputs. (Pages 112 to 120)

Value Creation Process

Strategy (Pages 51-57)

Business Environment Analysis and Outlook (Pages 42-50 & 121-123)

Technology (Pages 79-81)

Human Resource Management (Pages 102-111)

Lending and collection (pages 66 & 67)

Deposit Mobilization (page 68)

Financial Management & Investment (pages 68 & 69)

Supplementary Services (page 69)

Audit and Control (page 140)

Performance Monitoring (pages 58 - 69)

Risk Management (Pages 194-208)

Governance (Pages 125-193)

Output

Leases, Hire Purchases, Loans & Advances and Deposits
(Pages 64 to 69)

Carbon Footprint
(Page 120)

Outcomes

Our Key Stakeholders

Investors (Pages 88 & 310 to 313)	Customers (Pages 84 to 87)	Employees (Pages 102 to 111)	Suppliers/ Lenders (Page 89)	Regulatory Bodies (Page 87)	Society (Pages 90 to 97)	Environment (Pages 112 to 120)
» Profitability Growth » Dividends » Capital Adequacy » Assets & Liability mismatch	» Customer Satisfaction » Loyalty/ Retention » Responsible Marketing » Innovation	» Remuneration & Other Benefits » Knowledge Accretion » Enhanced Employee Wealth » Career Advancement	» Sourcing of Funds » Optimal Pricing » Lasting Supplier Relationships » Quality Goods & Services	» Implementation of Rules & Regulations » Accurate Tax Payments » Loan To Value (LTV)	» Community Service » Ethical Business » Social Empowerment	» Green House Emission » Sustainable Green Practices

Impacts

Stakeholder Capital Value Transformation

Investors	Customers	Employees	Suppliers/ Lenders	Regulatory Bodies	Society	Environment
» Stable Returns » Contribution to the Economy	» Financial Empowerment » Brand Loyalty » Total Customer Experience	» Creating Employment » Job Security » Productive Workforce	» Lasting Supplier Bondage » Quality Sourcing	» Contribution to National Development » Prudent Management	» Sustainable Community Development » Responsible Corporate Practices » Supporting National Growth	» Emission Control » Protecting Environment & its Habitats » Sustainable Living

Reporting Parameters

GRI Standards General Disclosure
102-1, 102-4, 102-5 and 102-45

Scope of Report /Reporting Boundary

The Integrated Annual Report disclosure relates to activities of Mercantile Investments and Finance PLC, within the geographical boundaries of Sri Lanka, as MI does not operate any branches or subsidiaries in other countries. There are no holding companies or subsidiary companies in MI's structure, however it does include an associate company, Nuwara Eliya Hotels Company PLC, in which MI has a 26.12% shareholding. The Company notes that any impact arising from activities of its associate, Nuwara Eliya Hotels Company PLC, is insignificant for purpose of detailed reporting. However, the audited Financial Statements appearing under the section titled Financial Reports, disclose the consolidated position inclusive of MI's Associate Company, Nuwara Eliya Hotels Company PLC, which has been incorporated into the Financial Statements in accordance with LKAS/SLFRS requirements. Unless otherwise stated, information both financial and non-financial in nature contained in this Report has been either extracted from the financial statements of the company or through internally maintained records.

Regulations Complied

Sri Lanka Accounting Standards (LKAS/ SLFRS)

The Audited Financial Statements contained in this report have been prepared and presented in accordance with requirements of the Sri Lanka Accounting Standards (LKAS) and Sri Lanka Financial Reporting Standards (SLFRS) issued by the Institute of Chartered Accountants of Sri Lanka. The Financial information provided in the Management Discussion and Analysis, corresponds to the LKAS/SLFRS based Audited Financial Statement balances where applicable.

Other Reporting Regulations and Recommended Disclosures

Disclosures contained in this Report are compliant with reporting requirements stemming from other key regulations such as the Companies Act No 07 of 2007, provisions stipulated by the Central Bank of Sri Lanka and include the Finance Business Act No 42 of 2011 and the rules of disclosure of the Colombo Stock Exchange and listing requirements of the Securities and Exchange Commission (SEC). Required disclosure on MI's level of adherence to the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and related amendments issued by the Central Bank of Sri Lanka is given in the Corporate Governance report. The report also provides MI's level of adherence to the newly issued Code of Best Practice on Corporate Governance, issued by the Institute of Chartered Accountants of Sri Lanka in 2017.

GRI Standards General Disclosure
102-12

International Reporting Frameworks adopted

➲ Integrated Reporting Framework

In preparing the Integrated Annual Report and articulating our unique value creation process and presenting disclosure, we have drawn reference to the International Integrated Reporting framework of 2013 (www.theiirc.org) and its associated concepts, principles and guidance embracing key elements of the framework.

GRI Standards General Disclosure
102-54, 102-55 and 102-56

➲ Global Reporting Initiatives (GRI) Standards on Sustainability Reporting

"In Accordance Comprehensive"

We early adopted the GRI Standards which are effective from the next financial period and followed the "In Accordance Comprehensive Reporting International Framework", advancing from the GRI G4 framework adopted in previous year.

GRI Foundation Standard 101

We applied the following reporting principles in keeping to the foundation standard GRI 101 of 2016.

- ➲ Principles applied on defining report content:

  Stakeholder inclusiveness, wider sustainability context related disclosure and materiality testing and completeness

- ➲ Principles applied on defining report Quality

  Accuracy, balance, clarity, comparability, reliability and timeliness

GRI Standard's General Disclosure102, Management approach 103, and topic Specific standards- Economic 200, Environment 300 and Social 400

The GRI standards content index booklet separately given for quick reference provides the disclosure page links for above standards covering the mandatory "shall" requirements to fulfill comprehensive reporting. Any reasons for omissions have been duly explained in the content index. We hope to provide financial services sector specific disclosures from the next financial year, once the GRI standard is further elaborated and guidance related to the finance sector is provided.

Other Key Considerations

Assurance Reports

Subject matter for which External Assurance obtained	Output from assurance	External assurance obtained from	Page No.
Financial : 1. Annual Audited Financial Statements	External Audit Report	Messrs. Ernst and Young, Chartered Accountants	229 to 231
Sustainability : 2. 2.a Sustainability disclosures	Assurance Report	Messrs. Ernst and Young, Chartered Accountants	124
2.b Greenhouse gas emission verification	Assurance Report	Sri Lanka Climate Fund (Pvt) Ltd.	120
Governance : 3. Compliance status to Corporate Governance Direction issued by CBSL	Assurance Report	Messrs. Ernst and Young, Chartered Accountants	193
4. Directors' statement on Internal Controls	Assurance Report	Messrs. Ernst and Young, Chartered Accountants	228

The external assurance providers operate independently in carrying out their reviews. The Board of Directors of MI along with the Corporate Management have no direct dealings or links with the external assurance providers.

GRI Standards General Disclosure
102-48, 102-49 and 102-51

Material Changes Since Last Reporting Date

No significant changes were observed to the scope, boundary, material topics and reporting basis since the last reporting date of 31 March 2017, except for the early adoption of the GRI standards to enhance sustainability reporting.

Availability of the Annual Report

Copies of the Annual Report have been sent to all shareholders, prior to holding the Annual General Meeting, in accordance with the prescribed period of notice. The report has been also made available on MI's corporate website www.mi.com.lk and the CSE website www.cse.lk. (The report can be viewed by referring to MI stock code "MERC").

GRI Standards General Disclosure
102-53

Contact point for comment or queries with regard to this annual report should be sent via mail or e-mail to;

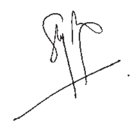
Contact and Address

The General Manager Finance,
Mercantile Investments and Finance PLC,
236, Galle Road, Colombo 03.
E-mail : accounts@mi.com.lk

GRI Standards General Disclosure
102-32

Responsibility for the Integrity of the Integrated Report and Sustainability Reporting

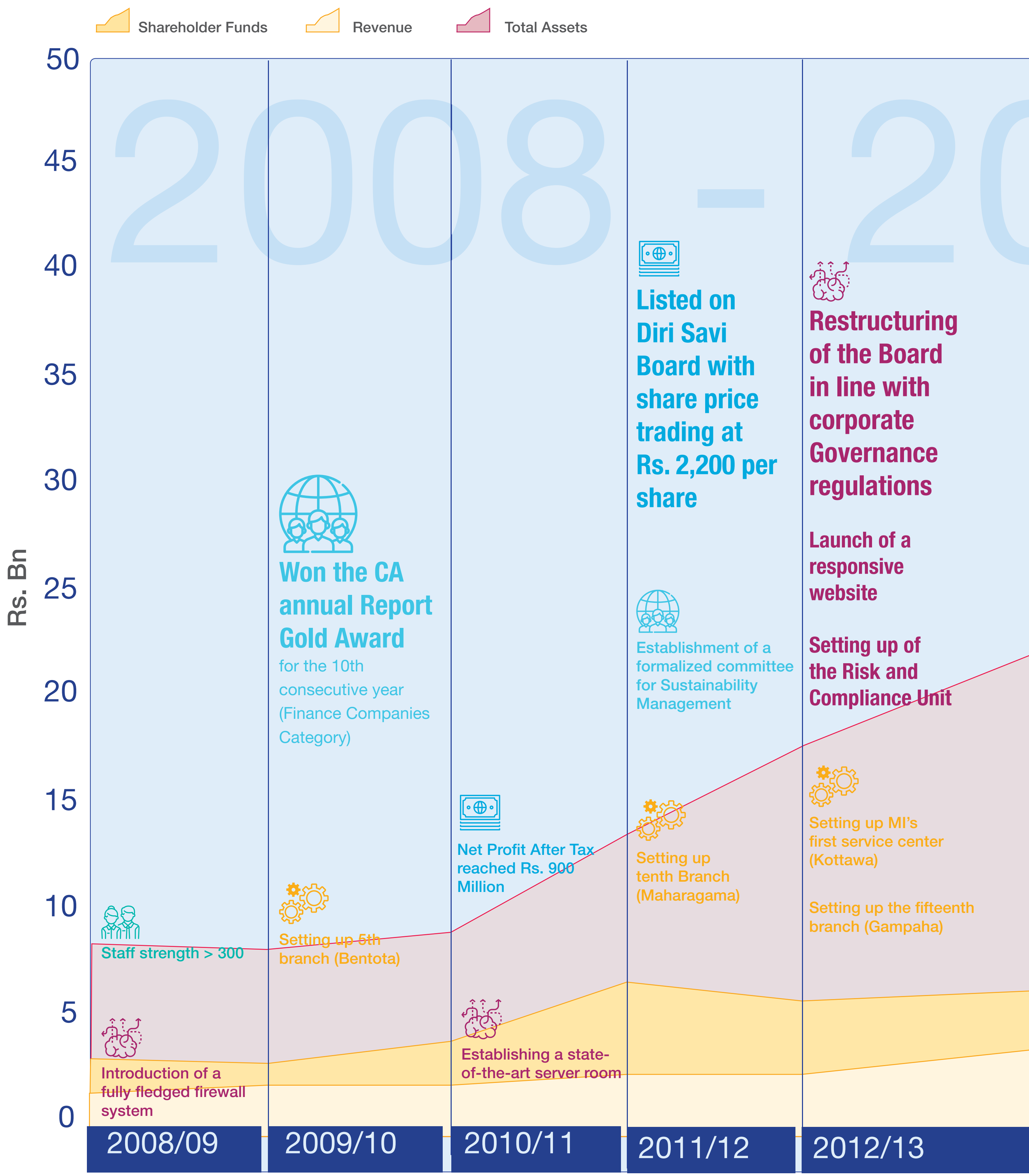
I acknowledge the integrity of the disclosures contained in the Integrated Report which includes coverage of our sustainability efforts and impacts. The Report comprises of an Overview section, the Management Discussion and Analysis and the section on Stewardship. All these sections/reports should be read in conjunction with the Audited Financial Statements and other reports given in the Financial Reports section of the Annual Report. The Board, through its delegated authority to the Finance Director/Chief Financial Officer, governed the preparation and presentation aspects of the Integrated Annual Report that include requirements on sustainability Reporting. I affirm that the Integrated Annual Report presented herewith has been prepared in accordance with the International Integrated Reporting framework of 2013, issued by the International Integrated Reporting Council (IIRC), and the GRI Standards "in accordance comprehensive" reporting framework.



Finance Director/Chief Financial officer

17th May 2018

Capital Transformation Last Decade



Capitals Transformed

Intellectual Capital | Human Capital | Social & Relationship Capital | Financial Capital | Manufactured Capital | Natural Capital

2013/14

Launch of the Vehicle Disposal and Valuation Centre

Launch of wider CSR campaigns - Support to Yala National Park

Embracing 365 cloud computing technology

Won the CA Sri Lanka annual report Gold Award for the 13th time (Sector Award)

2014/15

Reached Fifty years in business operations

Tree planting campaign in Hakwatuna Reservoir

Fifth service center (Kaduwela)

Enhanced core system capabilities

Setting up of the Micro Finance unit

2015/16

Won four accolades globally and locally for reporting excellence

Lending portfolio > Rs. 25 Billion

Deposits from customers > Rs. 15 Billion

Obtained a carbon certification

Setting up 20th branch (Ratnapura)

Setting up a Disaster Recovery site firewall

Joined LankaPay SLIPS online payment processing platform

2016/17

Green Lending Portfolio grew by 77%

Number of beneficiaries from our community service grew by 487%

Expanded branch network to 35 and beyond

Staff Strength grew by 19% to 876

2017/18

Board Approved the Corporate Plan for 2018 to 2020

Embraced the CA Corporate Governance Code 2017

Won CA Sri Lanka all Island Silver Award for Sustainability reporting

Recognised as one of the Sri Lanka's Top 25 Companies to work for

Launch of New HR Information System - MINTHR

Made a significant investment towards the "Animal Rehabilitation Centre" at Attidiya

Future

Our Goals 2020

Total Assets >Rs.50Bn

Shareholder Funds >Rs. 9Bn

Revenue >Rs.8Bn

Overview
Management Discussion and Analysis
Stewardship
Financial Reports
Additional Information

A Successful Year 2017/18

Financial Capital Highlights

GRI Standards General Disclosure 102-7

For the year ended 31st March	What We Achieved			Financial Goals	
	Actuals 2018 Rs.'000	Actuals 2017 Rs.'000	Change %	Budgeted 2018 Rs.million	Forecasted 2019 Rs.million
Results for the year					
Gross Income	6,984,093	5,645,533	24	> 6,700	> 8,000
Interest Income	6,564,038	5,286,060	24	> 6,500	> 7,500
Interest Expenses	3,703,776	3,136,218	18	< 3,800	< 4,500
Profit before Tax	878,955	313,679	180	> 850	> 1,000
Provision for Taxation	364,890	111,665	227	< 350	< 400
Profit after Tax	514,065	202,014	154	> 500	> 650
Financial Position at the year end					
Shareholders' Funds (Stated Capital and Reserves)	8,683,086	7,867,265	10	> 8,800	> 9,000
Deposits from Customers	20,073,010	17,017,674	18	> 19,000	> 24,000
Loans & Advances, Leases and Hire Purchases	31,935,118	28,645,276	11	> 32,000	> 38,000
Total Assets	40,355,948	37,492,664	8	> 40,000	> 45,000
Investors					
Gross Dividend	45,090	-	100	> 45	> 45
Earnings per Share (Rs.)	171.01	67.20	154	> 200	> 220
Dividends per Share (Rs.)	15.00	-	100	> 15	> 15
Net Assets per Share (Rs.)	2,888	2,617	10	> 2,900	> 3,000
Ratios					
Return on Shareholders' Funds (%)	5.92	2.57	3.35	> 8	> 10
Return on Average Assets (%)	1.32	0.57	0.76	> 2	> 2
Interest Cover (Times)	1.24	1.10	13	> 1.5	> 1.5
Dividend Cover (Times)	11.40	-	100	>10	>12
Equity: Assets (%)	21.52	20.98	0.53	> 20	> 20
Debt: Equity (Times)	3.42	3.59	-4.87	< 4	< 4
Dividend Payout Ratio (%)	8.77	-	8.77	> 4	> 8
P/E Ratio (Times)	15.09	38.39	-60.7	> 10	> 15
Non-Performing Loans Ratio (%)	7.58	6.92	0.66	< 3	< 7.5
Total asset growth (%)	7.64	10.39	-2.75	>15	>15
Advance Growth (%)	11.48	14.34	-2.86	> 20	> 20
Deposit Growth (%)	17.95	7.60	10.35	> 15	> 15
Operating Profit Margin (%)	11.2	3.7	7.5	> 20	> 20
Value Added per Employee (Rs. '000)	7,444	6,564	13	> 7,500	> 8,000
Interest Spread (%)	7.33	6.41	0.92	> 8	> 8
Net Interest Margin (%)	8.76	7.42	1.34	> 8	> 9
Statutory Ratios					
Liquid Assets (%)	11.4	10.81	0.59	> 12	> 12
Core Capital Ratio (%) - Minimum Required 5%	16.24	17.17	-0.93	> 18	> 20
Total Risk Weighted Capital Ratio (%) - Minimum Required 10%	17.36	14.26	3.1	> 18	> 20

Overall Highlights

Net Interest Income

Rs. 2.8Bn

Net Interest Income
grew by 33%

Profit After Tax

Rs. 514Mn

Profit After Tax
grew by 154%

Total Assets

Rs. 40Bn

Total Assets
grew by 8%

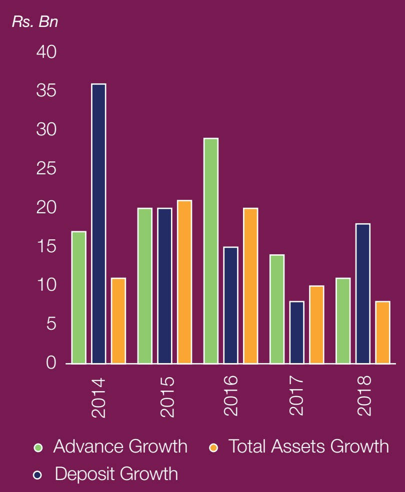
Capital Strength

Rs. 8.7Bn

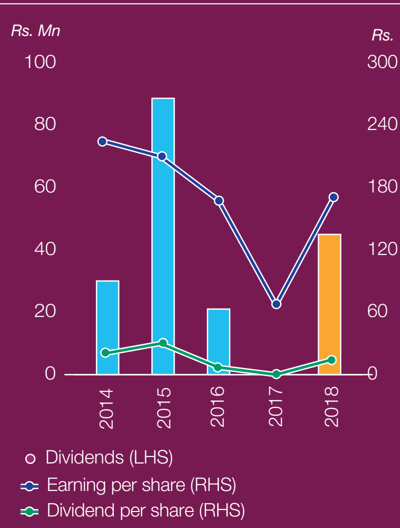
Capital Adequacy Position
Core Capital Ratio 16.24%
Total Risk Weighted Capital Ratio 17.36%

Profitability Growth

Balance Sheet Growth

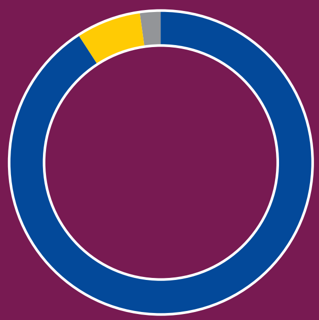


Investor Returns



Business Sphere Highlights

Business Sphere Revenue



Lending & Collections 91%
Treasury Investments 7%
Supplementary Services 2%

Deposit Base

Rs. 20Bn

18%
Growth

A Successful Year 2017/18

Other Capital Highlights

GRI Standards	For the year ended 31st March	2018	2017	Variance
	Manufactured Capital			
	Expenditure on IT (Incurred/ to be incurred in Rs. Mn)	>50	>270	-81%
	IT related user training (In hours)	1,238	5,145	-76%
	Social and Relationship Capital			
413-1	Total clientele	>60,000	>45,000	30%
413-1	New customers (Number)	>25,000	>25,000	8%
	New products launched(Number)	-	2	-100%
201-1	Number of new business locations launched	-	5	-100%
204-1	Percentage of purchases from suppliers: Head office, Colombo (%)	58	60	-2%
	Other locations of Sri Lanka (%)	42	40	2%
419-1	Significant fines for product/service (Rs.000)	-	-	-
413-1	Number of CSR Beneficiaries	1,958	4,218	-54%
205-2	Training on Anti money laundering (number)	131	125	5%
419-1	Significant fines for violation of laws/regulations (Rs.Mn)	-	-	-
201-1	Community Investment cost (Rs.000)	3,586	2,046	75%
201-1	Staff volunteered time on CSR (hours)	518	4,152	-88%
	Intellectual Capital			
	Brand Expenditure (Rs. Mn)	68	60	13%
	Human Capital			
401-1	Total workforce (Number)	951	876	9%
401-1	Recruitments for the year (Number)	321	302	6%
202-2	Local hiring of employees (%)	69	70	-1%
401-1	Attrition rate (%)	26	19	7%
401-3	Retention rate after parental leave (%)	67	40	27%
403-2	Number of injuries	5	2	150%
403-2	Number of lost days	115	26	342%
403-2	Absenteeism in days	70	215	-67%
404-1	Training hours per participant as an average (Hours)	7	9	-23%
404-3	Employee performance appraisal as a percentage of total workforce (%)	85	77	8%
103-2	Employee grievances reported and resolved (Number)	3	6	-50%
201-3	Employee benefit liability- (Rs.000)	183,477	171,772	7%
406-1, 408-1, 409-1, 103-2	Human rights violation	-	-	-
	Natural Capital			
302-1	Electricity consumption in Head office(KWh)	618,312	619,824	0%
	Electricity consumption at head office in Value (Rs.000)	18,589	16,520	13%
302-1	Total fuel usage (Liters)	903,144	816,231	-26%
	Fuel Costs (Rs.000)	77,253	68,435	13%
303-1	Water consumption at Head office (Units)	7,799	8,308	-6%
	Water consumption at head office in Value (Rs.000)	1,580	976	62%
306-2	Paper recycling (Kg)	1,126	2,756	-59%
307-1	Significant environmental fines (Rs.000)	-	-	-
	Environment protection expenditure (Rs.000)	1,661	357	365%
305-1, 305-3	Total Carbon footprint (Tonnes)	3,132	2,447	28%

Total Customer Base

>60,000Nos.

Total Customer Base grew by 30%

Total Staff Strength

951 Nos.

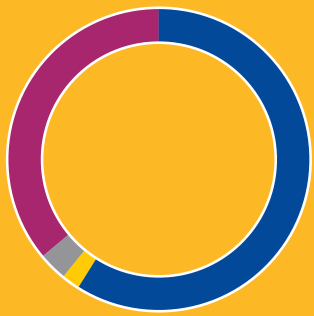
Total Staff Strength grew by 9%

Community Investment

Rs. 3.6Mn

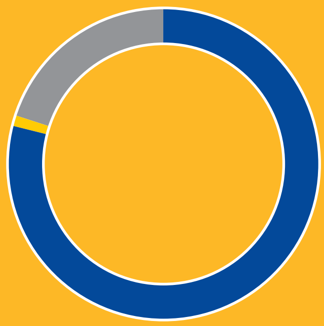
Community Investment grew by 75%

Social Impact;



Volunteered Hours on Social & Environmental Projects

Social	747	- 59%
Health	31	- 2%
Education	36	- 3%
Environment	464	- 36%



Beneficiaries of Community Initiatives

Social	1,538	- 79%
Health	20	- 1%
Education	400	- 20%

Environment Impact;

Tons of CO2 Equivalent Released

0.05
PURCHASED WATER (DRINKING AND NON-DRINKING)

583.07
BUSINESS TRAVELS

899.11
PURCHASED ELECTRICITY

103.12
EMPLOYEE COMMUTING (SCOPE 3)

0.13
WASTE FOOD

0.02
PAPER WASTE

Total Carbon emission

3,132 tCO2e

Environmental Investment

Rs. 1.37Mn

Year at a Glance

April 17

June 17

Enhanced the Human Resource Information System with the launching of the external solution, MINTHR.

June 17

Second time running, MI was recognized as a great employer and a preferred place to work. MI was placed within the Sri Lanka's top 25 best companies to work for by the Great Place to Work Institute.

September 17

Declared a first Interim Dividend of Rs. 7 per share on 22nd September 2017 to our Investors.

October 17

MI Annual Party was held in grand style at the Eagle's Lakeside

December 17

Won the CA Sri Lanka All Island Silver award for sustainability reporting at a gala event held at BMICH in December 2017.

December 17

Held Christmas Carols with the participation of MI staff and children.

February 18

For the excellence in sustainability reporting, won the runners up ACCA award in the Financial Services and Insurance category for the year 2017/18.

March 18

On "Wild Life Day", launched the second phase of the Attidiya wildlife rehabilitation centre.

March 18

We planned our journey for the next three years, so that we have a detailed road map in hand to guide us towards the desired business goals. Accordingly, a three year Corporate Plan was Board approved.

How have we created value

Executive Reports

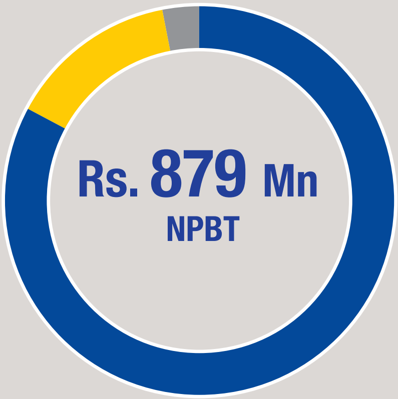
Doing better each year...

CHAIRMAN'S MESSAGE

We know we are headed in the right direction and that our far-sighted strategies will continue to yield long term value far into the years ahead.

Saro Weerasuriya
Chairman

Chairman's Message



Impressive Profitability

- Lending & Collection Sphere 83%
- Treasury Investments Sphere 14%
- Other 3%

NPAT
2017/18
Rs.514 Mn

NPAT
2016/17
Rs.202 Mn

"We continued to consolidate our two core business spheres of lending and deposit mobilization - increasing focus around rapidly developing economically viable regions, and capitalized on our expanded business presence coupled with the company's enduring financial stability."

GRI Standards General Disclosure
102-14

My Dear Stakeholders,

I am pleased to present before you the Company's Integrated Annual Report for the financial year ended 31st March 2018. Our commitment to creating steadfast value and sustainable growth for our valued stakeholders remained unwavering, and fulfilled expectations of realizing optimistic growth projections set out at the beginning of the financial year. The sustained strategic focus combined with strong Board leadership helped us manoeuver our business on to the desired path, despite the challenging business conditions that persisted during the period under review for Licensed Finance Companies (LFCs) in general.

The relatively high interest rate regime continued for the third consecutive year, driven by the tight government monetary policy and restrictions on credit growth. While recording moderate lending growth, the industry had to remain vigilant about its asset quality, particularly in the wake of fluctuating economic conditions and borrower repayment capacity.

Despite these challenges, our receptiveness to market changes helped us to capitalize on emerging opportunities and also to take prompt measures to minimize risk. We continued to consolidate our two core business spheres of lending and deposit mobilization - increasing focus around rapidly developing economically viable regions, and capitalized on our expanded business presence coupled with the company's enduring financial stability.

Financial Results

➲ Investor Returns

Moving solidly ahead from a financial performance recorded in the last financial year, Net Profit Before Tax (NPBT) of the company increased astoundingly by 180% to Rs 879 Million for the financial year ended 31st March 2018. Similarly, Net Profit After Tax (NPAT) rose commendably to Rs 514 Million, up 154% year-on-year, compared to the moderate NPAT of Rs. 202 Million posted last financial year.

In keeping to our promises, we created investor wealth, declaring a first interim dividend of Rs 7/=per share and Rs. 8/= per share as the second interim dividend. The impressive profitability boosted the EPS by 154% to Rs.171, thereby assuring our investors strong earnings potential and reinforcing the market price of the company's ordinary share which stood high at Rs.2,580 based on the last traded price.

➲ Lending business revenue

Gross Revenue was up 24%, driven primarily by the core business lending revenue which rose 26% to Rs 6,390 Million. As the government continued to tighten the monetary policy, the industry average credit growth contracted to 9.8% by end 2017, while MI's own credit growth too witnessed a decline from 14% to 11%, with the loan book reaching Rs. 31,935 Million by the balance sheet date. This moderate loan book growth was compensated by improved core business spreads which moved up by 1%, boosting revenue.

During the year, Mercantile Investment's (MI's) widening branch footprint was leveraged upon to maximize on core revenue generation, with a two-pronged approach of attracting new clients to our wide array of product offerings while cementing strong bonds with existing clientele. Propelled by Vehicle base lending and Micro Financing, Loans and Receivable business was a key contributor to core revenue, increasing satisfactorily by 53% YOY, while interest income from traditional Lease business remained the main revenue generating product. Hire purchase financing revenues showed a 3% downward trajectory, with leases continuing to be the popular option for customers since the elimination of VAT in 2015, up by Rs 364 Million which contributed to 34% of total interest income. Non Fund based Income was also up by 17% due to Share trading gains which amounted to Rs 219 Million, boosting revenue further.

➲ Asset Size and Quality

The Balance sheet expanded moderately, owing to the slowdown witnessed in the loan book, with total assets advancing to Rs 40 Billion, reflecting a moderate growth of 8% YOY, somewhat below the reported industry average by end of 2017. A key reason being, equity investments, the second-largest asset as at the end of the previous year, declining by 57% to Rs 1.3 Billion due to the significant disposals of this period.

Stemming from previous year, asset quality continued to be impacted with a 7.58% non- performing ratio, on account of few large accounts, though backed by adequate prime security. Ongoing measures were sustained to recover dues, while the Recovery department implemented various actions to improve collections and regularize arrears contracts. As a result, total impairment charges stood at Rs 426 Million, 32% lower than last year's Rs 625 Million.

➲ Deposit Mobilization

Deposit mobilization played a pivotal role this year, not only in supplying the required funding at optimal pricing but to bridge the gap in short term asset and liability mismatches. We managed to sustain a noteworthy deposit base growth of 18%, driven by an aggressive deposit drive initiated across the branch network by the deposit marketing arm. We attracted significant level of new depositors while maintaining a healthy over 70% deposit retention ratio. This was possible due to our continued focus on offering attractive returns and the unique personalized service afforded to all clients who accessed our services.

➲ Fund Management

In the backdrop of thinning margins for the Finance Industry, it was pivotal that funding was sourced optimally at lower rates. Accordingly, MI's treasury division was equal to the task, successfully sourcing low cost funding primarily through Bank borrowings. Close management of treasury ensured that the total borrowings declined by 15% to Rs 9,582 Billion, which encompassed Rs. 7 Billion of more than one year borrowings, obtained to ease gaps in short term assets and liability mismatches.

➲ Cost Optimization

As a parallel strategy, we maintained close watch on overhead expenditure, which reflected a cost escalation of 14% to Rs 1,786 Billion, primarily due to the expansion of business and inflationary effects. Accordingly, the cost to income ratio remained above the internal threshold at 63% but declined from a peak 67%. As part of cost optimization measures, we monitored recurring expenditure to eliminate wastage. Ongoing systemization of manual operations too helped cut down on waste of valuable management time. The appointment of a cost controller last year and the continued emphasis on regular monitoring of cost at the unit level has set the tone for a cost-conscious culture across the organization.

Cementing Bonds With People

➲ Relationships with Customers, Communities and Society

As an organization built on strong fundamentals, culture and human values, we remained conscious of our dealings with people. From a business perspective, we continued to earn loyalty of our valued customer base. By carrying out a wide array of marketing initiatives and extending our legendary personalized customer service across the island, we increased total business relationships by 30%, attracting number of new customers to our fold.

We extended our service to the core and supplementary business sphere clientele based on the sustainability precepts of inclusivity and diversity. Having expanded our branch network and widened our business presence beyond the Western Province, we were on strong footing to afford greater funding opportunities. We extended our services to those with little or no access to credit, to support them in building their lives. Our budding microfinance business has opened horizons to build close links with communities and to build lasting and meaningful bonds with people.

Going beyond business boundaries, we also extended social support to communities especially the poor and the less privileged meet basic needs through the Sustainable Governance Committee initiatives. The green initiatives we continue to adopt and the investment made this year towards rehabilitating injured wild animals through the Wild Life Fund, continued to fortify our commitment towards protecting the environment and its habitats.

➲ Win-Win Relationship with Employees

We continued to nurture our human capital and focused on improving employee productivity whilst sustaining a motivated workforce. As branch expansion activities slowed down considerably this period, total staff strength remained at 951 reflecting a moderate 9% YOY growth. Through the recommendations of an external human resource consultancy firm, we took measures to further enhance the capabilities of our workforce and in parallel made plans to strengthen the human resource department.

As part of the continuous nurturing program, existing employees were trained by experts of various fields, while new employees underwent rigorous training while on the job, under the guidance of their superiors. As means of gaining commitment of employees towards broader corporate objectives, our successful performance based reward system was extended across all functions of the company. Whilst remunerating top performers, we afforded career advancement opportunities for high caliber individuals.

Strengthened Knowhow and IT Capabilties

To strengthen our intellectual capital for competitive advantage, we made a significant investment to acquire new talent from the finance industry and also to retain long standing employees who hold a wealth of experience. We were also successful in cementing close ties with our network of agents and intermediaries and initiated valuable shared growth propositions as part of the marketing drive.

In keeping to the business consolidation program, we took measures to enhance manufacturing capital for the future. Extensive evaluations were conducted to identify a suitable external IT core system. I am confident that we will be able to migrate to renowned system by end of the next financial year with enhanced user features and solid architecture to efficiently handle future business requirements and information needs.

A Strong Governance System

All members of the Board stayed committed in further strengthening the existing governance framework, embracing recommendations from the regulator as part of their periodic on site review conducted in 2017. In another significant stride, we embraced the revised CA Sri Lanka Corporate Governance guidelines issued in December 2017, which further strengthened the way we governed our business. In addition, we continued to comply to the Central Bank's Corporate Governance Direction number 03 of 2008 and its amendments.

To bolster Compliance and Risk Management, we took steps to recruit a qualified Senior Compliance Officer and also hired an experienced officer at the Senior Manager grade to take full time charge of Credit Risk Management. In terms of strengthening Policy and Internal Controls over standard operation procedures, all key divisions which include Credit, Recoveries, Deposits and Finance carried out extensive reviews and enhanced majority of the existing policy with Board sanction. The highlight was the development of a policy to introduce the Customer Protection Framework proposed by the regulator, starting from next financial year. We hope to implement proposed measures to further streamline how we manage our customers in a transparent manner, in keeping to proposed best norms and practices.

Future Business Outlook

The economic environment is expected to remain positive and vibrant, riding on the development activities that have commenced in the post-war period and the high profile projects in the pipeline. National GDP growth is optimistically forecasted above 4% in the short term, driven by both the public sector and private sector initiatives.

The Finance Industry, including the LFC sector, will have equal opportunity to capitalize on the economic development and also globalization, to boost revenue by pursuing emerging markets, meet changing customer needs and upholding innovation. Finance companies will also bear a fair share of challenges mainly due to the high import duty structure that prevailed for the vehicle sales market, coupled with the increasing industry competition and pressure exerted by the banking industry. While market interest rates and the government's credit control policy measures set to persist, the sector is bound to resort to high-yield bearing term-based lending in various forms to sustain margins and lending volumes.

Riding on the positive market sentiments and trends, Mercantile Investment will remain at the forefront of the industry. We hope to capitalize on emerging opportunities and stay proactive against risks and challenges, as we remain focused in executing the new three-year corporate plan. I am hopeful that we are well on course for the planned sustainable growth trajectory set forth, that will see us going past the Rs. 10 billion-mark in gross revenue by 2020.

Our competitive advantage yet again is our human capital and we will continue to nurture our employees and sustain the right service standards, keeping productivity levels intact. We hope to consolidate our position in regions in which we have a presence through a well-trained marketing team and expect to widen relationships with people of varying communities, utilizing the wider product mix that we now hold. I believe our micro-finance business enables us to make significant inroads in empowering communities.

Words of Appreciation

Let me take this opportunity to recognize all those who contributed immensely in raising the bar on performance standards and reaching desired profitability levels. It was a culmination of all the efforts of the MI team and the close bondage we continued to have with all our customers, depositors, funding partners, and other intermediaries that made it all possible.

I firstly thank my fellow members of the Board for their invaluable contribution made towards the betterment of the company. They remain a pillar in our success story and a source of strength, and their expert advice and guidance continued to enrich all organizational endeavours. As the flag bearers of the company's operation, I wish to also thank the whole MI team, for their efforts in pursuing corporate goals, which contributed immensely towards this period's noteworthy financial performance.

I wish to also thank the Governor, Deputy Governor, Director Non-Banking Supervision Department and to all staff of the Central Bank of Sri Lanka who dealt with us, for their continued guidance and for the cooperation extended.

I thank all our dear customers, agents and other business partners, for continuing to display your loyalty and treating us as your trusted partner. You continue to inspire us and drive us to look for better ways in serving you.

Finally, I extend my gratitude to all the investors, for placing immense trust in the Board, at all times. We are geared for the future in all facets to drive the Finance business to new frontiers, and focused in going that extra mile, to deliver desired stakeholder results.

Saro Weerasuriya
Chairman

17th May 2018

Doing the right things at the right time...

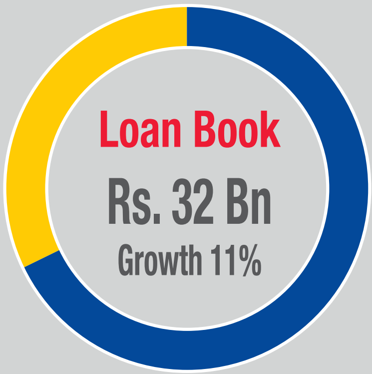
MANAGING DIRECTOR'S REVIEW

We're strengthening our long-term relationships, as we go on creating and sharing value with the diverse stakeholders we serve.

Gerard Ondaatjie
Managing Director

Managing Director's Review

"The company successfully extended its 'One-stop financial solution provider' concept to all key regions by way of greater decentralization of core business functions, strengthening branch marketing activities and affording a fulfilling customer experience which has become our hallmark."



Lending Consolidation

- Western Province - 68%
- Other Provinces - 32%

Despite rather challenging business conditions that prevailed in the Licensed Finance Company (LFC) sector, the company displayed a stellar performance by leveraging on its strategic focus and performance-oriented approach.

We made significant headway in consolidating our core business position across the branch network with a special focus on economically 'active' regions and potential customer segments. The company successfully extended its 'One-stop financial solution provider' concept to all key regions by way of greater decentralization of core business functions, strengthening branch marketing activities and affording a fulfilling customer experience which has become our hallmark.

Prevailing Macro Economic Conditions

The Asian region's expanding economic contribution, particularly Chinese market dominance and India's widening trade impact, weighed positively from a global standpoint and further widened horizons for neighbouring countries including Sri Lanka. In a positive development, global economic conditions continued to stabilize with the world output growing by 3.80%, moving steadily away from past recession, but still faced with various challenges such as the political uncertainties in the Middle East and radical economic policy changes of dominant world powers.

On the other hand, the Sri Lankan economy slowed down in 2017, with real GDP growing by 3.1%, compared to 4.5% recorded in 2016. The construction, finance and real estate industries contributed satisfactorily to GDP, while the launch of the Hambantota Industrial Zone in 2018 and the ongoing work on the proposed Colombo Port City Project added momentum to the growing economy. However, the tightened monetary policy stance of the Central Bank to control credit growth and market liquidity kept interest rates high during most part of the year. The exchange rate was also seen depreciating but was relatively lower compared to past years, at 4.7% (2016- 7.1%), kept under check by the improved international trade and greater inflow of FDIs.

Impact on Licensed Finance Companies (LFCs) Sector

In the LFC sector, in which we operate, core margins remained somewhat pegged back due to the higher interest rate regime and the resultant repricing effect increasing funding cost. Further, government policy on controlling inflation and restricting credit through interest rates and other measures brought down sector credit growth from 21% last year to 9.8% by December 2017. Despite the asset growth also slowing down, the Industry demonstrated its resilience and capitalized on its expanding reach. The relatively sluggish vehicle sales market was propelled during the later half of the financial year, with import duty revisions and easing of the Loan to Value (LTV) maximum limits on specific vehicle categories and types. There was also greater focus on non-traditional financing to sustain volumes, and more innovation and aggressive marketing of products, going down to grass root levels to cater to low income earners.

Performance Highlights

Profitability

It is noteworthy that both pre-tax profit and post-tax profits increased to Rs 879 Million and Rs. 514 Million, reflecting an astounding 180% and 154% rise respectively year-on-year. Despite the high interest cost and repricing effect impacting cost of funding, our commitment in boosting revenue, targeting both business growth and enhancing core margins, remained decisive in this turnaround, whilst also recording comparatively lower impairment charges than last year.

Wealth Creation

The strong performance led to improved returns for our investors. EPS moved up by 154% to Rs 171, while shareholder funds growth stood at 10% YOY. In keeping to company policy on retaining earnings for future growth, the dividend payout ratio remained lower at 8.8% with a Rs 15 per share dividend declaration being made for the year.

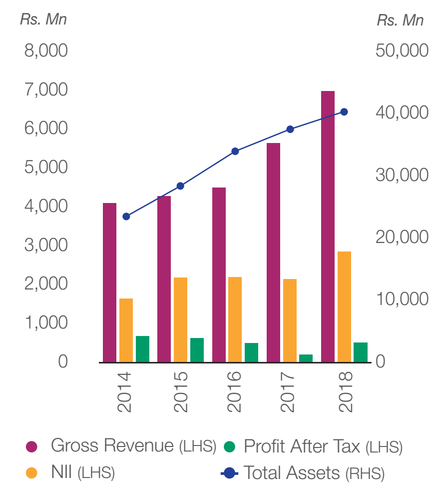
Revenue and Margins

Reflecting a commendable increase of 24% YOY, total gross revenue reached Rs. 6,984 Million in the year under review. Interest income remained the key source of revenue, contributing 94% to gross revenue, propelled by a 26% growth in core lending revenue. The sound core business sphere performance led to improved core Net Interest Margin which went up over 1%, while Net Interest Income (NII) handsomely grew by 33%, contrastingly higher than the 2017 industry average.

Total Assets

Total assets advanced by 8%, reaching Rs. 40.3 billion but below the five year annual moving average of 14%, slowed down by the moderate lending book growth and equity investment disposals. With a relatively lower total asset growth than the industry average, MI's total assets market share percentage decreased by 6%, standing at 3% by the end of the 2017 calendar year.

NPAT, Gross Revenue, NII and Total Assets



Key Business Sphere Performance

The four key business spheres performed satisfactorily towards Net Interest Income growth.

Lending and collections

Backed by a steady drive in branch network credit disbursements, the total loans and advance receivables reached the Rs.32 billion mark, growing at 11%, ahead of the industry average. Total credit customer relationships expanded by 33%, driven by the continued awareness created across the island, driven by our commitment to delivering customer satisfaction through service excellence.

Financing

In contrast to hire purchase financing, which reflected a 13% decline in portfolio, lease financing motored along smoothly on an advancing trajectory, as the key contributor to revenue, growing by 19% to reach Rs 2,238 Million. Demand for leases during this period was propelled by the recent budgetary changes to import duty, which drove demand for the importation of lower priced mid ranged motor vehicles and luxury motor vehicles with lower engine capacity.

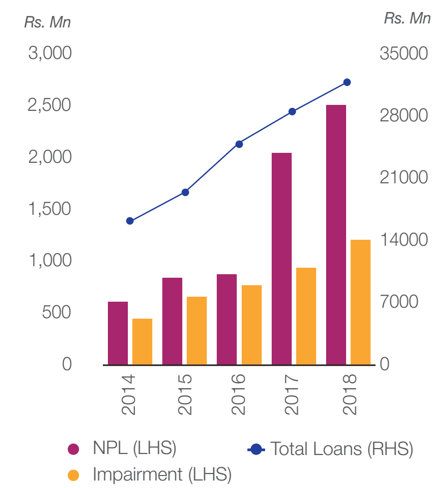
Term Based Lending

As a means of boosting average yields, we promoted our non-traditional lending product range extensively, which played a significant role in boosting revenue and NII. The term based product portfolio grew to Rs 14.5 Billion, marking a Rs 3.2 Billion absolute increase or a 28% growth from last year. Of this, 52% comprised of vehicle backed lending, the portfolio of which grew commendably by 57%. There was also a steady rise in auto-drafts, being a recent introduction to the product mix, picking up by 52%. Similarly, our micro finance business remained highly viable, growing astoundingly by 51%, supported by a well-established micro collection framework set up within the branch network itself.

Asset Quality

Asset quality continued to be somewhat impacted on account of few large lending accounts of the previous year, which kept the non performing lending ratio (NPL) at 7.58%, though being fully backed by prime collateral. Total impairment charges stood at Rs.426 Million which included additional prudential provisions on these accounts, reflecting a 32 % reduction from last year.

Asset Quality



Deposit Mobilization

Mobilization of deposits remained the main source of funding and an avenue to improve NII. Accordingly, through a focused marketing drive, we mobilized deposits optimally and increased the base to Rs 20 Billion mark, reflecting a sound 18% growth. Fixed deposits was the chief product with a 99% contribution growing to Rs 20 Billion, while savings deposits remained a developing product with a Rs 60 Million smaller base but reflected potential with a 62% growth. I am pleased to observe the efforts of the branch network in mobilizing retail deposits beyond the Western Province, which helped us increase the branch deposits by 24%.

Financial Management and Investments

The Finance and Treasury department too played a vital role in boosting revenue and sourcing funds optimally to grow NII. Although the total investment income marginally dropped by 1% to Rs 463 million, trading gains recorded of Rs 219 million, reflected an increase of 268% year-on-year .To further improve margins, we tied up with various banking partners and sourced Rs 7 Billion of longer tenure funding at optimal pricing to bridge asset and liability mismatches. Simultaneously, the borrowing exposure was reduced to Rs 9.6 Billion, reflecting a year-on-year reduction of 15%, resulting in related interest expense coming down by 7%.

As a parallel initiative, a cost optimization programme was also kick started to manage expenditure and revolved around optimizing recurring overheads and also eliminating wastage. As a result of the cost consciousness displayed, the cost to income ratio moved favourably down to 63% by the close of this financial year.

Supplementary services

Supplementary services supported the main lending business and enhanced customer value addition and proved to be a revenue driver. Through business development strategies, supplementary services which comprised of insurance services and workshop repair and service station, boosted non fund based income of the company to Rs 164 Million, reflecting a 7.5% YOY growth.

Human Capital Management

The company places acute importance in enhancing the value of human capital and was able to obtain expertise of an external human resource consultancy firm during 2017 to further enhance existing HR policy, processes and practices. We successfully fostered a win-win culture by not only identifying ways to improve productivity, but also to set the platform for those talented and committed individuals to enjoy rewards and adequate career advancement prospects. As part of the employee knowledge enhancement programme, training and development was aimed at supplying new recruitments and existing employees with a continuous flow of technical information and other skills. As a professional caring employer, we were recognized yet again as one of the top 15 "Best Companies to Work For" in Sri Lanka by the Great Place to Work institute.

Sustainable Stakeholder Propositions

In keeping with our wider aspirations, ethos and people-centric value system, we continued to create sustainable propositions for our key stakeholders, eventually leaving a positive mark on the industry, economy, society and also the environment that we operate in. I am proud to recognize our business impact on people, whose lives have been uplifted, dreams realized and livelihoods changed for the better due to our financial solutions. This year's solid performance has led the way for our investors to enjoy sound returns, while enriching communities through employment creation and direct social support.

As a key highlight, I would like to emphasize our efforts in empowering individuals through our socially responsible inclusive funding support that improved livelihoods and income generation. The social impact that MI has created thus far has been overwhelming, particularly in micro finance services which were extended from over 1,800 centres across the island, which no doubt will continue to bring economic freedom and prosperity to many.

Going beyond commercial boundaries, I commend the philanthropic work executed by the Sustainability Governance Committee, in supporting the poor and less fortunate citizens of various communities. The Investment made this year to protect the environment and its habitats once again reiterate the company's commitment towards fulfilling its wider social and environmental obligations.

Strong Governance and Leadership

The Board has demonstrated unwavering leadership, high level of oversight and guidance on all key functions, to drive the organization towards meeting its corporate goals. During the year, MI's governance framework and process was further enhanced with the adoption of the requirements stemming from the revised governance code issued by the CA Sri Lanka in December 2017.

Steps were taken to recruit two senior risk review officers. Furthermore, revisions were made to enhance key Policies, Processes and Practices associated with key functions, which fortified the company's risk identification, analysis and monitoring process.

From a technology perspective, we enhanced the IT architecture further, keeping to the recommendations of the external IT consultants. We commenced extensive evaluations of few external core IT systems to equip ourselves with a solid IT platform for the future and expect total migration by the end of the next Financial Year.

Future Prospects and Challenges

The Sri Lankan economy is expected to pick up and expand in the medium term after emerging from a moderate growth level recorded in the period under review. Policy reforms will help uplift the economy, with exports and FDIs expected to improve the Balance of Payments position and ease exchange rate pressures. We can expect the monetary policy to be eased in the medium term with downward interest rates revisions while strengthening fiscal consolidation through effective fiscal management. The private sector in partnership with the public sector will have to exploit emerging opportunities, and set the pace for the economy to transform to expected levels.

From an industry standpoint, LFCs will need to stay receptive to challenging market conditions, aligning business to the macro economic conditions and taking advantage of the development taking place in the regions. We can expect further transformation of the industry and a shift towards more term-based lending and greater electronic dealings in the longer horizon.

Taking cognizance of these developments, MI will remain highly focused in pursuing medium and long term growth objectives up to 2020 and beyond, in keeping with the corporate plan. We will closely monitor changes in market variables, trends, customer preferences and pursue plans to optimize yields based on the future product mix, whilst emphasizing on productivity and technology to take us towards higher volumes, without losing focus on asset quality. We hope to build a greater regional presence through our business consolidation programme that will witness the opening of a few more branches in economic belts that are viable.

Through our sustainable business growth trajectory plans, we hope to maintain existing market share up until 2020. We will empower more women through our micro finance operation with required funding support for low income earners and also assist entrepreneurs who are willing to become champions of economic change, to take their business to the next level. To improve net interest margins, we will pursue low cost funding options, while simultaneously extending the cost optimization program to manage expenditure, to boost the bottom line.

The ongoing decentralization programme will be fully rolled out by next year, supported by a well-equipped workforce, banking on future investment in technology and human capital management. We hope to speed up the proposed system migration and to implement a fully-fledged core IT system by 2019, to support corporate strategy.

Acknowledgements

The company's solid performance this year can be attributed to the collective efforts displayed by the MI team. I take this opportunity to thank my dedicated team for staying focused in achieving their respective goals, which paved the way for another successful year for us. My sincere gratitude goes out to the Board of Directors for their guidance and unstinted support to the Board and management. Their advice continues to be an invaluable source of strength, propelling us towards future success.

I would also like to take this opportunity to thank the Governor of the Central Bank and his able staff for their support and their continued cooperation extended to us.

I take this moment to thank our valued customers for selecting MI again as their trusted business partner and keeping the faith in us all this while. Our organization continues to strive for excellence in whatever we do and is encouraged and inspired by the faith placed in us by our customers over the years. I wish to also extend my sincere appreciation to all the shareholders for the trust they have placed in us and for their words of encouragement.

I once again reiterate the commitment of the MI Board towards sustainable creation of stakeholder value and efforts to enhance value over time. As an organization that has thrived successfully for over fifty years in the field of finance, we are focused and well geared to face the future.

Gerard G. Ondaatjie
Managing Director

17th May 2018

Company Profile

GRI Standards General Disclosure 102-5

Nature of ownership and legal form

Mercantile Investments and Finance PLC (MI) is a Licensed Finance Company under the Finance Business Act No. 42 of 2011, listed on the Diri Savi Board of the Colombo Stock Exchange. MI is also a public limited liability Company, incorporated in Sri Lanka on 15 June 1964 under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007.

GRI Standards General Disclosure 102-16

Our Vision and Mission

Our Vision

To be a leading financial institution committed to excellence in our sphere of activities with a deep sense of social responsibility.

Our Mission

To achieve our strategic vision, we would harness all our resources in the most productive way to be prudently managed and to serve our valuable customers in keeping with national objectives.

Our Corporate Values

Key Principles

- Fulfill customer needs beyond expectations
- Create lasting bonds with people
- Deliver customers a service that is world class
- Business practices to complement core values

Key Values

- Customer Bonds
- Recognising employee efforts
- Team spirit
- Securing investor capital
- Fair but aggressive competitor
- Socially responsible and ethical actions

Our Sustainability Philosophy

As our business journeys towards attaining commercial excellence, we are committed to the precept that it should be enacted with a deep sense of empathy towards building a sustainable tomorrow for all.

Our Sustainability Mission

To fulfill corporate obligations towards our key stakeholders by focusing on economic, social and environmental needs, which in turn will support in building a sustainable nation.

Our Sustainability Policy

The Company commits itself to upholding an effective sustainability governance framework and business processes designed and developed on the precepts of sustainability to ensure economic, social and environmental needs of stakeholders are fulfilled on an ongoing basis, without compromising the future. As the Company focuses on wealth creation , the resultant benefits cascade down to our key stakeholders so that they will derive value from our organizational activity, to enrich lives, develop communities and conserve the environment, thus leading towards a more satisfied and sustainable nation.

GRI Standards General Disclosure
102-2

Primary Brands, Products and/or Services

As a Finance company, we extend credit facilities to both individuals and corporates alike and mobilize deposits from a wide array of customers and market segments, promoting most of the products under one umbrella brand "MI". During the last decade, the company has diversified its lending product range from providing traditional lease and hire purchase financing to term-based lending such as personal and corporate loans, pledge loans, property mortgage loans with the latest popular addition being microfinance. Fixed deposits remain the company's primary investment product for our depositors while MI's savings products is at the introduction level of the product life cycle and will gain popularity with the proposed technology enhancements coming into effect. (Refer Financial Capital pages 64 & 65)

GRI Standards General Disclosure
102-6

Markets Served

MI has widened its presence during the last decade through rapid branch expansion, bringing forth various financial solutions closer to communities with diverse needs and aspirations. The company caters to people's unfulfilled personal and entrepreneurial needs for credit and offers attractive returns for secure investment opportunities. Our target market for all spheres of business comprise people that come from all strata of society and also the corporate community covering key economic locations through a strong branch network. (Refer Manufactured Capital business locations on page 78.)

GRI Standards General Disclosure
102-10

Funding supply chain

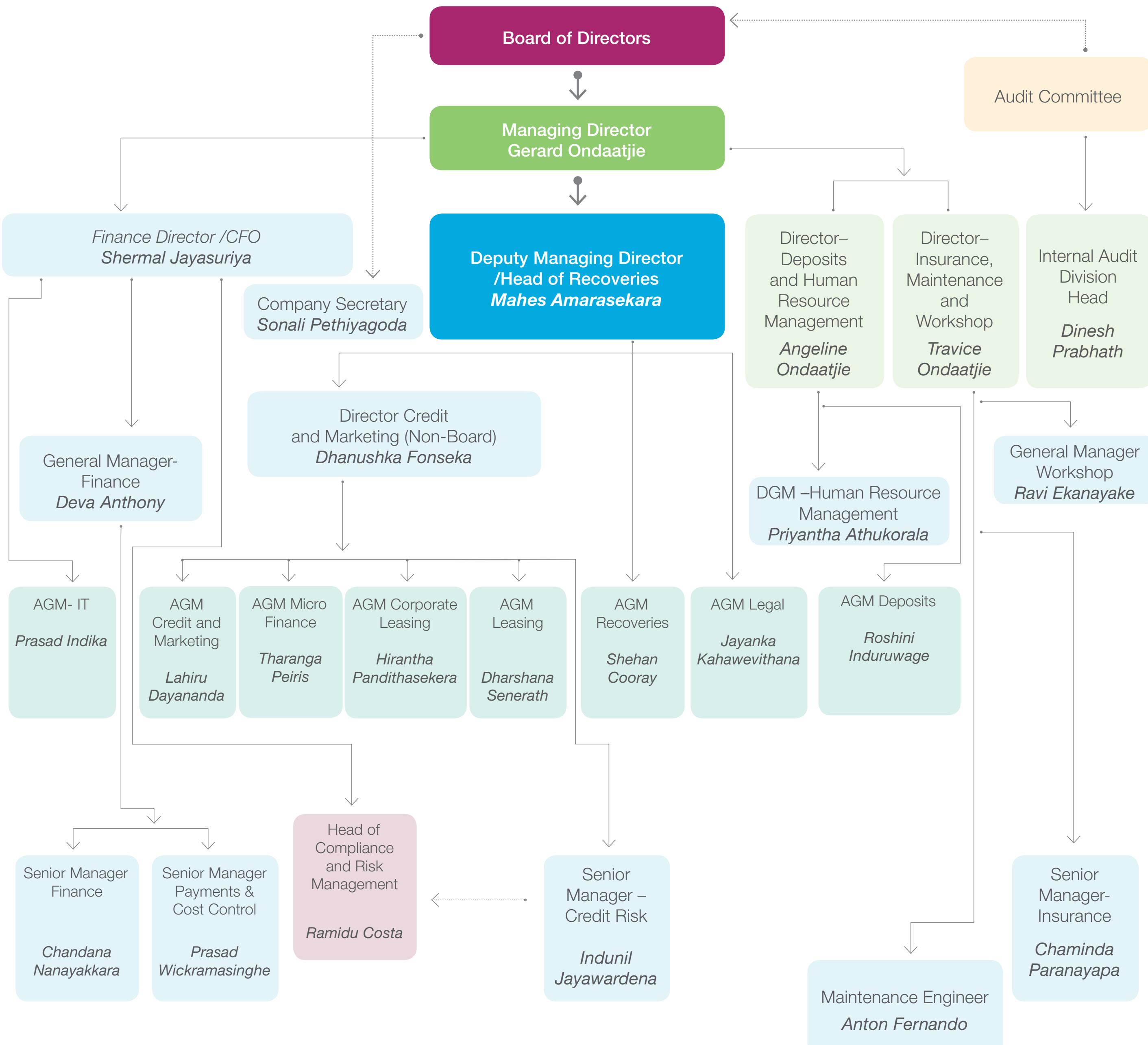
As a Finance Company, we provide services related to financial service sector which primarily involves the mobilization of money and lending of money. The sourcing of funds mainly comes from our depositors and borrowings taken from the banking and other reliable sources. We do not depend materially on any one corporate or individual for the sourcing of money and there were no material changes in the funding approach except for tying up with additional funding providers during the year.

Ownership structure

Mercantile Investments and Finance PLC is not a subsidiary of any holding entity and has no investments in subsidiaries of its own. However it holds a 26.12% stake in its Associate company, Nuwara Eliya Hotels Company PLC, as at the balance sheet date. There were no material changes to the organization size, structure and ownership during the period under review.

Organization Chart

The organizational hierarchy diagram depicts the reporting structure of the senior management together with the department/function they are responsible and accountable for. Job roles and responsibilities of employees have been clearly defined based on formal job descriptions issued to each officer, ensuring orderly expedition of task and work functions.



Deciding on report content

GRI Standards General Disclosure
102-42, 102-43 and 102-46

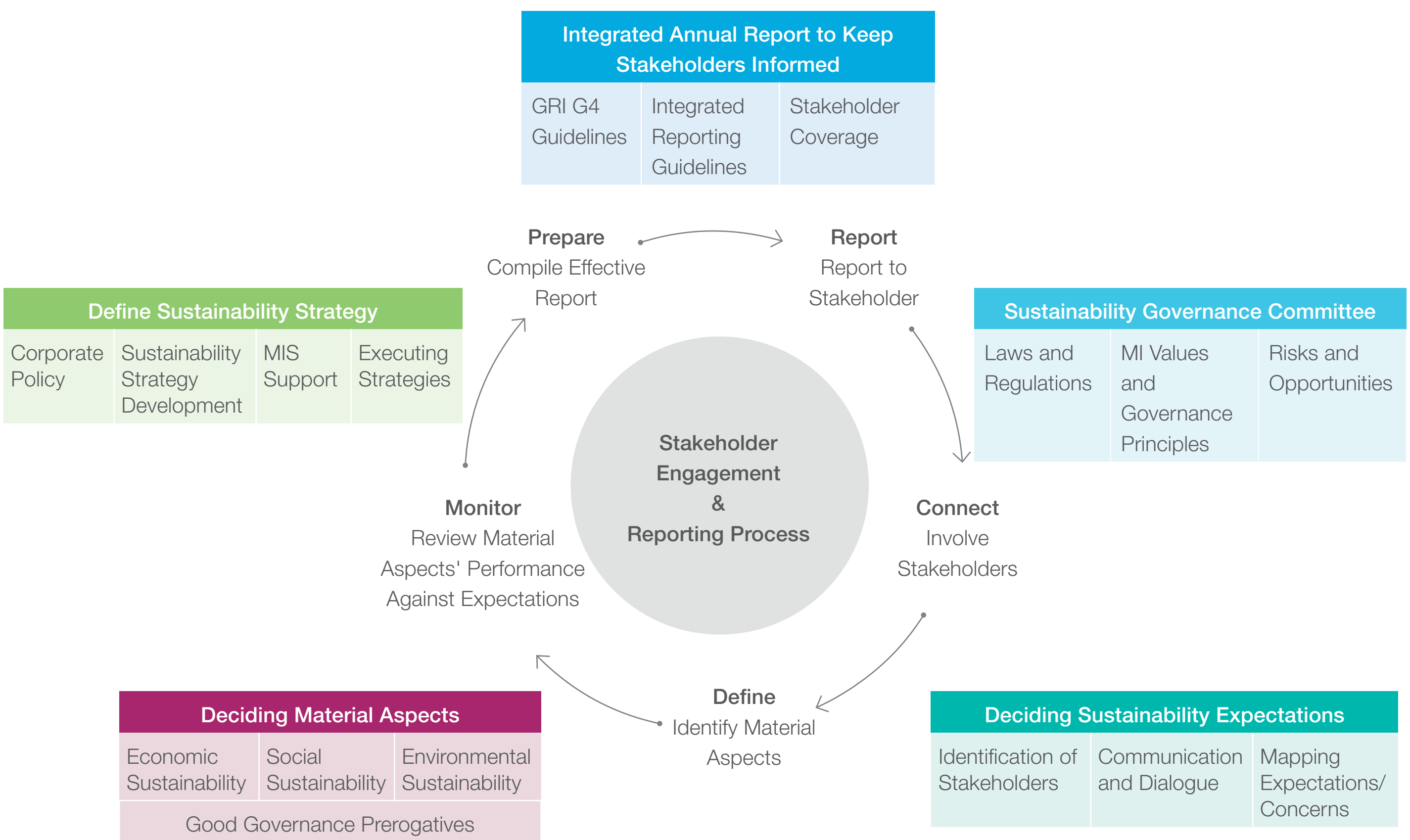
The Combined Approach to Topic Selection

The topic selection for this year's report was based on the principles and process specified by both the International Integrated Reporting Council's (IIRC) integrated reporting framework and the Global Reporting Initiative's (GRI) Standards. By following this combined approach, we ensured key principles mentioned in the foundation 101 GRI standard 2016 and integrated reporting principles on report quality, balance, accuracy and reliability of the information are maintained together with principles on report comparability, clarity and timeliness. In ensuring that only material topics are reported on, as per the two frameworks, we adopted a five-step topic selection process as follows:

Stakeholder Engagement and Reporting Process

Through a five-step approach we were able to decide on the material topics needing disclosure in this year report, most of which have been focused upon in the past. We obtained firsthand information, views and perceptions from our investors, employees, customers, the community and others through the continuous stakeholder engagement process that we maintain. During this process, the company consulted, interacted and obtained feedback from these internal and external stakeholders on what their expectations are of the company and sought answers to what their concerns are and key company information that they are interested in.

Topics and matters brought up during such engagements were listed down and subjected to a materiality test which ranked priority material topics and assisted management in shortlisting content for this report. Through an evolving evaluation and monitoring mechanism set up, we were able to assess those material topics picked up during the past which helped form the basis for the final stage of report preparation for this year.



Stakeholder Engagement

GRI Standards General Disclosure
102-40 and 102-44

For us, maintaining continuous stakeholder dialogue and interaction remains an essential feature in our business model and a key requirement in our content selection process. Out of the eight key stakeholders or stakeholder groups given below that we deal with, “our investors” remain the primary stakeholder for the company while other seven key stakeholders are also deemed important parties towards the long term sustainability of the organization.

Key stakeholder and their importance	Engagement methods	Frequency	Material topics/concerns/ Information sought
Investors : MI’s shareholders are considered the primary stakeholder group. As investors of capital, they require a gamut of financial and non-financial information on MI’s performance to gauge the progress made in terms of creating shareholder wealth and to make various assessments on the performance of the Company.	➲ Shareholder meetings/Annual General Meeting	Annual	Investor returns and performance vis a vis KPIs and forecasted targets
	➲ Annual Report Feedback form	Annual	Company Performance
	➲ Announcements to CSE	Ad hoc, as necessary (Quarterly Interim accounts)	Investor information/ MI Performance
	➲ Extraordinary General Meetings	Ad hoc, as and when necessary	Material matters needing investor concurrence
	➲ One-on-One meetings	As necessary	Investor Information and relations
	➲ MI corporate website	On a regular basis	Company Information
	➲ Press releases and articles in magazines	Ad hoc, as necessary	Company Information
Customers Customers are a key stakeholder group that impacts various aspects of the company operations and shapes the company’s future.	➲ Direct customer feedback at MI’s service points/suggestion boxes	On a regular basis	Customer needs, suggestions and complaints
	➲ Marketing visits/ Field visits	Credit customers- mostly once prior to transacting Deposit customers – on an ad hoc basis and selective	Product information and customer evaluations Product information and customer support
	➲ One-on-one meetings	As necessary	Customer relations and complaint resolution
	➲ Telephone discussions / E-mails	On a regular basis	Quality of service
	➲ Media Campaigns	On a regular basis	Product awareness
	➲ MI corporate website	On a regular basis	Product information

Key stakeholder and their importance	Engagement methods	Frequency	Material topics/concerns/ Information sought
Employees MI's employees are a key stakeholder group vital for the company's continued success. They play the lead role in MI"s performance and achievements of goals and hence their aspirations, needs and concerns are of paramount importance.	➲ Departmental review meetings	Monthly	Operational Performance Versus rewards and recognition
	➲ "Open door policy " for employees to freely interact one- on-one with the MD, other Directors of the Board and senior officers.	On a regular basis	Employee suggestions/ grievances
	➲ Management meetings	Weekly	Business performance
	➲ Performance appraisal and individual review meetings	Bi annual	Appraising of employee performance
	➲ Internal Newsletter communiqués	Annual	MI and industry information
	➲ Corporate communiqués through circulars, memos and e-mails	Regular	Operational information/compliance
	➲ Company social events including get-togethers, sports day and celebrations and religious events	MI Get-together -Annual	Social informal relations
		Other events – ad hoc	Team building and social relationships
Regulators Being in a highly regulated industry and a listed public company, MI is subject to regulation and assessments by regulatory bodies. To ensure compliance with regulatory and statutory requirements and their timely implementation, and the need to obtain assistance and advice, regulators are considered an important stakeholder.	➲ On-site and off-site reviews by CBSL and other regulatory bodies	Annual	To assess the degree of regulatory Compliance
	➲ Other discussions with the Board and Senior management	On a regular basis	Regulations/Compliance Review
	➲ Issue of regulations and requirements by regulators	As necessary	Regulations/Compliance Review
	➲ Submission of returns and status reports	As necessary	Carry out Compliance Reviews on a periodic basis and provide feed back to the organization
	➲ Training programs/Workshops with regulatory bodies	Based on periodic deadlines - weekly to annual	Extract industry specific information towards developing industry based KPIs and assessment of industry specific progress regulatory information
	➲ Submission of special reports	As necessary	Compliance Review
Suppliers The expanding operation requires constant supply of stationery and other consumable items of good quality from reputed suppliers.	➲ One-on- one meetings	As necessary	Supplier Performance
	➲ Routine telephone discussions	On a regular basis	Product/Fund sourcing

Key stakeholder and their importance	Engagement methods	Frequency	Material topics/concerns/ Information sought
Lenders Our banking partners are an important component in our business, as they support the company in meeting its immediate and long term funding needs. A lasting relationship is therefore essential to maintain continuous funding, that is mutually beneficial.	➲ Periodic visits undertaken by either party	As necessary, usually once a year with key parties	Supplier relations
	➲ Review of performance and status according to agreements entered into	As necessary	Supplier review
			Financial information of prior periods and forecasts for Performance evaluation Industry reports
Society/Local communities MI's interaction continues to increase with various communities as we continue to expand our operations. Understanding wants of people and fulfilling them in a way that builds mutually beneficial sustainable relationships with society is vital in building a sustainable society that we continue to aspire to.	➲ Interacting with segments of society by direct correspondence and meetings.	To commence and implement projects	Financial inclusion
	➲ Conducting island wide surveys	Annually	Social grievances/wants
	➲ Communicating with society through press releases and through reporting	As necessary other than annual reporting	Societal information
Environmental Groups As MI continues to widen its branch network, it becomes important for the company to ensure that its business operation does not hamper the environment, deplete scarce/ natural resources and negatively impact the surrounding environment.	➲ Using the widening branch network to interact with local communities	As necessary	Social dialogue
	➲ Public events and sponsorships	As necessary	Public relations and awareness
	➲ Sustainability website	On a regular basis	Sustainability information

Topic Identification

GRI Standards General Disclosure
102-44,102-46 and 102-47

GRI Standards Management approach
103-1,103-2 and 103-3

Based on the explained stakeholder engagement process and the application of materiality testing requirements of the two frameworks, we were able to select the main topics for disclosure as given in the table below. We also conformed to both regulatory and voluntary reporting requirements, which were incorporated into the integrated reporting structure adopted this year. Topics deemed important from the point of view of the Company as well as from the stakeholders' perspective were subjected to a "materiality test" in keeping to the two frameworks, to decide reporting extent, full, part or non-disclosure.

	Materiality level of Topic (High/Medium/Low)			Topic Boundary							
				Internal Stakeholders	External stakeholders						
GRI Standard Topics	Impact on Mercantile investments	Impact on MI Stakeholders	Impacts in terms of MI's sustainability context	MI head office, branches and employees	Investor	Customers	Suppliers	Lenders	Society/ Environment	Regulators	Where the impacts occur (Disclosure of Management Approach) Page Ref.
Economic Topics											
1. Economic performance	High	High	High	✓	✓	✓				✓	70 to 75
2 Market presence	High	High	High	✓	✓	✓					70,75 to 78
3 Indirect Economic impacts	Medium	High	High			✓			✓		74 & 75
4 Procurement practices (Including borrowing of funds)	Medium	Medium	Medium	✓			✓	✓			89
5 Anti-corruption	Medium	Medium	Medium	✓							95 to 96
6 Anti-Competitive behavior	Medium	Low	Medium	✓					✓		95 to 96
Environmental Topics :											
7 Materials	Medium	Low	Medium				✓		✓		116-117
8 Energy	Medium	Low	Medium						✓		117-118
9 Water	Medium	Low	Medium						✓		118
10 Biodiversity	Medium	Medium	Medium						✓	✓	120
11 Emissions	Medium	Medium	Medium						✓	✓	119
12 Effluents and waste	Medium	Medium	Medium						✓	✓	119
13 Environmental compliance	Medium	Medium	Medium						✓		114
Social topics :											
14 Employment	High	High	High	✓							104,109 to 110
15 Labour/management relations	High	High	High	✓							110
16 Occupational health and safety	High	High	High	✓							107, 109 & 110
17 Training and education	High	High	High	✓							107 & 108
18 Diversity and equal opportunity	High	High	High	✓							110 & 142
19 Non discrimination	High	High	High	✓							111
20 Child labour	High	High	High	✓					✓		111
21 Forced or compulsory labour	High	High	High	✓					✓		111
22 Security Practices	High	High	High	✓		✓					111
23 Human Rights Assessment	High	High	High	✓		✓					111
24 Local communities	High	High	High	✓					✓		90
25 Customer health and safety	High	High	High	✓		✓					87
26 Marketing and Labelling	High	High	High	✓		✓					86 & 96
27 Customer Privacy	High	High	High	✓		✓					87
28 Socio Economic compliance	High	High	High	✓					✓	✓	96

Materiality was decided based on the level of impact each respective topic would have on either the organisation or/and its stakeholders and also from the broader sustainability perspective. For each identified topic, we assigned a corresponding impact level, marking either high, medium or low, based on our past experience and judgment of the concerned matter. Topics of lesser importance were filtered out and not reported on to keep the report concise and to ensure relevance based on materiality. For each material topic, we identified the applicable "Topic boundary," taking note of where the impact occurs and providing corresponding management approach disclosure either in the Management Discussion and Analysis, Stewardship or other cross referred sections. For each topic picked up and illustrated in the "Materiality gauge matrix," we decided the reporting extent based on the materiality assessment carried out. Detailed reporting was adopted for topics identified as high and medium materiality levels, while topics of a lesser importance, deemed lower impact were not reported on in detail or were eliminated from reporting.

Topic Materiality Gauge and its Extent of Reporting

Sustainability

Based on each stakeholder expectation and company aspirations on delivering sustainable stakeholder value over time, MI has devised appropriate strategy to tackle wider obligations/ stakeholder expectations beyond commercial boundaries. In keeping to our sustainable philosophy, mission and policy, we strive to uplift communities we deal with to create a better tomorrow for all (Refer the Management Discussion and Analysis). Based on our business actions and economic, social and environmental initiatives, we observed following key sustainable outcomes/impacts:

Key Stakeholder impacts of FY 2017/18

Key stakeholder	Key Outcomes /Impacts to the Stakeholder			Page No.
	Key Positive Impacts	Key Negative Impacts	How we managed the key impact	
Investors/ Wider economy	➲ Accumulation of shareholder funds, posting a robust profitability ➲ Value addition and economic value added upward movement	➲ Despite robust profitability, ROCE remained below expectations mainly due to market volatility and impairment charges	➲ Financial Capital ➲ Manufactured Capital ➲ Social and Relationship Capital (Investor) ➲ Intellectual Capital	58 to 75 76 to 81 88 98 to 101
Customers	➲ Widened customer base, making funding freely accessible and extending attractive investment opportunities		➲ Social and Relationship Capital (Customers) ➲ Financial Capital	84 to 87 58 to 75
Employees	➲ A well-nurtured, motivated workforce, that is skilled and knowledgeable in their fields improved overall productivity levels and in turn was able to enjoy sound monetary and other benefits	➲ Planned revised comprehensive human resource policy was rescheduled to be implemented early next financial year	➲ Human Capital	102 to 111
Regulators	➲ Made necessary changes operationally to cater to new regulations imposed. ➲ Maintained close coordination with all regulatory bodies and sought advice and clarifications as and when necessary.		➲ Social and Relationship Capital (Regulators)	87
Suppliers/ Lenders	➲ Registered additional suppliers for consumable goods. ➲ The treasury division was able to negotiate attractive rates and strengthen relationships with key lenders and funding agencies.	➲ Could not secure funding from overseas investment partners due to pricing constraints.	➲ Social and Relationship Capital (Suppliers/Lenders)	89
Society/Local community	➲ Was able to go beyond commercial boundaries to assist the poor and lesser privileged, providing them with better shelter, educational support, medicine etc., through our CSR initiatives.	➲ Could not pursue few referred unmet social needs of people due to budget and time constraints.	➲ Social and Relationship Capital	90 to 97
Environmental Groups	➲ Was able to contribute significantly this year to wild life protection, constructing sheds for injured animals at Attidiya animal rehabilitation center.	➲ Could not proceed on extending our tree planting program started last year. We hope to recommence at least one project, again next financial period.	➲ Natural Capital	112 to 120

Sustainability Development Goals Pursued

GRI Standards General Disclosure
102-12

As part of our sustainable development plans, starting this year, we embraced the United Nations "Sustainable Development Goals" as a guiding instrument to create sustainable value in areas of poverty, health, education, economic support, social justice and environment protection.

What have we achieved

Management Discussion & Analysis

Business Environment Overview

Growth Trajectory Comparison

WORLD ECONOMIC GROWTH	SL REAL GDP GROWTH	LFC/SLC ASSET GROWTH	MI ASSET GROWTH
2017- 3.8%	2017-3.1%	2017-11.8%	2017/18- 7.6% (2017- 4.8%)
2016- 3.2%	2016- 4.5%	2016 - 21.7%	2016/17- 10.3%

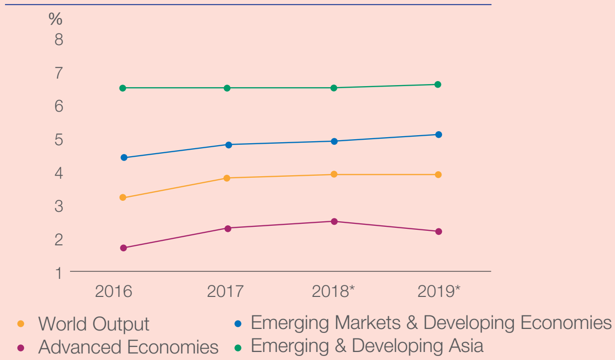
Global Economy

Global Economic Impact to Domestic Market Variables

Global Output

Global economic activity continued to firm up with a 0.6% increase in world output to 3.8%. The pickup has been broad based, with notable upside surprises in Europe and Asia. The new regime U.S tax cuts is bound to stimulate future world activity with optimistic world output forecast.

Growth Trajectory of the Global Economy



Source: World Economic Outlook, IMF - April 2018

Impact to MI

Global economic pickup remained positive factors for the Sri Lankan industries especially for the export industries and tourism sector. The pickup had a cascading effect on corporate and individual credit demand, which was exploited by MI through its broad basing product portfolio.

Global Economic Impact to Domestic Market Variables

International Trade

The cyclical upswing underway since mid-2016 has continued to strengthen with world trade growing strongly, supported by a pickup in investments, particularly among advanced economies and increased manufacturing output in Asia. The new US government world trade policy changes with Europe and Asia had no significant bearing on Sri Lankan international trade opportunities that continued to pick up since post war.

Impact to MI

MI's cost of funding and general expenditure was impacted by high interest rates, deprecating exchange rate and inflationary effects, partly caused by the changing fortunes of the global economy.

Global Economic Impact to Domestic Market Variables

Exchange Rate

Strengthening of the world main currencies over the rupee continued to impact local pricing and competitiveness in the world market. Accordingly, brand new vehicle imports to the domestic market remained on the rise with the rupee deprecating by 4.7% YOY against the dollar.

Impact to MI

Despite the exchange rate impact and the high import duty structure, demand for importation of mid ranged priced motor vehicles yet remained constant. MI was able to offer attractive financing services for such imports through its leasing arm.

Global Economic Impact to Domestic Market Variables

Foreign Direct Investment (FDI)

With the global recession period residing and investment channels opening up, the Sri Lankan market was on a positive footing to attract FDIs for local ventures. The improving international sentiments about the nation too weighed positively, reflecting in the flow FDIs which almost doubled since last year to Rs 1.7 Billion.

Impact to MI

As opportunities arose for the Industry from global partnerships, MI too was able to offer its lending services to promote acquiring of both motor vehicles and machinery for various booming industries. Foreign participation in the stock market than last year boosted MI's chances of recording equity gains.

Macro Economic Overview

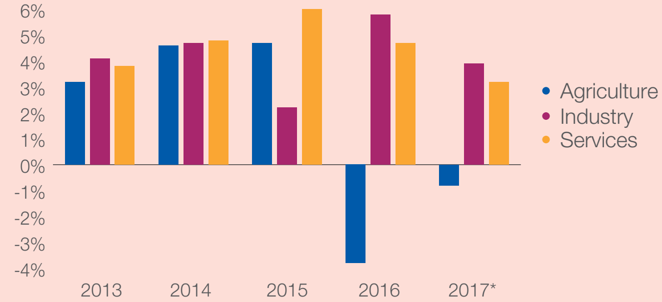
Key Economic Variable *

- Gross Domestic Product (GDP) growth the Sri Lankan economy displayed a moderate growth of 3.1% slower than the last year's growth of 4.5%.

The Government and the Central Bank stabilization policy measures of the past two years resulted in notable improvements, although real economic growth slowed down notably. Rationalisation of fiscal expenditure and tight monetary policy also contributed to economic slowdown during the year. Apart from the global impacts, the economy faced challenges domestically.

The agriculture sector contracted by 0.8% due to adverse weather conditions. In contrast, growth was mainly propelled by the expansion in the industry sector which recorded a growth of 3.9% mostly driven by manufacturing activities boosted with the reinstatement of GSP+ and the services sector growing by 3.2% with the financial and related sectors contributing 29% to the change.

Annual Sectorial Growth



* Provisional
Source : CBSL Annual Report 2017

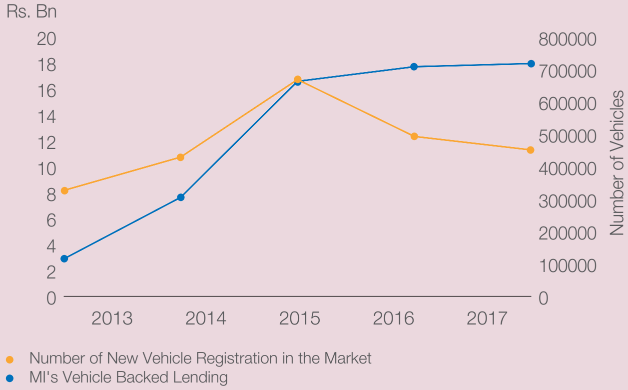
MI vis-a-vis the economy

Economic growth fuelled credit demand for ownership of both unregistered and registered mid-range priced motor vehicles. While small ticket lending was the key driver, demand for owning luxury lower engine capacity motor vehicles too was on the rise. Though some of the Industry players were open to riskier credit sectors, based on the market conditions and inherent sector risk, we continued to take a cautious approach towards lending to specific sectors such as the agriculture sector, immovable property market and the three wheeler segment and avoided funding altogether for pawning.

Vehicle Sales Market Impact

The high import duty structure, depreciating local currency and increasing world prices continued to impact vehicle affordability. These drawbacks together with government credit restrictions especially the Loan To Value (LTV) controls, slowdown somewhat the active vehicle sales market that we cater to. The interlink that we possess with the network of vehicle sales agents and intermediaries helped us stay an active financier to this market.

Vehicle Registrations Vs MI's Vehicle Backed Lending



Source: Ministry of Transport & Civil Aviation 2017

Macro Economic Overview

Key Economic Variable *

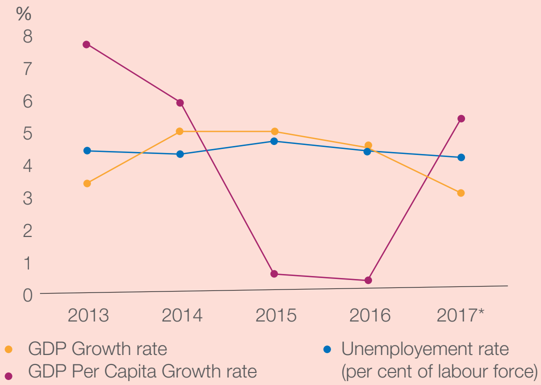
GDP Per Capita

GDP per Capita in Rupee terms was up 10.4% driven by the growth of the GDP at current market prices since the mid-year population growth was fairly stable. Based on this growth amidst the moderate depreciation of the domestic currency against the US Dollar, the Per Capita GDP in US Dollar terms increased to USD 4,065, recording a higher growth of 5.4% compared to last year 0.4% marginal growth.

Employment

The overall unemployment rate declined to 4.2% in 2017, from 4.4%, with a notable decline in female unemployment rate. The total labour force and the employed population grew by 3.1% and 3.3% respectively, creating the path for income generation and future social sustainability.

Growth in GDP, GDP Per Capita & Unemployement Rate



Source : CBSL Annual Report 2017

* Provisional

MI vis-a-vis the economy

Capitalizing on the savings habit, we witnessed steady growth in our retail fixed deposit base amidst staunch industry competition at regional level. MI's 18% deposit growth for 2017/18, though being on par with the Banking sector growth, remained nonetheless behind the Finance company sector December 2017 average growth of 29.4%.

Key Economic Variable *

Monetary Policy

The Central Bank continued to keep tight monetary policy stance to curtail the buildup of adverse inflation expectations and the possible acceleration of demand driven inflationary pressures through excessive monetary and credit expansion.

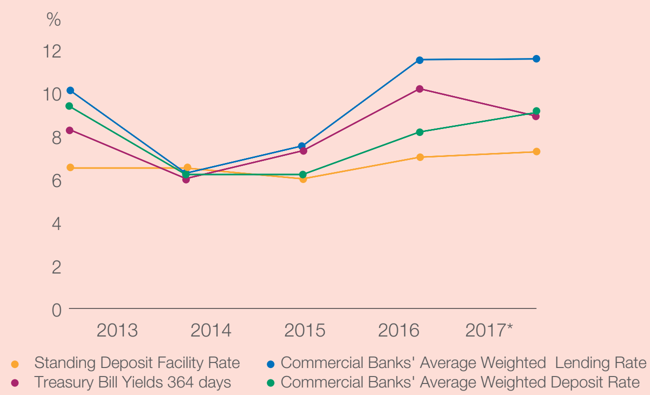
Interest Rates

Consequent to the policy interest rates and statutory reserve ratio being increased in 2016, the Central Bank further increased the policy rates by 25 basis points in 2017. Macro prudential measures to curtail credit growth imposed through the Loan To Value ratio (LTV) on account of credit facilities for motor vehicles also fortified the tight monetary policy stance.

Rupee liquidity in the domestic money market remained broadly in deficit during the first half of the year before improving to surplus levels on average. Accordingly, overnight money market rates initially adjusted upwards and hovered around the upper bound of the standing rate corridor and during the latter part of the year declined with liquidity conditions improving.

Reflecting the tight monetary conditions, the Average Weighted Deposit Rate (AWDR) as well as the Average Weighted Fixed Deposit Rate (AWFDR) increased by over 100 basis points but somewhat easing off by the end of the calendar year. Commercial bank lending rates too continued to move upwards, reflective from the Average Weighted Lending Rate (AWLR) which increased by 68 basis points reaching 13.88% by December 2017.

Market Interest Rates



Source : CBSL Annual Report 2017

* Provisional

MI vis-a-vis the economy

Interest rates of the two main business spheres of lending and deposits was maintained in line with the upward market interest rate movements. Deposit Interest rates were revised in keeping to the changes in the maximum ceiling rates prescribed by the regulator. Similarly, competitive yield rates were offered to borrowers, without compromising on minimum core margins laid down.

Macro Economic Overview

Key Economic Variable *

- Inflation

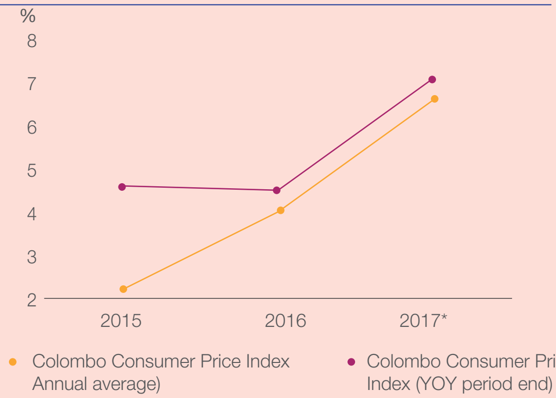
The Colombo Consumers' Price Index (CCPI, 2013=100) annual average rose to 6.6% in 2017 from 4% last year while the CCPI YOY period end was up at 7.1% compared to 4.5% recorded a year before.

Inflation had an increasing trend mainly attributable to the supply side effects. Food prices which represent a significant component of consumer pricing was impacted due to adverse weather conditions. However, this impact was partly offset by the downward revisions of import duties. Upward revisions to administered prices of certain Non-food commodities too contributed to the inflationary effect

With real wages being on downward trend, demand pressure from wages on the general price level remained subdued during the course of the year.

As both the public sector as well the private sector nominal wages did not materially increase, the supply side inflationary impacts too were minimal.

Changes in Colombo Consumer Price Index



* Provisional
** Information based on: Colombo Consumer Price Index (2013=100) percentage change
Source : CBSL Annual Report 2017

MI vis-a-vis the economy

MI's overhead cost including personnel expenses recorded an escalation of 14% by the end of FY 2017/18. The overhead cost was on an upward trend for the last three years, fueled by the expansion of branch operations and the inflationary effects. Increases in premises, establishment and marketing cost was attributable to the general price upward movements and usage. As a result of maintaining competitive salary levels, MI's personnel cost also went up by 25%.

Key Economic Variable *

- Fiscal Policy

The revenue based fiscal consolidation strategy continued in 2017 with emphasis placed on revenue enhancing tax reforms to reduce the budget deficit and the debt burden of the government.

Tax revenue as a percentage of GDP increased to 12.6% reflecting the impact of adjustments made to major tax revenue sources which include the upward revisions on the VAT rate. As significant steps towards revenue enhancement, the Inland Revenue Act No 24 of 2017 was enacted in October 2017 and will be effective from the new financial year. Measures were also taken to increase the revenue collected from excise duties, minimize leakages in the revenue collection and initiatives to strengthen revenue collecting agencies for an efficient

MI vis-a-vis the economy

With the imposition of wide array of taxes on the industry, MI's effective tax rate including VAT and other taxes stood high at 59%. The impact of the VAT rates being revised upward from second half of 2016 to 15% was fully felt this period. Whilst the new tax Act will not additionally burden the sector's own tax expense, from the workforce perspective, upward income tax revisions made to employees with higher employment income will observe a notable impact on their real income.

Macro Economic Overview

Key Economic Variable *

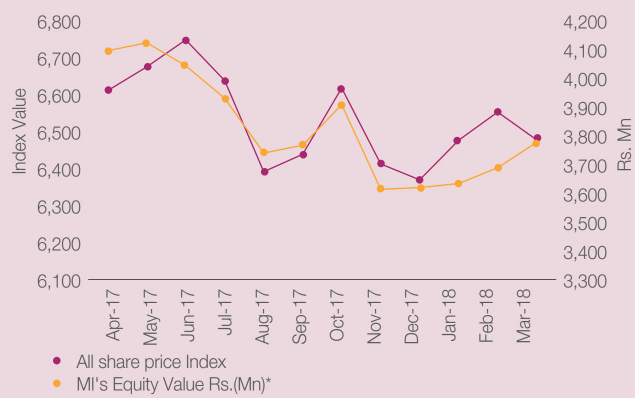
- Colombo Stock Market
  The All Share Price Index and the S & P Sri Lanka 20 index of the Colombo Stock Exchange improved by 2.3% and 5% respectively compared to declines reported last year.

  Price indices of most sub sectors which include banking, finance and insurance, beverage, food and tobacco and the diversified holding sectors increased over 5% while hotels and travels and manufacturing sectors declined by 6.8% and 9.1% respectively. In the secondary market, the foreign investments at CSE on a net basis improved significantly to Rs 17.7 billion in 2017, compared to just Rs 383.5 million recorded in 2016.

MI vis-a-vis the economy

Taking advantage of the better stock market performance than last year, MI was able to recognize a 268% increase in realized capital gains through two significant disposals. As a result, MI's equity investment exposure towards the Banking sector fell by 99%, whilst the potential hotel sector investments remained unchanged comprising 54% of the total equity investment.

MI's Equity Value Vs All Share Price Index



Source:Colombo Stock Exchange

* MI's Equity value is based on the Investment portfolio as at 31st March 2018, and assumed that it remained unchanged throughout the financial year.

* Source: The Central Bank Annual Report 2017

Company's Performance in Relation to the Industry

Industry Performance *

Performance of Licensed Finance Companies (LFC) & Specialized Leasing Companies (SLCs)

Credit Growth and Sector KPI's

The LFCs/SLCs sector performance moderated with low credit growth, declining profitability and increasing Non Performing Loans. The slowdown of credit growth witnessed during the year was attributed to fiscal and macro prudential policy measures taken to curtail the importation of motor vehicles and lending towards vehicles. This was further aggravated by the moderate economic growth and high interest rates that prevailed in the market. By end 2017, this sector comprised of 45 LFCs and 6 SLCs and 1,362 branches reflecting a 4% increase in branch total from the year before.

- Assets and Liabilities of the Sector

  The total assets stood at Rs 1,355 billion, reflecting a slowdown in 2017 with a growth of 11.8% compared to 21.7% in the previous year. Accommodation being the main asset for the industry, and its slowdown impacted the industry asset growth. The credit growth notably decelerated to 9.8% (2016 – 21%) reaching Rs 1,057.1 billion from Rs 962.7 billion in 2016.

  Unlike the past few years, the liability composition demonstrated a shift from borrowings to deposits, with borrowings decreasing by 9.7% while deposits recorded a significant growth of 29.4% compared to a 10.4% growth recorded in 2016. The increasing reliance on deposits was mainly attributed to the decreasing trend of deposit interest rates.

- Business Risks

  Economic slowdown and natural disasters impacted the industry asset quality with the gross Non-Performing Loans portfolio increasing by 24% to Rs. 65.9 billion. Accordingly, the industry gross NPL ratio stood at 5.9% up from 5.3% recorded last year.

  The industry liquidity levels improved with the overall statutory liquid assets available for the industry reflecting a surplus of Rs. 35.5 billion, resulting mainly from the contraction of lending activities.

- Profitability and Capital Adequacy

  The industry post-tax profit declined by 18% to Rs. 25.8 billion, mainly due to Net Interest Income growing at a slower rate of 11.5% on account of Interest Expenses increasing by 33.1% compared to Interest Income only growing at 22.6%. Accordingly the Net Interest Margin too declined marginally to 7.7% from 7.9% in 2016. However, the core capital and total risk weighted capital adequacy ratios showed an increasing trend, at 12.4% and 13.1% respectively above prudential limits.

MI vis-a-vis the economy

MI's total assets contribution to the LFC/SLC industry stood at 3% while the industry total contribution to the finance industry was 8%. The Company's total assets growth of 7.6% by the year end was relatively slower than the industry growth average of 11.8% reported in 2017, lagging behind because of the moderate growth of the loan book and the reduction in the equity portfolio.

In contrast, MI's Revenue, Net Interest Income and Profitability performance for the year end stood satisfactorily above the industry growth averages reported for the 2017 calendar year.

MI's capital position strengthened with the steady retained earnings growth recorded this period, which kept the prudential capital adequacy ratios over 16%, well above both the regulator requirement and the industry average as at 31st December 2017.

Composition of Income and Expenses of LFC and SLC sector Vs MI*

Item	Actual Overall 31-Dec-17 Rs Billion	Actual Overall 31-Dec-16 Rs Billion	MI's Actual 31-Dec-16 (as a % of Sector item)
Interest Income	231.5	188.9	2.7
Interest Expense	128.9	96.8	2.9
Net Interest Income	102.7	92.1	2.5
Non-Interest Income	34	28.3	0.9
Non-Interest Expense	80	65.6	2.1
Loan loss Provisions (Net)	13.5	7.6	5.7
Profit Before Tax	43.2	47.2	0.8
Tax	17.4	15.7	0.9
Profit After Tax	25.8	31.5	0.6

Composition of Assets and Liabilities of LFC and SLC Vs MI*

Item	Actual Overall 31-Dec-2017 Rs Billion	Actual Overall 31-Dec-2016 Rs Billion	MI's Actual 31- Dec-2017 (as a % of Sector item)
Assets			
Accommodation	1,057.10	962.7	2.9
Finance Leasing	554	490	2.1
Hire Purchase	27	42	20.8
Investments	118.1	111.7	4.0
Others	179.8	137.5	1.9
Liabilities			
Total Deposits	686.7	530.7	2.9
Total Borrowings	396	438.7	2.3
Capital Elements	169.7	146.1	4.8
Total Funds	1,252.40	1,115.50	3.0
Others	102.6	96.4	1.4
Total Assets/Liabilities	1,355.00	1,211.90	2.9

* Source: The Central Bank Annual Report 2017

Internal Capabilities Versus Externalities

Approach to our Key Strengths and Weaknesses

As part of the strategic planning process, we reviewed our internal capabilities, identifying the following as our key strengths and weaknesses. This assessment helped us map out the approach and actions required to enhance the value of each form of capital, capitalizing on our strengths, while mitigating areas of weakness and tackling the external environment to our benefit.

Key Strengths Utilized to Gain Advantage

Key MI Strengths	How we Leveraged our Strengths
➲ MI's unblemished track record and reputation as a successful finance company for over five decades, having a strong capital base that exceeds Rs. 8.6 billion as at 31stMarch 2018	➲ Widened the total customer base, creating new and rewarding relationships ➲ Accessed low cost funding, banking on financial strength and reputation ➲ Higher business volumes helped boost revenue, profitability and shareholder funds
➲ Accumulated business knowledge and knowhow with an over 900 strong workforce	➲ Acquired new talent, nurtured and motivated the workforce to boost productivity ➲ Developed internal infrastructure further to gear business for the future ➲ Strengthened governance and risk framework and review process
➲ Expanding Branch network, active in prime strategic hubs	➲ Increased branch contribution towards revenue, deposit mobilization and sustained steady branch profitability ➲ Increased service excellence through greater decentralization, IT infrastructure and process improvement.

Key Weaknesses

Key MI Weaknesses	How we Countered Key Weaknesses
➲ Traditional lease financing business contribution to revenue remained significant, despite moving to non-traditional lending	➲ Offered a more diversified product mix to sustain required yields, whilst keeping credit risk levels controlled ➲ Promoted non-traditional term based lending and micro finance to sustain required volumes
➲ Fixed Deposits remains the primary deposits product	➲ Decentralization and greater automation plans to boost savings deposits ➲ Process improvements and introduction of convenient modes of depositing and withdrawing funds
➲ Based on inherent nature of Finance company business of lending and deposit mobilization, leads to funding mismatches	➲ Pursued mobilization of more longer term deposits ➲ Secured number of longer tenure borrowing facilities

Key Risk factors, Challenges and Opportunities

GRI Standards General Disclosure
102-15

Economic Impacts

Key Risks/ Challenges/ Opportunities	Impacts to the LFC Sector		Key MI Actions
	Positive Impacts	Negative Impacts	
The finance Industry is highly competitive and evolving	➲ Free availability of market information and customer options ➲ Customers prefer steady returns, as opposed to risky investments	➲ Stiff competition impacting revenue growth ➲ Pressure on margins due to higher interest rate regime	➲ Pursued targeted business growth strategies to boost revenue ➲ Maintained an optimal lending product mix to achieve targeted yield levels ➲ Kept cost of funding minimal, by pursuing low cost borrowings and deposit mobilization
Volatility in the vehicle sales market due to credit growth restrictions and high import duty	➲ Increased demand to fund purchase of low and mid-range price and lower engine capacity vehicles.	➲ Despite term based lending picking up, demand for traditional vehicle financing remained pegged back. ➲ Increased credit risk	➲ Continued to develop the registered vehicle sales market related credit business ➲ Aggressively promoted popular non-traditional term based lending products ➲ Implemented stringent credit evaluation practices ➲ Instilled effective recovery actions to sustain asset quality
Advancement in technology is shaping the finance industry	➲ Technology aided companies to cater to growing customer preferences	➲ Customers' easy access to market information led to stiff price competition ➲ Greater need for IT based investments to keep abreast of technology advancement, to stay competitive	➲ Created continuous awareness of MI offerings supported by attractive rates ➲ Material investment kept aside to embrace advanced technology to boost IT capabilities and to meet future user requirements. ➲ Obtained advice from IT consultant on proposed IT developments.
Economic development and transformation of the corporate sector post war	➲ Revival of under par regions in terms of economic activity ➲ Greater requirement for credit and investment opportunities beyond Western Province ➲ Increased savings and purchasing power of people ➲ Growing demand stemming from the middle and lower income generators	➲ The somewhat volatile business environment, with pressure on exchange rates, interest rate fluctuations and inflation movement, at times pegged back the finance industry margins, revenue and profitability	➲ Utilized the expanded branch network to the fullest, to derive higher business volumes ➲ Introduced tailored credit options, that fit varying customer budgets ➲ Tapped potential segments beyond Western Province to mobilize higher levels of retail deposits ➲ Efficiently managed the treasury function, to ensure core margins are kept intact

Key Risk factors, Challenges and Opportunities

Social Impacts

Key Risks/ Challenges/ Opportunities	Impacts to the LFC Sector		Key MI Actions
	Positive Impacts	Negative Impacts	
Retaining experienced talented individuals in a competitive finance industry is challenging	➲ Finance Industry is able to easily access experienced candidates for various roles ➲ Opportunity to hire individuals from respective localities easily ➲ Marked interest in potential job seekers to pursue careers in the finance sector	➲ With increasing job opportunities, retaining talented individuals remain a continuous challenge ➲ Finance Industry's high expectations and work dynamism places higher diligence and work demands ➲ Managing a large workforce in a service oriented industry is complex and needs close management	➲ Ongoing development of comprehensive Human Resource policy to be issued early next financial year with the support of an external consultancy firm ➲ Managed the workforce with the unique employee-centric approach that MI has adopted over the years to motivate them ➲ Made additional recruitments, and also promoted high calibre staff to higher positions
Improving quality of living of society driven by the growth in per capita income	➲ Persistent demand for luxury items including motor vehicles ➲ Stimulates greater economic activity and need for investments		➲ Refocused and carried out campaigns to mobilize deposits from individuals residing in key parts of the country. ➲ Offered a variety of credit alternatives that included financing, personal loans, vehicle loans etc, to varying customer segments.
Poverty gap remains wide, leading to varying unfulfilled social needs	➲ Finance Industry's growing reach and receptiveness assist in identifying unmet social needs, to cater to them	➲ Social assistance entails a cost to corporates while the expected benefits will be futuristic ➲ Corporates, who are insensitive to societal needs, will not obtain a social license to operate among the various communities.	➲ MI's Micro finance related credit assistance empowered women to improve lives and livelihoods ➲ The company increased its social assistance beyond commercial boundaries, to meet varying societal needs

Environmental Impacts

Key Risks/ Challenges/ Opportunities	Impacts to the LFC Sector		Key MI Actions
	Positive Impacts	Negative Impacts	
Need for environmental protection is pivotal with growing natural resource depletion and pollution	➲ Corporates that practice environmentally supporting actions are accepted greater within society	➲ Any actions negative to environment will be damaging to the Brand and reputation ➲ Wider corporate presence leads to greater consumption of natural resources, waste and emission of greenhouse gases	➲ Instilled various green practices to sparing use of natural resources and disposal of waste. ➲ Extended assistance to develop an animal clinic to support wildlife conservation.

What is our Strategy

Strategic Review

Strategic Review and Resource Allocation

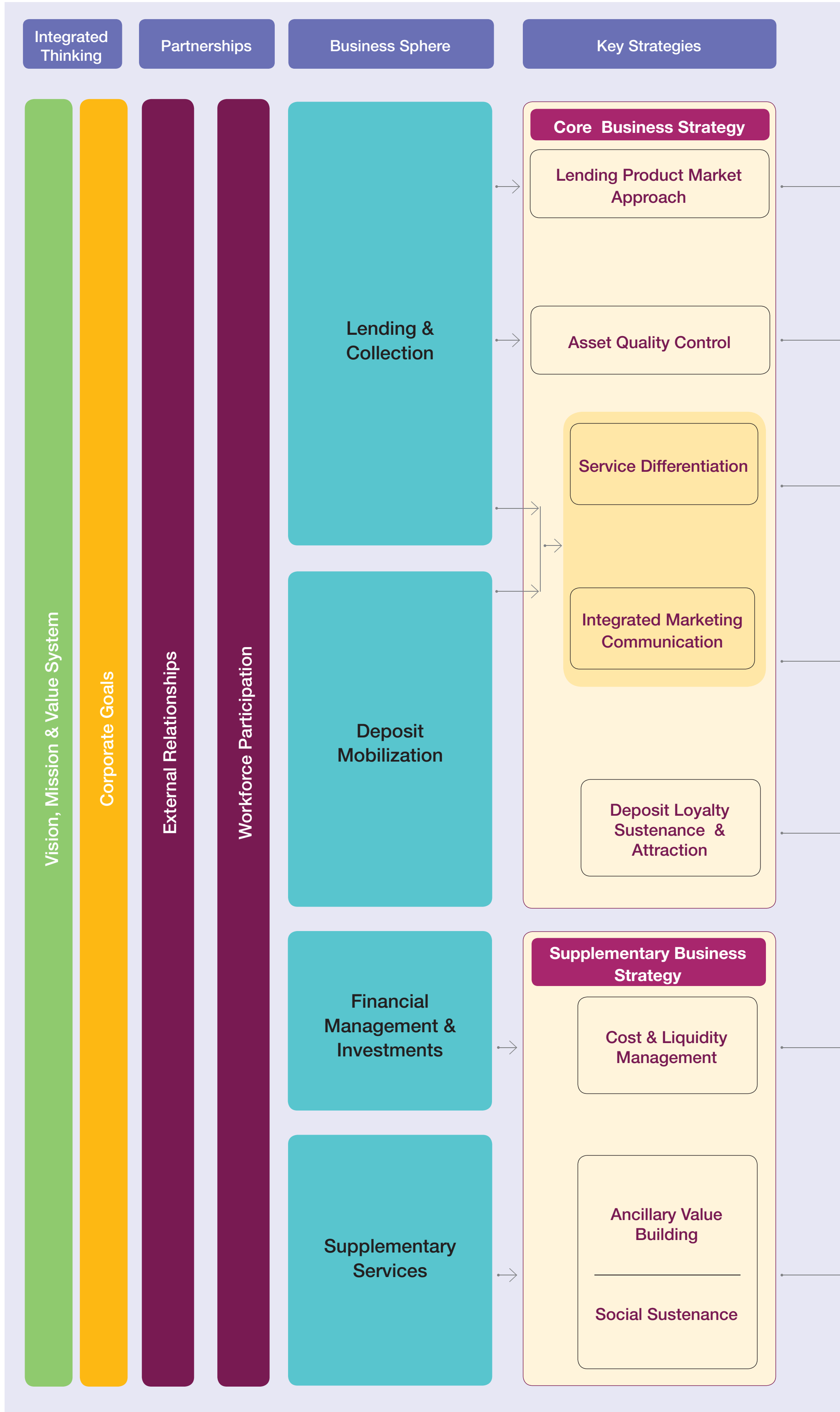
MI's overarching corporate strategy has evolved and carefully aligned towards MI's vision of being a leading financial institution committed to excellence in its sphere of activities. In pursuing our vision, we were mindful of the governing principles and the stakeholder expectations which form the foundation of all strategies and initiatives. We devised our strategy considering our internal strengths and weaknesses, but also focusing on maximising the opportunities prevalent in the external environment whilst taking measures to counter possible challenges and risks.

As a premier finance company, the reputation, trust and confidence we built up throughout our five decades of business journey, the competitive edge we gained from the caring and friendly service we offer, and the lasting relationships we developed with our stakeholders have all immensely contributed to differentiate our product in this fiercely competitive market. Thus, the rewarding and value accretive partnerships we developed with our external stakeholders and internally with our employees have been our key pillars and value drivers in achieving our strategic objectives and goals.

Our strategic planning process continues to evolve each year, building on the learning of each planning cycle and the feedback we gain from our stakeholders. Resource allocation was done prioritising our strategic objectives, while MI's vision, mission and value system was the cornerstone for MI's business journey. We always strive to strike a balance between optimising immediate returns and preserving medium to long term sustainable growth objectives. We reviewed our strategy considering the following streamlined process and changes were incorporated to strategies periodically:

- Status update and deviation report of the strategies formed
- Competitor analysis and competitive positioning
- Analysis of key business /operational risks and opportunities
- Proposing strategy and obtaining Board sanction
- Allocation of resources to strategies implemented.

As part of our strategy evaluation, we conducted weekly, monthly, quarterly and annual performance review comparing actual against targets and benchmarking progress against the industry. Key strategies adopted resource inputs and the six capital impacts and outcomes are summarised hereon together with the six capital performance, starting from the financial results for 2017/18 and commentary.



Outcome/ Effects	Actual Performance Results	2017/18	2016/17
Growth in Total Lending Portfolio & Yields Growth in Customer Base New Product Innovation Customer outreach	Total Portfolio Growth (%) Interest Income Growth (%) Number of Borrowers Number of new products launched	11% 26% > 55,000 -	14% 21% > 40,000 2
Overall asset quality LGD Variation Repossession & Disposal Legal Recourse	Collection Ratio (%) NPL Ratio (%) Repossessions (Nos) Revival of repossessions (Nos)	92% 7.58% 434 187	91% 6.92% 382 58
Personalized Customer Service Productive Workforce Unparalleled & Sophisticated IT system	Planned Investment in Automation (Rs. Mn) New jobs created (Nos) Customer Care Training Hours	> 50 321 3,580	> 250 302 5,602
Customer awareness Brand Building Customer base and market share growth	Growth in Total Customer Base Growth in Market share Investment in Business Promotion (Rs.)	30% 2.92% 68 Mn	34% 2.75% 61 Mn
Growth in Total Deposit Base Customer outreach Deposit Retention Legendary customer experience	Deposit Base Growth No of Depositors Deposit Retention Branch Contribution growth	18% >5,300 75% 13%	8% >5,000 71% 14%
Cost of Funding Liquidity & Cash flow availability Overheads Fluctuation	Net Interest Margin Cost to Income Ratio 1 year maturity mismatch (Rs.) Return on Equity	9% 63% -4.6 Mn 6%	7% 67% -6.5 Mn 3%
Value added services Economic Impact Social Support Environment Conservation	No of complementary services provided Complementary Revenue Growth Total Community & Green Investment (Rs.) Number of Beneficiaries Employee Volunteerism (Hours) Carbon Footprint (Tonnes of CO2)	2 8.89% 3.6 Mn 1,958 537 3,132	2 7.49% 2.0 Mn 4,218 4,152 2,447

Strategy Implementation, Resource Allocation and Capital Impacts

Strategy

CORE STRATEGY

1

Lending Product Market Approach

Take aways from Business Analysis

- LTV limitations imposed on credit granting against vehicles, easing of hybrid & electric vehicles
- High import duty structures on vehicles and duty uncertainty.
- Increased competitiveness from both banks & finance sector
- Changing customer perspectiveness

Goals set forth

Short Term Objectives

- Increase Lending Portfolio by 15%
- Increase lending customer base by 15%

Medium to Long Term Objectives

- Increase market share to 4%
- Become the most prefered financial service provider and business partner

Strategy Implementation

- Penetrative consolidation strategy within existing markets, adopting differentiation tactics.
- Expanding Product mix through innovative product offerings and personalised financing to suit the customer needs and regulatory impacts.
- Maintain an optimal lending product mix to achieve targeted yield levels
- Expanding business presence in markets with higher growth potential.
- Building strategic bonds with business partners
- Aligning employee rewarding to performance.

Resource inputs

- Investment in strengthening workforce.
- IT infrastructure
- Investment in skills development.

Strategy

CORE STRATEGY

2

Deposit Loyalty Sustenance & Attraction

Take aways from Business Analysis

- Increased competitiveness from both banks & finance sector
- Volatility in Interest rates.
- Lessor demand for Long Term Deposits

Goals set forth

Short Term Objectives

- Accelerate growth in Deposits
- Grow Deposit Partnerships
- Increase Retention Ratio

Medium to Long Term Objectives

- Become the most preferred investment partner

Strategy Implementation

- Reinforce our reputation and trust to expand the retail deposit base.
- Diversifying base and investor demographics.
- Widening customer outreach by setting up dedicated deposit structures and providing broader omni - channel customer engagement platforms.
- Decentralization and greater automation plans to boost savings deposits

Resource inputs

- Investment in technology
- Investment to boost staff strength
- Investing in market studies and surveys

Strategy

CORE STRATEGY

3

Integrated Marketing Communication

Take aways from Business Analysis

- Increased competitiveness has created need for brand differentiation
- Expansion of marketing communication techniques.
- Increased marketing expenses.

Goals set forth

Short Term Objectives

- Reinvigorate an aligned brand and marketing strategy to attract new business and consolidate newly set up regions

Medium to Long Term Objectives

- Top of the mind brand recall from all corners.

Financial Capital | Manufactured Capital | Human Capital | Intellectual Capital | Social & Relationship Capital | Natural Capital

		Competitive Edge	Expected Capital Transformation

	Existing Products	New Products
Existing Market	**Market Penetration** Hire Purchase Financing Property Mortgage Pledged Loans	**Product Development** Auto Drafts Cheque Loans
New Market	**Market Development** Vehicle Loans Personal Loans Lease Financing Micro Finance	**Diversification**

Competitive Edge						
Reach	High	High	High	Moderate	Moderate	Moderate
Product Attractiveness	Moderate	Low	High	Moderate	Moderate	Moderate
Service Excellence & Delivery speed	Moderate	High	High	Moderate	High	High
External Partnerships	Moderate	Low	High	Moderate	High	High

		Competitive Edge	Expected Capital Transformation

Market Growth

	High	Low
Growing		**MI Savings** Potential Product, However, currently contributing only 0.2% to the base
Mature	**MI Fixed Deposits** 99.7% of Total Deposits	**Certificate of Deposit** Declining Product dropping 36% YOY

Market Share

Competitive Edge						
Accessibility	High	High	High	Moderate	Moderate	Moderate
Trust & Confidence	Moderate	Moderate	High	High	High	High
Personalised customer service	Low	Moderate	High	High	High	High
Automation and customer convenience	Moderate	High	High	High	Moderate	Moderate

	Strategy Implementation	Resource inputs	Competitive Edge	Expected Capital Transformation

Strategy Implementation

- Intensive Brand building and customer awareness through diverse marketing and promotional campaigns .
- Broadbase use of new technology , social networks and multi media.

Resource inputs

- Strengthening Marketing arm with expertise
- Investment on marketing , advertising and brand building

Competitive Edge

Competitive Edge						
Top of the Mind Brand recall	Moderate	Moderate	High	High	Moderate	Moderate
Effectiveness	Low	Low	High	High	Moderate	Moderate

Prioritisation of Critical Success Factors ● High ● Moderate ● Low

Strategy Implementation, Resource Allocation and Capital Impacts

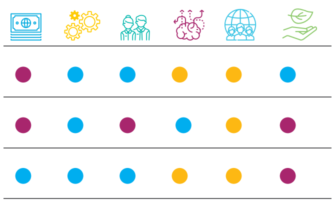
Strategy	Take aways from Business Analysis	Goals set forth
CORE STRATEGY 4 Asset Quality Control	➲ Growing demand for non traditional lending has exposed the industry to greater credit risk ➲ Economic slowdown and changes in macro economic conditions impact on borrowers high.	**Short Term Objectives** ➲ To maintain Collection ratio above 85% ➲ Sustaining asset quality **Medium to Long Term Objectives** ➲ To maintain highest standards in asset quality, carrying NPL ratio below 3%.

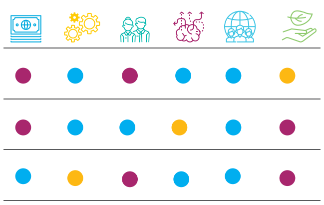
Strategy	Take aways from Business Analysis	Goals set forth
SUPPORT STRATEGY 5 Cost & Liquidity Management	➲ Fierce competitiveness has created price sensitivity ➲ Thinning margins due to higher Interest rates and repricing effect ➲ Escalating operational cost structures due to expansions	**Short Term Objectives** ➲ Maintain core margin above internal threshold. ➲ Maintain the liquidity threshold limits **Medium to Long Term Objectives** ➲ Maintaining cost to income ratio below 55%

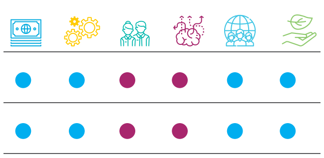
Strategy	Take aways from Business Analysis	Goals set forth
SUPPORT STRATEGY 6 Ancillary Value Building	➲ Value adding product differentiation and complimentary services offered affords competitive edge.	**Short Term Objectives** ➲ Increase new customer partnerships ➲ Enhance ancilliary revenue **Medium to Long Term Objectives** ➲ Forming alliances with business partners , and providing new value accretive customer propositions ➲ Become the most preferred financial service provider and business partner.

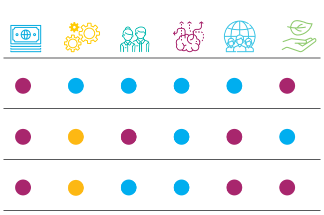
Strategy	Take aways from Business Analysis	Goals set forth
SUPPORT STRATEGY 7 Social Sustenance	➲ Dependency on workforce. ➲ Corporate practices are closely scrutinized by stakeholders ➲ Irresponsible corporate actions have a huge impact on reputation in a highly sensitive finance industry	**Short Term Objectives** ➲ Nurture employees towards productivity ➲ Making positive impacts on local communities in which we have presence ➲ Controlled use of natural resources and environmentally friendly approach to business **Medium to Long Term Objectives** ➲ Provide leadership through responsible citizenship aspiring for the development of a more sustainable society and environment

Financial Capital *Manufactured Capital* *Human Capital* *Intellectual Capital* *Social & Relationship Capital* *Natural Capital*

Strategy Implementation	Resource inputs	Competitive Edge	Expected Capital Transformation
➲ Strengthened Credit Evaluation process for high risk credit ➲ Dedicated recovery team with stringent recovery process. ➲ IT/ Legal support to strengthen the credit evaluation and monitoring. ➲ Tying up the employee rewarding scheme with the KPI on asset quality.	➲ Investment to enhance recovery MIS ➲ Human capital investment	➲ Effective Credit Evaluation ➲ Efficient resuscitation and recovery ➲ Legal efficiency	

Strategy Implementation	Resource inputs	Competitive Edge	Expected Capital Transformation
➲ A pricing policy that meets optimum balance between the customer attractiveness and the expected margins. ➲ Pursuing low cost funding. ➲ Creating a more cost conscious culture that focus on cost optimization and control. ➲ Effective supplier management to minimize the overall cost whilst optimizing on quality	➲ Invest in IT infrastructure	➲ Pricing Policy ➲ Cost engagement/ responsiveness ➲ Supplier Relationship Management	

Strategy Implementation	Resource inputs	Competitive Edge	Expected Capital Transformation
➲ Offering total one-stop-shop experience, such as insurance, vehicle servicing, repair and deposits services. ➲ Promoting cross selling between business lines. ➲ Providing business platforms and right technology support to cater to varying demands.	➲ Technology investment to upgrade complimentary facilities	➲ Customer Value addition ➲ Customer Bondage	

Strategy Implementation	Resource inputs	Competitive Edge	Expected Capital Transformation
➲ Strong HR policy to boost employee capabilities, motivation and morale. ➲ Extending financial and other assistance to communities, with special focus on low income earners. ➲ Promoting green corporate policy, green culture and green habits within and outside the organisation	➲ Investment in human capital development ➲ Corporate , Social & Environment Budget.	➲ Productive Workforce ➲ Social sustenance ➲ Environment impacts	

Prioritisation of Critical Success Factors ● High ● Moderate ● Low

Overview
Management Discussion and Analysis
Stewardship
Financial Reports
Additional Information

Financial Capital

http://mi.com.lk/value-creation/value-creating-six-capitals/financialcapital/

Capital Reports

- *Overall Financial Review (Page 60 to 63)*
- *Business Sphere Report (Page 64 to 69)*
- *Economic Impact Report (Page 70 to 75)*

Captures of the year

Net Interest Income	Profit after Tax	Total Assets Base Reached
Grew by 33%	**Grew by 154%**	**Rs. 40Bn**

Our approach to financial capital management

GRI Standards Management Approach 103-2 and 103-3

Despite challenging business conditions that prevailed in the Licensed Finance Company (LFC) sector, the company displayed a stellar performance during the year in creating financial capital by leveraging on its strategic focus and performance-oriented approach.

We extended our 'One-stop financial solution provider' concept consolidating our core business position across the branch network with a special focus on economically 'active' regions and potential customer segments. As primary goals we successfully achieved sustainable growth in revenue, Net Interest Income, and Profitability targets while enhancing our total asset base. By leveraging on our brand and effective treasury management we were successful in sourcing funding at optimal rates, and improve our core margins.

Objective

- Increase investor wealth
- Strong Balance sheet

Goal

- Steady Return on Capital Employed (ROCE)
- Capital strength and market share

Financial Capital Building Model

Key Business Spheres

- Lending and collections
- Deposits
- Financial management and investment
- Supplementary services

→

Improve Net Interest Income

Investment Returns

Cost Optimization

Liquidity Management

→

Sustainable growth in profits

→

Value to investor and other stakeholders

- Dividends
- Profit retention
- Salaries & benefits
- Taxation
- Community and environmental investments

Interconnection with other capitals

Manufactured Capital	Intellectual Capital	Human Capital	Social & Relationship Capital	Natural Capital
Invested Rs. 40 Mn in branch infrastructure	Rs. 43.5 Mn invested in IT Systems	Rs. 3 Mn on staff training	Community Investment Rs. 3.6 Mn	Invested Rs. 1.4 Mn to protect wild life
	Rs . 68 Mn invested in Brand Building	Rs. 845 Mn financial benefits to employees	Rs. 25 Mn Invested on Deposit Insurance	Ongoing evaluation to embrace solar energy

Overall Financial Review

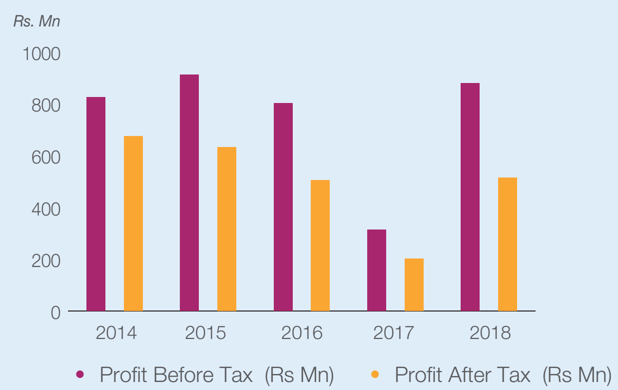
Profitability

Scope	Targeted post-tax profit 2018/'19	Budgeted post-tax profit 2017/'18	Actual 2017/'18	Actual 2016/'17	Actual 2015/'16
Profit After Tax (Rs. Mn)	> 650	> 500	514	202	505
Growth %	> 20	> 100	154	(60)	(20)

In contrast to the negative Industry profitability trend up to the 2017 calendar year, MI was able to display a strong financial performance in both pre- tax and post-tax profits. MI's pre-tax profit stood at Rs. 879 Million, reflecting a 180% upward rise while net profit after tax was noteworthy at Rs. 514 Million, reflecting a sound 154% growth year on year, compared to the moderate NPAT of Rs. 202 Million posted last year.

The sound profitability growth was driven by focused strategies applied over core lending business, primarily to boost revenue and core margins, while striving to keep cost of funding at optimally low levels. Despite the continued reprising effect impacting cost of funding, we managed to gradually improve core business spread by 1%, which yet remained below the optimistic targeted threshold minimum spread. The impairment charges too declined by 32%, causing lesser impact than last year.

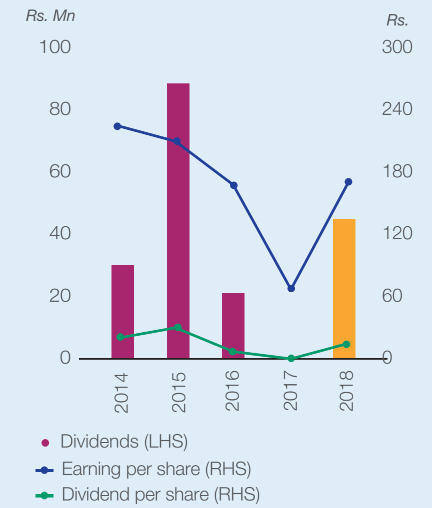
Profit Before Tax and Profit After Tax



Investor Returns

The impressive profitability boosted the Earnings Per Share by 154 % to Rs. 171 per share, assuring our investors strong earning potential. Keeping to MI's policy of retaining significant component of internally generated profits for future, Rs 45 Million was paid during the year as dividends, reflecting a conservative dividend payout of 8.8%.

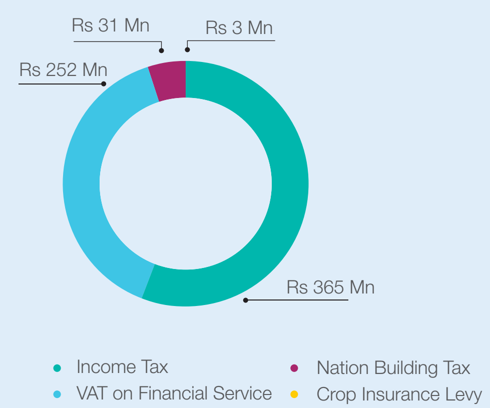
EPS, DPS and Dividends



Taxation

Out of a plethora of taxes being applied to the industry, corporation taxes remained the highest, with the tax expense rising by 227% to Rs. 365 Million, while VAT on Financial Services being the other material tax too increased to Rs. 284 Million because of the higher profitability and a personnel expenses recorded. These and other taxes which include NBT, Crop Insurance levy, etc. kept our effective tax rate high at 45%, similar to the industry tax levels.

Taxes to Government 2017/18



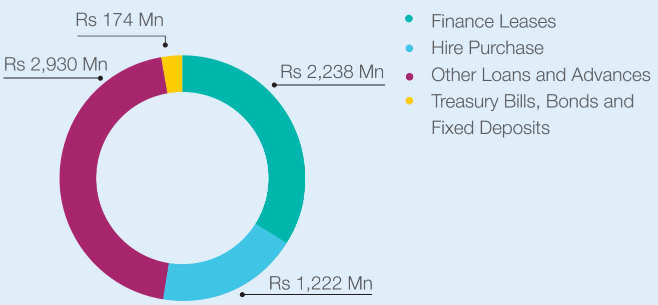
Revenue

Scope	Targeted revenue growth 2018/'19	Budgeted revenue growth 2017/'18	Actual 2017/'18	Actual 2016/'17	Financial Statement Notes
Gross Revenue (Rs Mn)	> 8,000	> 7,000	6,984	5,645	6
Core Revenue (Rs Mn)	> 7,000	> 6,500	6,564	5,286	7.1
NFBI (Rs Mn)	> 150	> 300	420	359	8 & 9
NII (Rs Mn)	> 3,000	> 2,500	2,860	2,150	-

Based on the ongoing branch consolidation program and efforts to boost lending volumes and average yields, total gross revenue went up commendably by 24% to Rs. 6,984 Million. In the midst of a competitive business environment, the credit and marketing activities were effectively maneuvered to record a noteworthy increase in total Interest Income which stood at Rs. 6,564 Million, up by 24% from previous year. Lending interest income being the primary source contributed 91 % to gross revenue, demonstrating a noteworthy rise of 26% to reach Rs. 6,390 Million.

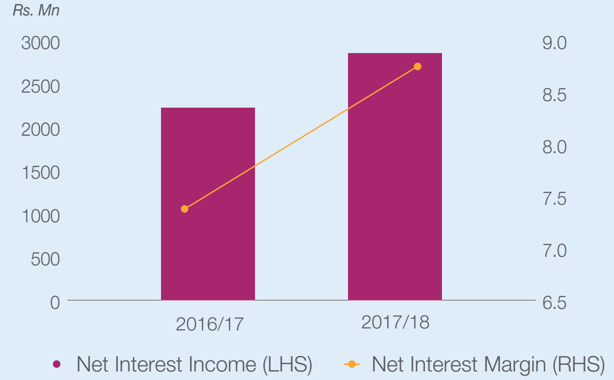
Non-core revenue which comprise MI's two business spheres of Supplementary Services, Financial Management and Investments, in total went up marginally by 1% to Rs 594 Million. (Refer Business Spheres Report Pages 64 to 69)

Components of Interest Income



Despite the increase in interest expenses by 18% mainly on account of the reprising effect which kept funding costs higher, our focus on improving average yields drove Net Interest Margin upwards propelling the NII to Rs. 2,860 Million, reflecting a 33% rise in contrast to the industry NIM and NII trend showing a slowdown for the 2017 calendar year.

Net Interest Income & Net Interest Margin

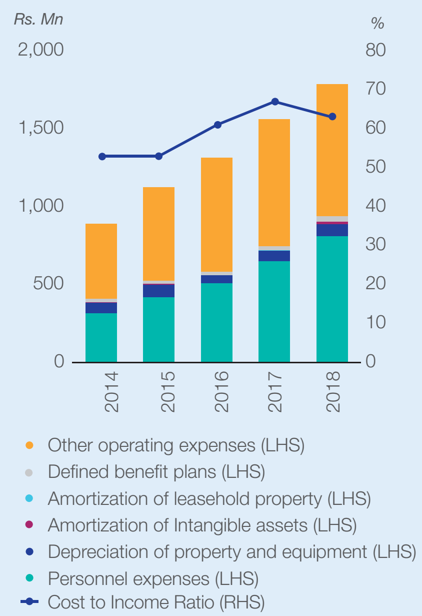


Expenditure Management

Overhead expenditure

Business expansion centered on developing specific business units, which resulted in increased manpower requirements and recurring expenditure. This, coupled with annual general inflationary effects on consumed goods and services, caused total operating expenses of the company to move upward to Rs. 1,786 Million, reflecting an increase of 14% year-on-year (FY 2016/17 – 19%). Personnel costs formed the largest cost component, increasing by 25% to Rs. 845 Million, mainly attributable to the recruitments and annual salary revisions effected. However, operating expenses (excluding personnel cost) escalation stood moderate at 7% somewhat controlled compared to last year's 13% rise. This came about as a result of our cost optimization program initiated across the company, which assisted management in rationalizing recurring expenditure. The cost consciousness helped eliminate wastage and brought down the cost to income ratio from 67%to 63% from a year before.

Composition of Operating Expenses Vs Cost to Income Ratio



Capital expenditure

Though having enough flexibility to invest in capital investments, we incurred only Rs. 169 Million to bolster operational efficiency. Out of the capital investments earmarked for future, a higher percentage will be allocated to upgrade the existing IT systems, to improve IT capabilities and performance standards.

Capital Expenditure - Visit MI Website

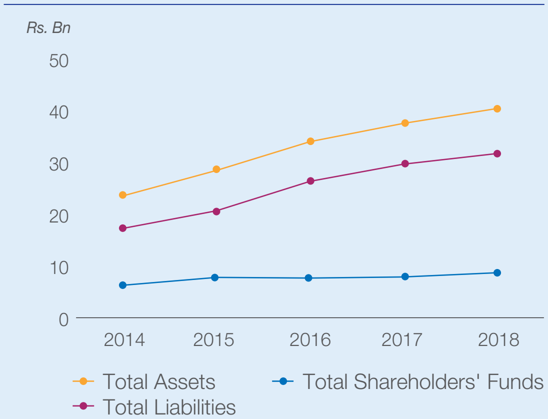
http://mi.com.lk/value-creation/value-creating-six-capitals/financialcapital/

Balance sheet size, strength, blend and efficiency

Total Assets/Liability Position

Total assets advanced to Rs. 40,356 Million, an increase of Rs.2,864 Million in absolute terms and 8% increase, driven primarily by the steady loan book growth recorded, however, remaining somewhat below the industry average assets growth recorded as at 31st December 2017. Loans and advances receivable remained the largest asset component accounting 79% of total assets. Total liabilities also moved up 7%, advancing to Rs. 31,672 Million, because of the increases in the deposit base and deferred tax liabilities. (Refer Statement of Financial Position on page 234).

Total Assets, Total Liabilities and Shareholders Fund



Capital Strength

Shareholders' funds

MI's capital strength was further fortified with a 10% growth in shareholders' funds which reached Rs. 8,683 Million by the balance sheet date. The movement was driven mainly by the internally generated profits and revaluation surplus while this was somewhat offset by the drop in available for sale equity reserves. Based on the planned business growth trajectory, we remain optimistic on maintaining sustainable equity capital growth in future.

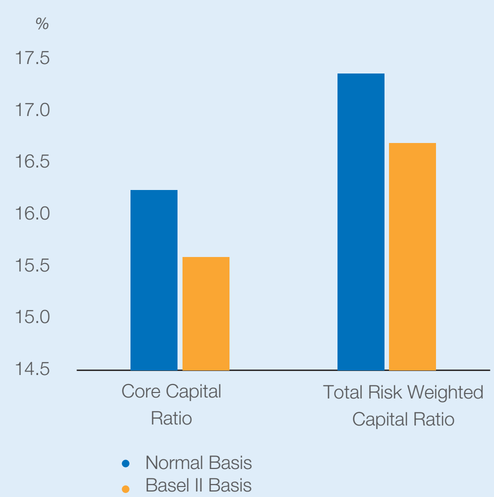
Regulatory capital

MI's Core capital adequacy ratio and total risk weighted capital adequacy ratio stood well above the regulatory requirements again this financial year, reflecting our financial strength and the cushion that the company has to withstand any unforeseen shocks from the external environment. Tier 1 core capital as at 31st March 2018 amounted to Rs. 6,027 Million, which reflected a strong core capital ratio of 16.24% (minimum ratio - 05 %) while the Total Risk – weighted Capital Ratio stood at 17.36% (minimum ratio - 10 %) and also notably higher than the industry averages. However, with the effect of SLFRS 9, both Tier 1 and Total Capital ratios will be impacted marginally and will bring down the ratios by 0. 3%. (Refer pages 306 to 308 for the Capital Adequacy computations.

Basel II Basis Capital Impact

Tier 1 core capital and the Total Risk – weighted Capital Ratio based on the regulators future proposed Basel II basis too stood at 15.59% and 16.69%, well above the minimum of 5% and 10% respectively.

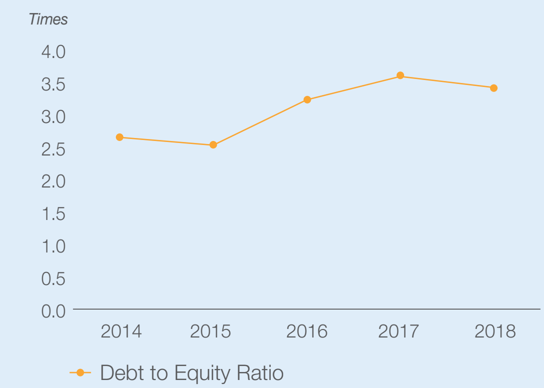
Capital Adequacy



Debt to equity

The composition of Debt which mainly comprise of deposit funding and borrowings in relation to equity denoted by the Debt to Equity ratio, did not materially changed for the last few years.

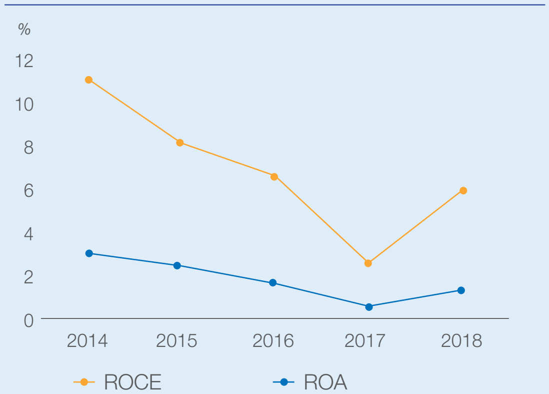
Debt to Equity Ratio



ROCE and ROA

In contrast to the industry's modest calendar average performance in 2017, MI's strong profitability, compared to last year, drove investor ratios such as ROCE, EPS and ROA upward, closer to optimistic targeted Levels. (Refer pages 310 to 313, "Investor review").

ROCE and ROA



Cash flow Position

Treasury division managed cash flows impeccably to meet both short and long term funding requirements, addressing any concerns related to liquidity and interest rate risks on an ongoing basis. (Refer liquidity risk management on pages 201 to 202 of the Risk report) Total cash and cash equivalents as at the reporting date increased from a year before by Rs. 357 Million to Rs. 510 Million due to cash flow movements arising from our operating activities together with financing and investing activities carried out for the period.

Cash Flow from Operating Activities

Net movement of MI's operating cash flows marginally improved from a negative of Rs. 2,054 Million a year before, to a negative of Rs. 514 Million as at the reporting date. The inflow of cash from operating activities rose mainly from interest and commission receipts and through the efficient management of operating activities. However, negative operating cash outflow resulted mainly due to funds advanced to customers, interest payments, personnel costs and other overheads.

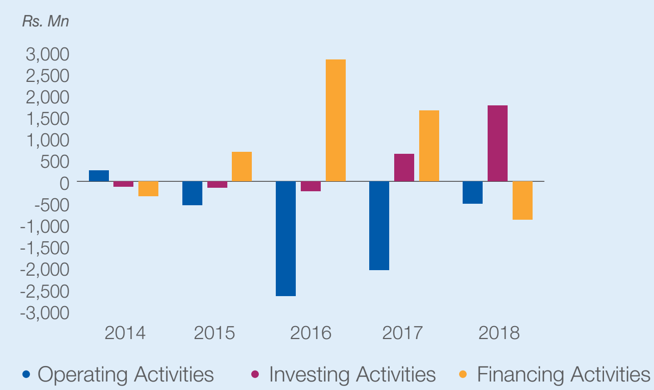
Cash flow from Investing Activities

MI's cash flow from investing activities reflected an inflow for the period under review, amounting to Rs. 1,755 Million, compared to an inflow of Rs. 636 Million recorded last year on account of non-dealing securities and the Dividend income.

Cash flow from Financing Activities

Cash flow from financing activities showed a negative cash inflow totaling Rs. 882 Million as at 31st March 2018, compared to a positive cash flow of Rs. 1,639 Million recorded during the previous period, resulting from close treasury management and the settlement of few large borrowings during the year.

Cash Flow Analysis



The Promise of Continuous Innovation

GRI Standards General Disclosure 102-2

Being in the business of the provision of credit facilities and the mobilisation of deposits, the Company has expanded its product portfolio to cater to a wider array of customers and market segments, promoting most of the products under its umbrella brand “MI”. During the last decade, MI has diversified its lending product range from providing traditional lease and hire purchase financing to term based lending such as personal and corporate loans, pledge loans, property mortgage loans with the latest addition being microfinance.

Lending Business Sphere

LEASE FINANCING

Lease facilities are granted mainly against vehicles and machines in accordance with the Finance Lease Act No. 56 of 2000. MI is proud of the trust and conviction that is placed upon them from loyal leasing customers.

TERM LOANS

At MI, we provide a range of term based funding which are customised to serve the diverse needs. This includes personal loans,professional loans, autodrafts and other term based loans. These are lending services that are fixed term based, either secured or unsecured.

HIRE PURCHASE FINANCING

In keeping to the Consumer Credit Act No. 29 of 1982; lending facilities are given mainly against vehicles and machines that have been registered. This instalment-based service provides MI customers to plan out their funds for maximum benefit, prior to final ownership.

PROPERTY BACKED LENDING

Lending services extended against property given as security under a mortgage bond. At MI, we understand the needs of our customers and offer time-sensitive solutions.

VEHICLE LOANS

Lending services are offered against registered or unregistered vehicles with the option of structuring the installments based on the customer’s repayment capacity. Further, prompt application processing guarantees customers of MI a pleasant experience.

MICROFINANCE LENDING

Microfinance services are offered to low income earners, providing them the opportunity to become self-sufficient and self-employed, enabling individuals to improve their quality of life

Deposits Business Sphere

FIXED DEPOSITS

Fixed Deposits at Mercantile Investments and Finance PLC comes with a heritage of trust, stability and the highest security, giving public the best return for their investments.

SAVINGS

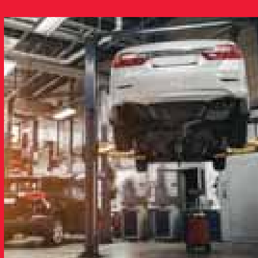
At MI, our savings accounts cater to both minor holders and general savings account holders, advocating the habit of saving within the Sri Lankan economy.

Fund Management & Investment Business Sphere

DEBT SECURITIES

Those with excess funds can place and obtain attractive returns through MI's Debentures, Commercial Papers, Securitizations and other Debt Instruments.

Supplementary Services Business Sphere



WORKSHOP

MI is an attentive partner and as such offers its many credit customers a fully equipped workshop, providing motor vehicle repair and servicing facilities.

INSURANCE

We arrange insurance facilities to our customers at competitive rates, extending our one stop shop experience and hassle-free service

Business Sphere Report

This year, our main business spheres performed exceptionally compared to previous year performance, displaying sustainable growth. (Refer Financial Statements Pages 292 to 293 of Segment Report for further information on revenue generating business spheres). The focused strategy implemented for each business sphere enabled the company to capitalise on internal strengths and counter challenges posed. With investor value creation being the primary objective, the role played by each sphere varied with wider goals specific to the sphere but remained aligned towards Net Interest Income (NII) growth.

Lending and Collections

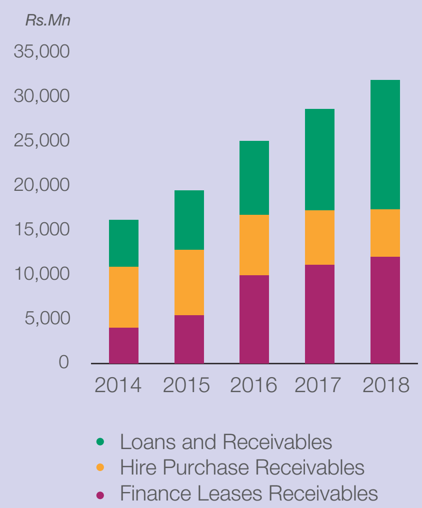
Lending Performance

Strategic Priorities:

- **Sustaining above 10% medium term lending portfolio growth**
- **To increase core margins above the targeted threshold limit of 8%**

Targeted Loan growth 2018/'19	Budgeted Loan growth 2017/'18	Actual Loan growth 2017/'18	Actual Loan growth 2016/'17	Actual Loan growth 2015/'16
>20%	> 10%	11%	14%	29%

Product wise Portfolio Growth



By expanding the product portfolio to cater to a wider array of customers and market segments and through focused sales force, we managed to maintain steady loan book growth.

Challenges observed in the vehicles sales market, which include the high importation charges, continued depreciating currency and increasing global vehicle prices coupled with restrictions imposed on domestic credit peg back growth traditional financing. Accordingly, total Loan and Advances reached Rs 31,935 Million, up 11% YOY. However, constant demand prevailed for motor vehicle funding, especially to acquire registered vehicles. Moreover, easing of import taxes on lower engine capacity motor vehicles and LTV limits on hybrid and electric vehicles in the later part of financial year drove brand new vehicle imports, propelling business.

Finance Leases

Finance Leases being our traditional and the most popular product represented 38% of our total lending portfolio. Through product differentiation we offered range of tailor-made leasing solutions to finance private and commercial vehicles and agricultural equipment purchases. While strengthening our personalized and legendary customer service, as part of our shared growth initiatives, we offered competitive pricing to our business partners. We succeeded in achieving a moderate growth of 8% in the lease portfolio for 2017/18. Our focus on registered vehicles and the expansion of the branch network, along with our service excellence, were key drivers of this growth. Accordingly, lease income went up significantly by 19%.

Hire Purchase

With the rise in popularity of non-traditional forms of lending and elimination of VAT on leases, Hire Purchase business vertical being MI's leading product in the past, experienced a further decline this year. With contracted demand, we promoted Hire Purchase business, mostly registered vehicle sale financing. Income from hire purchases stood yet material at Rs1,222 Million, but reflecting a decline 3% YOY.

Loans and Advances

Interest income from Loans and Advances was mainly driven by the portfolio growth in vehicle loans (57%), property mortgage (24%) and micro financing (51%). However, due to shorter tenure products, term based lending portfolio declined by 13% but yet related revenue went up by 58%.

Vehicle Loans (VL)

Vehicle Loans comprised 52% of MI's loans and advances portfolio propelled by the wider variety of VL solutions.

Term Loans

With an array of term based solutions which included Auto draft, Personal loans, Cheque Loans etc., this product range remained fundamental, contributing 30% to loans and advances revenue.

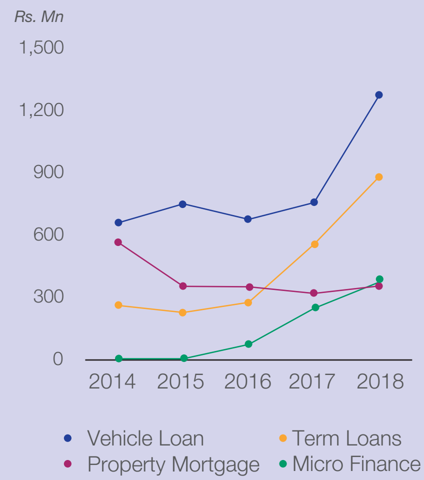
Property Mortgaged Loans

Despite having a limited portfolio, taking advantage of the active construction industry, we grew this portfolio by 24%.

Micro Finance Based Lending

By broad basing our micro finance footprint targeting low income earners, we witnessed an astoundingly growth of 51% driven by the wider branch reach and strengthened Micro team.

Loans and Advances - Revenue



Collections and Asset Quality

Strategic Priorities:

Strong credit policy, credit risk review and a recovery drive to;

- **Maintain collection ratio above 90%**
- **Bring down NPL ratio below 4% in the medium term**

Asset quality KPIs	Targeted ratio 2018/'19	Budgeted ratio 2017/'18	Actual 2017/'18	Actual 2016/'17	Actual 2015/'16
Non performing Ratio*	<7.5 %	<7%	7.58%	6.92%	3.39%
Collection Ratio	95%	95%	92%	91%	90%

* Non-performing lending ratios have been computed based on CBSL time based provisioning regulations.

An effective risk based credit evaluation approach and strong recovery strategy paved the way for tighter control over collections and arrears contracts. Nevertheless, a few large facilities that went to NPL category last year though adequately backed by security, kept the NPL ratio, at 7.58%, reflecting a moderate increase of 0.7 % YOY. (Refer the Risk report pages 296 to 300 which explain the credit risk management process)

A prompt recovery monitoring process adopted, ensured that we gradually improved our overall collection ratio up to 92% (FY 2016/17 - 91%), which entailed swift and tougher recovery measures for problematic accounts through repossessing of assets and legal recourse. A specialised recovery team called the Special Recoveries Force (SRF) was put to action to provide a 24/7 recovery effort. Additional SRF teams were deployed to speed up actions and this contributed to these satisfactory collection levels. The specialised Internal Valuation and Disposal Unit located in Maharagama, handled ceased vehicle disposals totalling to 187 compared to 159 done previous year. The legal department played a vital support role to Recoveries, being a vital cog in the bad debt recovery process, expediting completion of 191 cases successfully during the year.

Cumulative Impairment Vs Provision cover

Accordingly total impairment charges to income statement declined from last year, while cumulative impairment provision remained moderate against the non-performing loans at Rs. 2,512 Million, keeping the provisioning cover at 48% compared to last year's 46%. (Refer Impairment note in the financial statements on pages 251 to 252)

Legal Department Performance - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/financialcapital/

Deposit Sphere

To boost NII, Deposit Business sphere was strategically utilized to mobilize funding at optimal pricing. Arrangements were made to decentralize the existing deposit operation, to increase branch deposit mobilization than before vis-a-vis the traditional head office deposit operation. A sound 18% deposit base growth was recorded for the year, with the deposit base standing at Rs. 20 Billion for the first time, with total deposit Interest expenses increasing by 36% to Rs 2,507 Million. Increased deposit base, competitive higher pricing and reprising effects were the key factors to the cost escalation in fixed deposits.

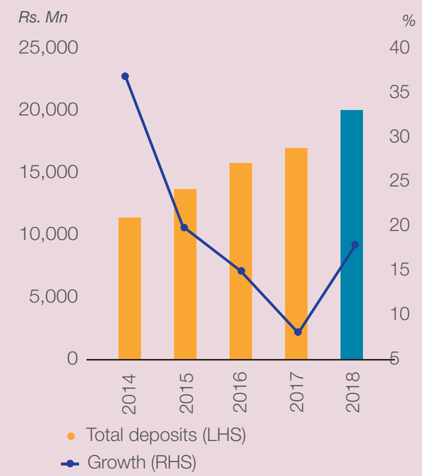
Fixed Deposits (FD)

Fixed Deposits with a 99% contribution to the base, was MI's core deposit product growing by 18%, somewhat below the industry average growth reported in 2017. Active branch penetration and marketing services boosted the viability of the product (Refer deposit strategy on pages 52 to 56)

Saving Deposits

Focused strategies of decentralization and market penetration, kept the savings growth at encouraging 62% levels.

Total Deposit Base and Growth



Fund Management & Investment

STRATEGIC PRIORITIES

- Sourcing of low cost funding to improve margins
- Maintain required liquidity for business and regulatory requirements
- Bridging short term assets and liability maturity mismatches
- Maintaining attractive returns for Treasury Investments

Financial Management covered both Treasury handling as well as strategies to improve NII, either increasing investment revenue or reducing funding cost. The treasury division also played a leading role in balancing funding needs for the company - not only funding business - but also managing assets and liability mismatches.

Funding Mix

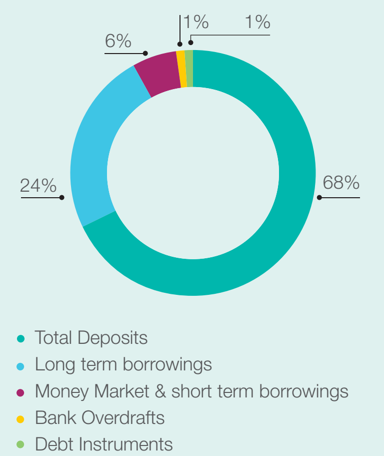
We kept the right funding blend between deposits and borrowing to optimise on funding costs and bridge mismatches. (Refer page 301 in risk report) There was a 68% contribution from Deposit mobilisation to the funding mix, while balance stemmed from borrowings.

There was no influx from shareholder funds by way of fresh capital issue except for the natural retained profit growth. Accordingly, funding interest cost rose by 18% to Rs 3,704 Million.

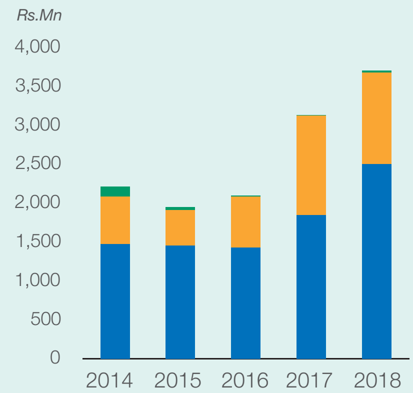
Sources of funding - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/financialcapital/

Funding Mix



Analysis of Interest Expenses



- Interest on Deposits
- Interest on Bank Borrowings, Securitised Borrowings and Bank Overdrafts
- Interest on Debt Securities

➲ Treasury Borrowings

Total borrowings dropped to Rs 9,582 Million, reflecting a decline of 15% YOY, while the borrowing interest cost dropped by 7%, despite upward interest rate movements.

➲ Treasury Investments

To comply with Central Bank liquidity requirements, we invested Rs 1,329 Million, up 134% in one year and less government securities and also parked excess funds in bank fixed deposits totaling Rs 218 Million.

Equity Investments

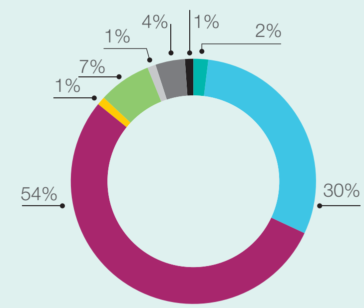
Strategic Priorities:

- ➲ **Derive sound returns by way of gains from capital appreciation and dividends**
- ➲ **Diversify risk and maintain safety of investment**

Equity Portfolio returns	Targeted 2018/'19	Budgeted 2017/'18	Actual 2017/'18	Actual 2016/'17	Actual 2015/'16
Realised Capital Gains	>Rs 100 million	>Rs. 150 million	Rs. 219 million	Rs. 60 million	Rs. 5 million
Dividend Income	>Rs 60 Milion	>Rs 20 Milion	Rs. 70 million	Rs. 177 million	Rs. 103 million

Out of the Financial Investments included under the Available-For-Sale category, equity based Investments remained a significant component, totaling Rs. 1,336 million. Whilst enjoying a 268% increase in realized equity gains in contrast, dividends received fell by 61%, mainly after we disposed our equity holding in Commercial Bank mid-way last calendar year. The lackluster share market performance, resulted in a moderate unrealized loss of Rs 56 Million accounted under the other comprehensive Income statement. Furthermore, based on the significant decline witnessed especially in the hotel sector investments, Rs 125.6 Million impairment provision was made in compliance with LKAS 39. (Refer pages 263 to 265 in the financial statements note on equity portfolio and page 305 in the financial statements risk note.)

Investments 2017/18

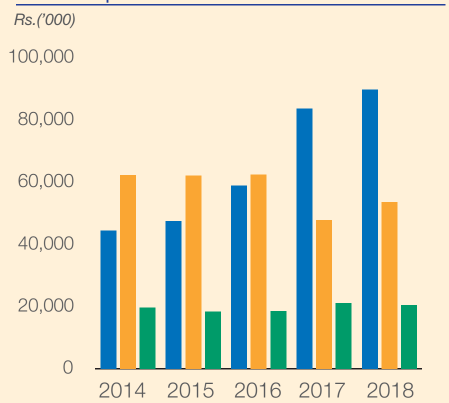


- Bank, Finance & Insurance
- Diversified Holdings
- Hotels & Travels
- Investment Trust
- Manufacturing
- Land & Property Development
- Motor
- Construction & Engineering
- Trading

Supplementary Services

Total Supplementary revenue expanded by 7% to Rs 164 Million, driven by complementary services such as insurance, vehicle service and repairing facilities. Accordingly, these after sales services enhanced total product experience, enabling customers to enjoy a one-stop shopping experience.

Revenue Growth In Insurance, Workshop and Service Centre



- Insurance Commission
- Workshop Income
- Service Centre

Economic Impact Report

Management approach

Being a socially responsible corporate, we have deepen our insights to ensure that we have embedded responsible corporate culture and align our strategic objectives with socio economic aspirations which also include the sustainable development goals of the United Nations (UN). While adhering to highest level of ethical standards and global best practices, our aim is to differentiate ourselves as an exceptional financial service provider, ensuring sustainable value creation for our stakeholders and contributing eventually to both the LFC sector and our national economy.

Contribution to the Economy

GRI Standards Specific Disclosure 203-2

As a financial service provider, our economic impact is far-reaching, as we cater to a wider array of people and corporates alike across various regions and communities. As evident from our financial results, our contribution to the economy is gradually expanding, which has brought greater accumulation of shareholder wealth, employee benefits and contribution to the government by way of taxes.

Having identified the role of entrepreneurs and small businesses as a key driver of the economy of local communities, MI continued to extend its support to this sector by offering a specialized product range with our hassle-free service. While expanding our outreach to extend our financial support to the remotest areas of the country that have little or no access to financial solutions, MI committed to the development of women entrepreneurs across the country through its Micro Finance lending and other value added non-financial services.

Direct Economic Impact

➲ Direct Economic value generated and distributed

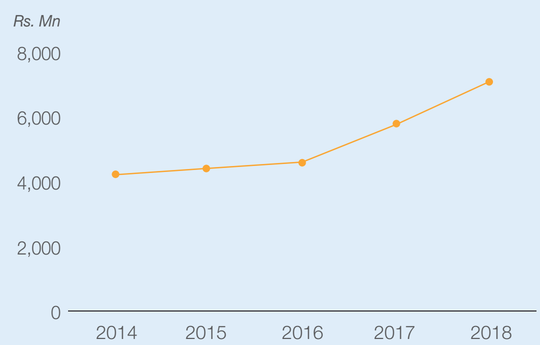
GRI Standards Specific Disclosure 201-1

Whilst reaffirming investor wealth creation through robust profitability, our impact on the total economy and industry was also noteworthy, despite the industry's bottom line contraction by December 2017. MI's total value addition rose from Rs 5,750 Million to Rs 7,079 Million for the financial year ending 31 March 2018, up by 23 %. Keeping long term growth prospects of the company in mind, 9% of this year's total value addition was retained within the business and the remainder was distributed. A distribution of 12% was made as emoluments and statutory dues to employees, and 7% by way of taxes to the Government.

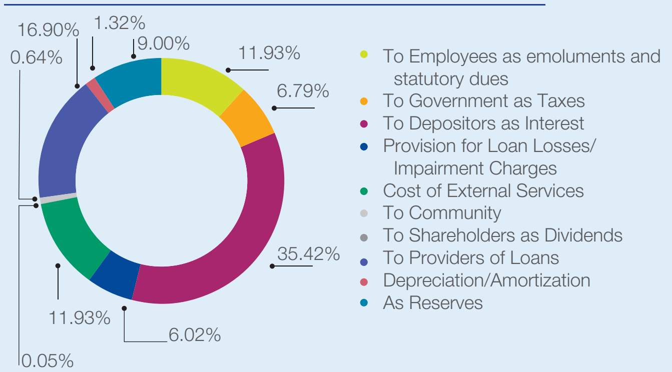
Direct Economic Value Generated and Distributed (Rs. 000)

For the Year ended March 31st	2018		2017		2016		2015		2014	
Direct Economic Value Generated										
Interest Income	6,564,038		5,286,059		4,301,828		4,129,395		3,861,558	
Commission Income	89,797		83,622		58,927		47,554		44,402	
Investment Income	219,327		59,542		5,143		13,049		80,512	
Share of Associate Company Profit	94,996		104,194		91,675		113,795		105,798	
Others	110,931		216,309		134,377		96,290		109,338	
	7,079,090		5,749,726		4,591,950		4,400,083		4,201,608	
Economic Value Distributed										
To Employees as emoluments and statutory dues	844,689	11.93%	678,232	11.80%	532,029	11.59%	437,628	9.95%	335,849	7.99%
To Government as Taxes	480,671	6.79%	208,735	3.63%	332,306	7.24%	313,592	7.13%	279,760	6.66%
Operating Costs										
To Depositors as Interest	2,507,282	35.42%	1,847,009	32.12%	1,428,676	31.11%	1,456,321	33.10%	1,477,307	35.16%
Provision for Loan Losses/ Impairment Charges	426,353	6.02%	625,066	10.87%	234,816	5.11%	295,741	6.72%	160,445	3.82%
Cost of External Services	844,317	11.93%	812,462	14.13%	725,945	15.81%	597,162	13.57%	482,085	11.47%
To Community	3,587	0.05%	2,045	0.04%	7,053	0.15%	3,063	0.07%	2,339	0.06%
Payments to Providers of Capital										
To Shareholders as Dividends	45,090	0.64%	0	0.00%	21,042	0.46%	88,677	2.02%	30,060	0.72%
To Providers of Loans	1,196,493	16.90%	1,289,209	22.42%	669,702	14.58%	491,462	11.17%	738,176	17.57%
Economic Value Retained within the Business										
- as Depreciation/Amortization	93,746	1.32%	69,186	1.20%	49,994	1.09%	86,896	1.97%	71,174	1.69%
- as Reserves	636,862	9.00%	217,782	3.79%	590,387	12.86%	629,541	14.31%	624,413	14.86%
	7,079,090	100.00%	5,749,726	100.00%	4,591,950	100.00%	4,400,083	100.00%	4,201,608	100.00%

Direct Economic Value Generated



Direct Economic Value Distributed



➲ Increasing tax contributions

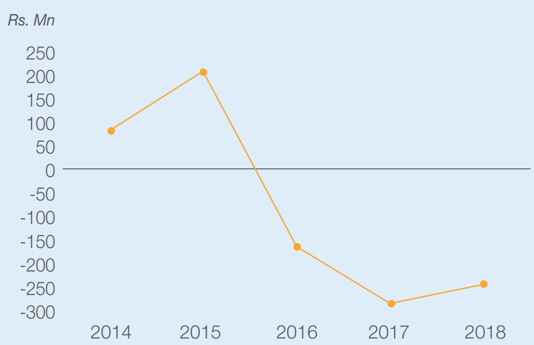
Being a legitimate tax payer, MI's tax contribution to the government as an indirect support to the ongoing infrastructure development and social upliftment has continuously grown over the years. Having contributed over Rs 480 Million to the National Exchequer by way of annual taxes on our income, we have collected Rs.170 Million from our customers on behalf of the government. (Refer Financial Statements page 255 and 256 describing tax components)

Economic Value added (EVA)

MI's value towards the economy measured through the EVA marginally improved from a negative of Rs.286 Million to negative Rs. 245 Million this year with the growth in profitability. However, the revaluation surplus of Rs. 890 million which was recorded during this year offset the growth in EVA.

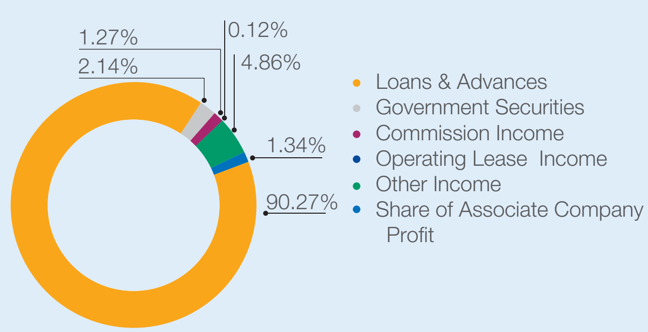
Economic Value Added					
As at 31 March	**2017/18** **Rs.'000**	**2016/17** **Rs.'000**	**2015/16** **Rs.'000**	**2014/15** **Rs.'000**	**2013/14** **Rs.'000**
Invested Equity					
Shareholders' funds	8,683,086	7,867,265	7,654,232	7,779,765	6,266,385
Add:Provision for impairment	1,766,088	1,381,640	770,887	660,743	447,782
Total	10,449,175	9,248,905	8,425,119	8,440,508	6,714,167
Earnings					
Net Profit After Tax	514,065	202,014	505,019	631,272	675,362
Add:Impairment charge	426,353	625,066	234,816	295,741	160,445
Less: Bad debt written off	(28,198)	(14,320)	(124,672)	(82,780)	(24,193)
Total	912,220	812,760	615,163	844,233	811,614
Cost of equity (based on 12 months Weighted Average Treasury Bill Rate plus 2% for the Risk Premium)	11.75%	12.43%	9.25%	8.41%	11.48%
Cost of average equity	1,157,262	1,098,441	780,035	637,254	730,820
Economic Value Added	(245,042)	(285,681)	(164,872)	206,979	80,794

Economic Value Added

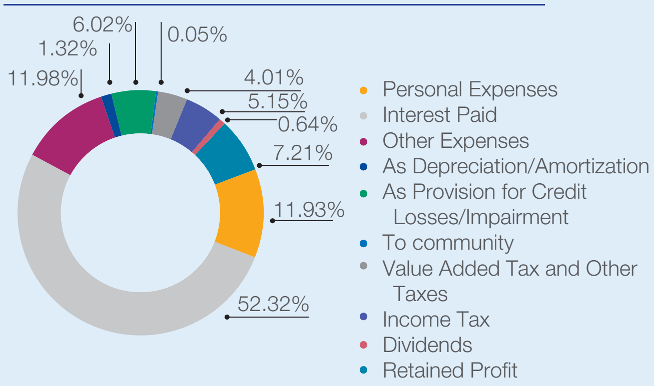


Sources & Utilization of Income (Rs.`000)										
For the year ended 31st March	**2018**		**2017**		**2016**		**2015**		**2014**	
Sources of Income										
Loans & Advances	6,390,394	90.27%	5,055,670	87.93%	4,172,079	90.86%	3,999,740	91.24%	3,731,971	88.82%
Government Securities	151,392	2.14%	200,207	3.48%	98,809	2.15%	92,161	2.02%	81,946	1.95%
Commission Income	89,797	1.27%	83,622	1.45%	58,927	1.28%	47,554	1.04%	44,402	1.06%
Operating Lease Income	8,628	0.12%	8,507	0.15%	3,785	0.08%	2,926	0.06%	(2,738)	-0.07%
Other Income	343,883	4.86%	297,526	5.17%	166,675	3.63%	143,906	3.15%	240,229	5.72%
Share of Associate Company Profit	94,996	1.34%	104,194	1.81%	91,675	2.00%	113,795	2.49%	105,798	2.52%
Total	7,079,090	100.00%	5,749,726	100.00%	4,591,950	100.00%	4,400,082	100.00%	4,201,608	100.00%
Utilization of Income										
To Employees										
Personal Expenses	844,689	11.93%	678,232	11.80%	532,029	11.59%	437,628	9.95%	335,849	7.99%
To Suppliers										
Interest Paid	3,703,776	52.32%	3,136,218	54.55%	2,098,378	45.70%	1,947,783	44.27%	2,215,483	52.73%
Other Expenses	847,904	11.98%	812,461	14.13%	725,944	15.81%	597,161	13.57%	482,085	11.47%
As Depreciation/Amortization	93,746	1.32%	69,186	1.20%	49,994	1.09%	86,896	1.97%	71,174	1.69%
As Provision for Credit Losses/ Impairment	426,353	6.02%	625,066	10.87%	234,816	5.11%	295,741	6.72%	160,445	3.82%
To Community	3,587	0.05%	2,045	0.04%	7,053	0.15%	3,063	0.07%	2,339	0.06%
To Government										
Value Added Tax and Other Taxes	283,667	4.01%	112,838	1.96%	141,090	3.07%	119,926	2.73%	109,902	2.62%
Income Tax	364,890	5.15%	111,664	1.94%	297,626	6.48%	193,666	4.40%	169,858	4.04%
To Shareholders										
Dividends	45,090	0.64%	0	0.00%	21,042	0.46%	88,677	2.02%	30,060	0.72%
To Reserves										
Retained Profit	510,433	7.21%	202,016	3.51%	483,978	10.54%	629,541	14.31%	624,413	14.86%
Total	7,079,090	100.00%	5,749,726	100.00%	4,591,950	100%	4,400,082	100%	4,201,608	100%

Sources of Income 2018



Utilization of Income 2018



Market Value Addition

Under the Diri Savi Board of the Colombo Stock Exchange, the ordinary shares of the company traded only twice to-date since listing in 2012 despite the last traded share price staying high at Rs. 2,580 per share as at 31st March 2018. Although the MVA currently remained negative, the company expects to improve once greater trading takes place in future.

Market Value Added (MVA) Rs. 000					
	2017/18	**2016/17**	**2015/16**	**2014/15**	**2013/14**
Market capitalization/ Market value of equity	7,756,382	7,756,382	6,613,200	6,613,200	6,613,200
Less: Equity owner's funds					
Shareholder's funds	8,683,086	7,867,265	7,654,232	7,779,765	6,266,385
Total equity owners' funds	8,683,086	7,867,265	7,654,232	7,779,765	6,266,385
Market value added	(926,704)	(110,883)	(1,041,032)	(1,166,565)	346,815

Indirect Economic Impact

Subscribing to the Finance Industry Growth and Stability

Being an exemplary player in the market, we have won the people's trust by displaying transparency and prudent governance which ultimately contributed to the economic growth of the country. While striving to maximize our value generation, we always endeavour to conduct our operations in an ethical manner - building trust and confidence with both the regulators and the general public through our compliance with statutory regulations, thereby contributing to the stability of the Finance sector.

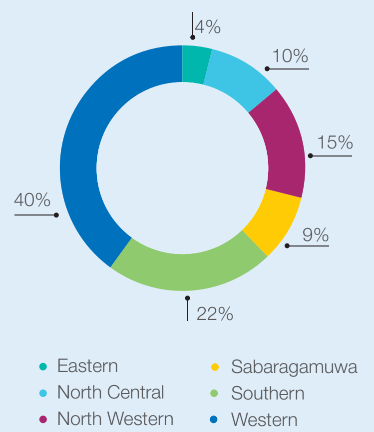
Geographical Contribution

Through continued branch expansion, MI's business impact across key sectors and regions has grown tremendously during the last decade, extending our service to the less developed and less affluent areas of the country. Our ongoing consolidation efforts and the decentralization continued to have tremendous impact geographically and we believe our indirect impact will widen as we enter new geographical markets.

Significant Indirect Economic Impact, Including the Extent of Impact

	2017/18		2016/17		Change in total
Province credit has been extended	Total disbursements by province in FY 2017/18 Rs. '000	Number of Branches	Total disbursements by province in FY 2016/17 Rs. '000	Number of Branches	disbursement Rs. '000
Central	483,916	1	284,759	1	199,156
Eastern	407,306	2	395,658	2	11,649
North Central	773,910	3	838,329	3	-64,418
North western	1,625,315	3	1,527,854	3	97,462
Northern	7,000	-	11,415	-	-4,415
Sabaragamuwa	1,501,719	4	1,306,760	4	194,960
Southern	2,092,767	5	2,013,265	5	79,502
Uva	164,767	-	139,612	-	25,155
Western	14,759,514	18	13,587,741	18	1,171,773

Province wise Profit Generation



MI's Credit Support to Various Sectors

Sector	Total disbursements by industry/sector 2017/18 Rs. '000	2016/17 Rs.'000	% Growth
Agriculture	848,239	546,205	55.30
Commercial	5,595,830	4,447,950	25.81
Consumption	813,303	731,975	11.11
Finance	231,358	132,980	73.98
Housing & Property	972,965	464,312	109.55
Industrial	1,131,185	515,631	119.38
Services	9,285,805	9,676,463	(4.04)
Tourism	411,624	376,534	9.32
Others	2,525,905	3,213,342	(21.39)

➲ Employment Creation

During the last decade, we have expanded our workforce exponentially, creating significant job opportunities and avenues for people to apply within their accustomed vicinity, closed to their homes and family. We have created the right working environment, winning accolades as a caring employer. During the year, we have distributed 19 % of our earnings as emoluments and statutory dues.(Refer "Human Capital" pages 102 to 111 on employment creation.)

GRI Standards Management Approach
203-1

➲ Community & Environmental Investment

We always take steps to support the local communities by investing in social and environmental development projects aimed at uplifting the livelihoods of the poor and less privileged at various locations which is discussed under the Social and Relationship capital (on pages 82 to 97). However, we have not made any direct investments in infrastructure development projects, during this year.

Type of community Investment	Type of assistance given	MI's Goals and expected outcomes from the community investments	In monetary terms (Rs.)
Monetary contributions	Financial Assistance and other monetary donations.	Enriched MI's vision of being a leading financial institute while bringing value to the society.	3,459,329
Time contributions	518 man hours were devoted to enhance the value of sociatal projects. Employees visited project locations and supported in community service.	Devoted valuable time of staff members to support the needy to reach MI's vision.	147,112
In kind contributions	Distributed steel cupboards and stationery for children and daily needs for orphans. Fans and gates were installed for the needy and carried out construction in Balangoda and Ja-Ela.	Built team spirit and social responsibility by lending hand to the needy reaching MI's key values.	266,523
Management cost	296 man hours were spent by some of the corporate management members, managing the flow of activities related to the projects.	Devoted time of management to initiate, commence and complete the projects.	296,000

Manufactured Capital

http://mi.com.lk/value-creation/value-creating-six-capitals/manufactured-capital/

Captures of the year

Restructuring Renovating costs **Rs. 40Mn**	IT hardware Infrastructure costs **Rs. 10.6Mn**	IT software Infrastructure Upgrade Database **Rs. 43.5Mn**

"Infrastructure support is utilized as a competitive tool towards revenue generation and service excellence"

Our approach to Manufactured capital management

GRI Standards Management Approach 103-2 and 103-3

MI being at the forefront of the financial industry, has under its armory both tangible and intangible infrastructure that is useful to conduct its business activities in an efficient manner. Mainly, MI's extensive fit-for-purpose branch network, modernized IT platforms, property, plant and equipment and national infrastructure are regarded as our manufactured capital. Infrastructure support is utilized as a competitive tool towards revenue generation and service excellence. Capital expenditure is made only after thorough feasibility, and should accrue significant benefit or return in the longer horizon.

Objective	Maximize return on Investment	Superlative customer service and convenience
Goal	Wider customer access and long term bonding	Providing right infrastructure for business

Manufactured Capital Value Building Process

Digitization	Physical Infrastructure		People strength
IT System	Branch Network	Plant and Equipment	Service Excellence

Interconnection with other capitals

Financial Capital	Intellectual Capital	Human Capital	Social & Relationship Capital	Natural Capital
ROA 1.32%	Cemented brand loyalty and data confidentiality	Planted 321 number of new staff island-wide	New customer bondages	Invested Rs. 1.37Mn to protect habitats
ROE 5.92%				Ongoing evaluation to embrace solar energy

Branch Network

GRI Standards General Disclosure
102-3, 102-6

MI's budding branch network, which is spread island-wide, comprises 29 & 7 fully-fledged branches and service centres respectively. A majority of the premises have been rented to minimize investment cost.

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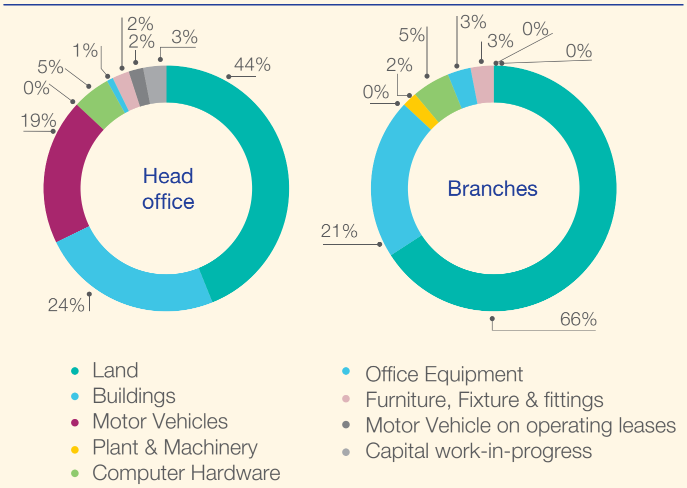
Branch Infrastructure

Head office, all branches and service centres are fully automated with online access and equipped with state-of-the-art work structures to support well-trained back office staff and to also house the front office credit & marketing team. Specialized micro units are housed in 23 of the said locations, in addition to the core lending & deposits units.

Property & Equipment

This entails MI owned land and building, property taken over in lien of lending business (Investment property) & equipment owned to assist the various business spheres and support divisions. (Refer Property, Plant and Equipment and Investment property note in pages 274 to 279 for detailed breakdown)

Composition of Assets



Information Technology (IT)

As an industry dependant on technology, we utilize IT as means of better serving our customers and to make timely decisions, for competitive advantage. We made plans to further evaluate a few renowned advanced IT platforms available in the market, hoping to migrate to the most suited commencing from next financial year. We obtained the support of an IT consultant and carried out an AS IS study of the existing system to establish existing system gaps in meeting future IT requirements of the company. Meanwhile, the existing in-house developed system was further changed/modified to cater to additional user requirements. These enhancements continued to widen the systems capabilities to face the growing dynamism in the finance industry. The IT platform remained robust with the necessary features to assist users in extending a speedy professional service to our customers, and to meet growing demands of the industry. IT was used as the main vessel to facilitate the accumulation, collaboration and dissemination of vast amount of key management information and business intelligence, for quality decision making and also to cater to widening reporting requirements.

Based on the IT consultant's guidance, plans were also made to further strengthen the IT framework and architecture which encompasses the IT related processes, practices and procedures. Recommendations were made to improve system configurations, strengthen capacity as well as system security, which is currently being followed up for implementation during 2018. The company is fortunate to obtain expertise of its in-house system developers, who were able to make number of system enhancements/modifications during the year to make the existing system more secure, user-friendly and agile.

IT Standards, Policy and Procedures

Understanding the importance of digitization and its associated risk, the MI Board has established strong oversight measures over IT related activities. By embracing the appropriate IT standards and protocols, MI's IT governance was kept at a high level, and revolves around sound IT policies, practices and processes for practice of both the IT department and the users. Considering the changing business

Key IT Strategic Priorities

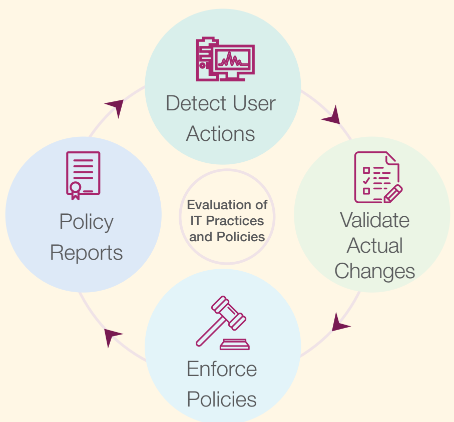
Enhance IT capabilties to deliver a superlative customer service	Widening management information via IT to make pertinant decisions	Safeguarding data from intruders

Key IT measures undertaken in 2017/18

Enhancements made to strengthen safety features and ease work processors	Part implementation of the external human resource management system acquired last year

Purchased hardware and software to upgrade and enhance the system	Obtained IT consultant's support to evaluate a new system	User training and round-the-clock user support

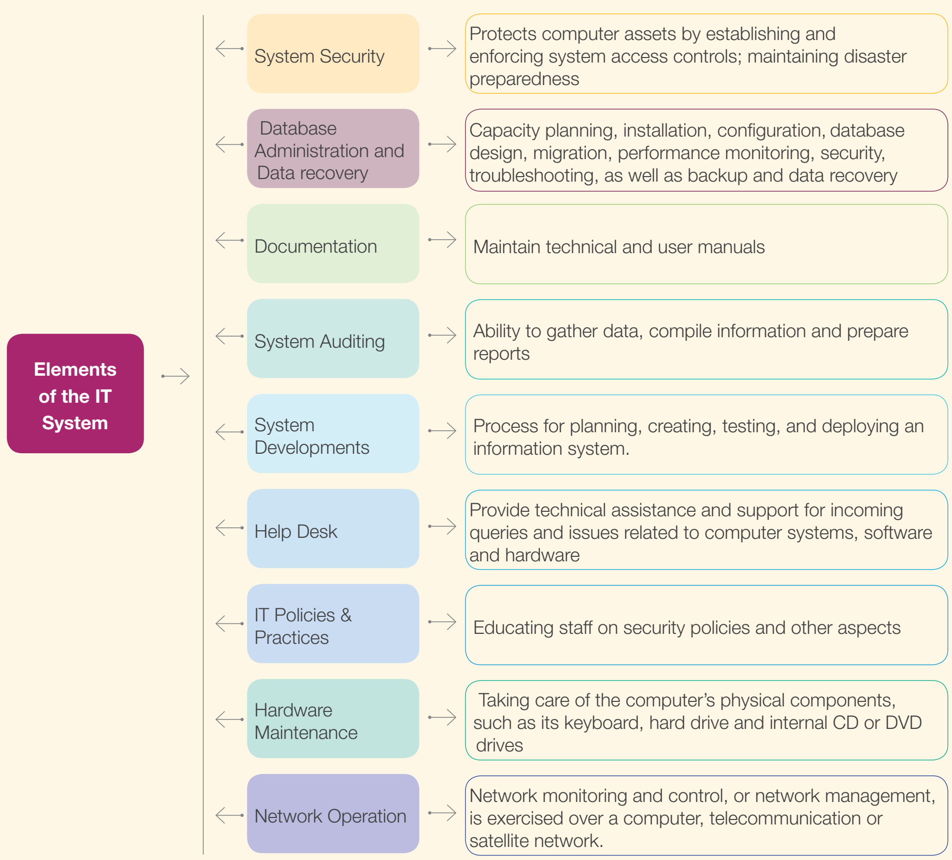
landscape and risk, the adopted IT policies and procedures which include the IT Procedure Manual (IPM), Information System Security Policy (ISSP), System Development Standards (SDS) and the IT Contingency plans were reviewed and updated, and Board approval obtained again during the period. This ensured the solidity of placed internal controls to uphold the system safety, soundness and credibility and also as means of embracing best practices, to stay current in a technologically evolving industry.



IT compliance audits were conducted periodically with the support of Messrs Ernst and Young Chartered Accountants system audit team, to identify and report on any deviations and shortcomings of IT which include also the external IT regulations. External auditors and the internal audit divisions conduct general review of IT controls as part of their standard audit coverage and reported on their findings to the Audit Committee for resolution. The company's IT systems standards continued to conform to the Sri Lanka Accounting Standards and also to the Central Bank rules and guidelines. Licensed software was continued to be used in the operations of the Company; in compliance with the Sri Lankan Intellectual Property Act No 36 of 2003 .

Key IT Elements handled

Our IT framework encapsulates a world-class IT system that encompasses the key elements necessary to provide users with the right technology to face future demands. As depicted, there are nine core elements associated with the IT system that we operate, administered centrally by the IT division.



The core system is internally developed and uses IP-VPN technology through a renowned ISP provider in Sri Lanka. There are over 800 system users who have been afforded advanced system features with on-line system connectivity and access to the database from both the head office and from all regions to carry out routine tasks. The in-house IT division comprises a total of eleven staff members under the leadership of the Assistant General Manager IT. They are well equipped and experienced to handle all hardware requirements, system development and configurations, network operations, system security and database administrations as part of their routine duties.

IT's role in operational efficiency

Our in-house developed computer system has evolved over the years with necessary upgrades to a highly reliable and stable multi-user client server, keeping pace with the industry needs and technological advancements. A solid system platform has been established through a world renowned Oracle Database Management System which the network servers operate on Microsoft windows server 2008/2012, while both mail and proxy servers run on Linux. In order to speed up data processing, MI's software modules uses ".NET" platform which enhances compatibility with new operating systems and hardware solutions. Most of the key operational functions associated with our business spheres, both front end and back end have been fully automated, and once the proposed migration to the new systems is concluded, there will be further automation of manual processes. The diagram below depicts the many key business functions supported by the current system, easing user's tasks execution, and speeding transaction processing, thus adding ultimate value to our customers.

To ease processing time and afford customer convenience, significant system modifications were made even this year to support the ongoing decentralization. Through the technical guidance given by the IT Consultant, the existing system's reliability, efficiency and effectiveness were further enhanced. Separately, a comprehensive user requirement list was drawn subsequent to a thorough gap analysis done and is being followed up with the external core system solution providers. The overall IT architecture was also reviewed and recommendations made to safeguard the database from widening external risk factors. As future IT requirements, we hope to afford greater e-based solutions which will support the on-going decentralizing process and will be taken up with the proposed system migration.

IT developments undertaken

- **Implementation of the new HRIS system**

  Considerable amount of effort was put to customize and migrate to the external Human Resource Management system acquired last year. Full completion and launching is planned to take place early next financial year. The proposed new system will allow the HR division to provide gamut of human capital based information to corporate management, for better decision making and will also result in a more streamlined system based employee appraising system going forward.

- **'Point of Sale' (POS) support for Micro business**

  All service points were equipped with POS capability to minimise collection delays and serve customers faster.

- **Generated new output reports**

  Significant work was done to broad-base the management information supplied to key divisions through the core system mainly for the purpose of decision making, tracking performance and reporting. During this period, we developed 14 new output reports, with the support of the in-house software development team.

Key IT user reports - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/manufactured-capital/

Core System Key Support Functions

How key IT based risk was handled

With the growing dependence on technology and digitization, identifying and managing risk associated with IT continued to be of paramount importance to us. Data security was one of the key risks managed closely, despite the tight controls established. The configuration enhancements made and the planned system migration is bound to further strengthen data security. The IT systems review conducted during the external audit as well as recommendations proposed by the Central Bank on-site review team, too helped us tighten system controls this period.

With the support of the IT Consultant, we reviewed our IT contingency planning arrangements, and continued to place resources to maintain required safety standards. We resorted to a number of key contingency measures to manage system related risks, to protect data, its accuracy and to eliminate unauthorised access. This included:

- Central file servers, data base servers and automated data replication servers were kept fully operational to replicate data to the special disaster recovery sites (DR), thereby minimising any possible data losses.

- The main systems were backed up by UPS systems and by auto starting power generators, as an additional precaution.

- We strengthened our network and servers, upgrading latest versions of software to manage evolving cyber threats from firewalls, cloud security services, Active Directory (AD) security policies and VLAN infrastructures established within the Company's network continued to secure the IT system from intruders, hackers and other unauthorised personnel.

IT Knowledge Development

As a policy, all new users were subject to basic learning on internal IT policies, system access and standard user procedures. In parallel, existing users were trained hands-on, on new features and enhancements introduced. A dedicated mobile IT team was active across the branch network in coordination with the help desk to train and assist users.

Key members of the in-house IT team separately underwent training sessions conducted by external IT experts to keep pace of changing IT advancements. They also gathered knowledge by working with the IT consultant and worked closely with various external IT software solution providers. Once the planned migration takes place, we hope to subject the IT department as well as the users to extensive training with the support of the external service provider, to derive maximum benefit out of the proposed system.

Social & Relationship Capital

http://mi.com.lk/value-creation/value-creating-six-capitals/social-and-relationship-capital/

"MI always offered me the best financial solutions and was flexible and speedy in their response. I have stuck to them and that has made me realize my dreams"

Pradeep Roshan Rathnayake

Captures of the year

Social Investment	Growth in total customer base	Customer Retention	Market Capitalization
Rs. 3.58 Mn	**30%** (Total Customers) **> 60,000)**	**75%** (Deposits)	**Rs. 7.8 Bn**

Our process for value creation in Social and Relationship Capital

GRI Standards Management Approach 103-2 and 103-3

In today's dynamic and competitive business environment, Corporate Sustainability hinges on the social license and the strength of the stakeholder relationships. With the objective of creating a more inclusive future, where everyone has the opportunity to prosper, MI always strives to strike a balance between maximizing organizational value proposition with each stakeholder group through a 'shared growth' value approach in mind. Our business strategy is directed to identify and cultivate lasting relationships. Through stakeholder value addition, we cement bondings and loyalty. By staying receptive, we cater to untapped credit needs of society and also to offer attractive investment opportunities Going beyond the commercial boundaries, we extend our support to satisfy other needs of society, especially those unmet needs of the poor and lesser privileged.

Objective	Cement eternal Loyalty	Create a sustainable tomorrow for all
Goal	Widen relationships & cultivate longer term bonding	Enhance each stakeholder value overtime

Social & Relationship Capital Building Model

Value Proposition		Relationships
Cementing lasting bonds and legendary customer experience	Shared Growth	Customers
Promote ethical business practices		Government & Regulatory Bodies
Building Trust and Constructive relationship		Suppliers
Respect and safeguard investor rights		Investors
Cater to social needs of the poor and less privileged		Society

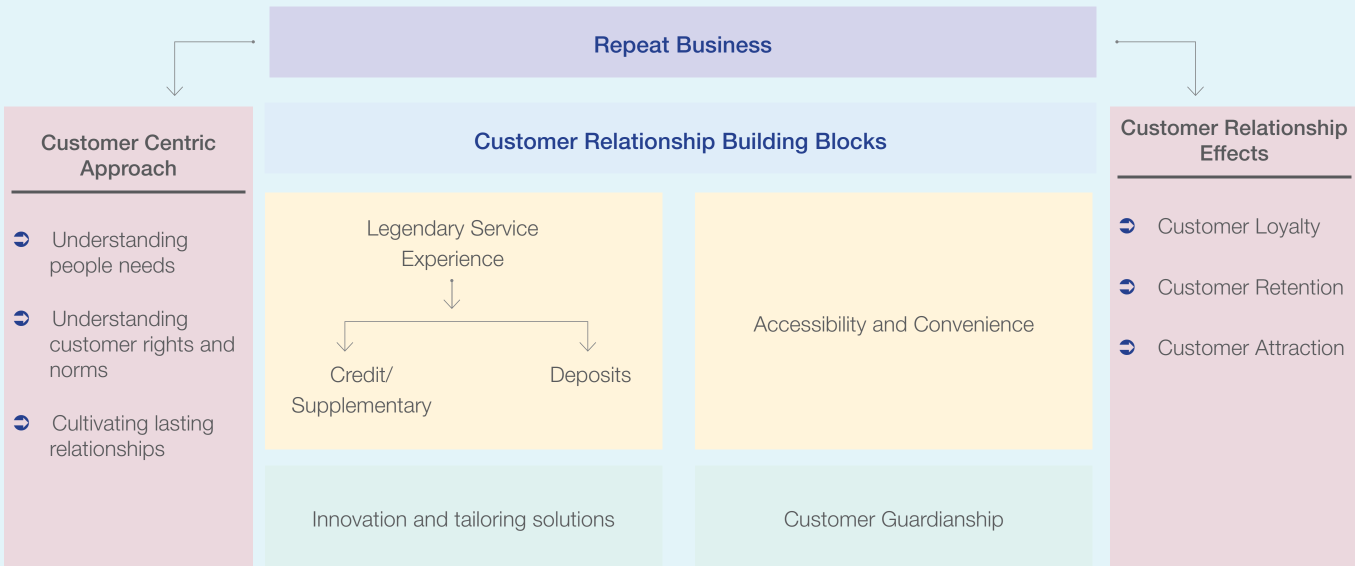
Interconnection with other capitals

Financial Capital	Intellectual Capital	Human Capital	Manufactured Capital	Natural Capital
Growth in Lending portfolio 11.5%	3,580 hours of Training on Customer Relationship management and Service excellence	New Jobs Created 321	Investment in Branch Expansion	Green Lending Rs. 34 Bn
Growth in Deposits base 18%	Integrated marketing communication and branding		Enhance IT customer privacy	Green Collaboration Rs. 287,450
Community Investment Rs. 3.58 Mn				Green Initiatives Rs. 1.37 Mn

Customer Relationship Capital Management

Being a financial service provider, acquiring and retaining a loyal customer base is a typically a challenge, especially in a dynamic and fiercely competitive business environment. MI, having understood the importance of a customer centric business approach, has successfully driven its business to greater heights for over five decades of business excellence, building strong and mutually beneficial relationships with customers. Today, these strong customer relationships constitute an integral part of our intangible value base that is a key strategic pillar in our value creation process. Currently, we are planning a more decentralized approach to nurture customer relationships across our branch network.

Customer Capital Building Model



Customer Centric Approach

The changing perceptions and rapid advancement of the digital platforms, macro and micro economic policies, regulatory framework and other social ideologies have reshaped business models and the competitive landscape, reinventing the customer experience and creating significant impact on customer behavioral patterns, expectations and needs. Therefore, our corporate sustainability will depend on the company's ability to understand evolving customer expectations, to seize opportunities as they arise with the regulatory and economic changes and ability to be in the forefront in product development to build and sustain profitable customer relationships.

We, as an organization, have devoted our resources, time and effort in analyzing and understanding changing customer behavioral trends, their rights and the ways and means of cultivating lasting relationships. While we endeavour to exceed their expectation levels, differentiating ourselves through value offerings, we strive for service excellence to maximize our value proposition. In 2018, we took measures to develop a customer protection framework to protect rights of the customer. Further, through customer feedback, we bridged gaps between what customers expect and what we deliver. Through customer survey feedback and suggestions we improved our operational service standards.

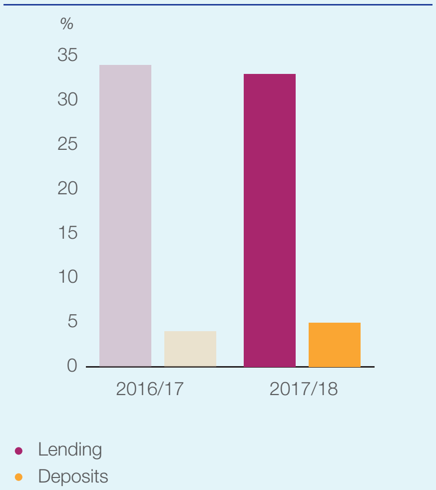
Customer Relationship Building Blocks

For business success, we adopt a streamlined customer relationship building approach, which are the building blocks of our lasting relationships with valued customers that span decades. Our four-dimension approach explained hereafter is at the heart of sustaining loyalty and repeat business.

Legendary Service Experience

"Customer Centricity" is at the heart of MI' s business strategy and we always aim to offer legendary customer experience that we are acclaimed for in keeping with our tag line "Service that extends beyond". "Think like a customer" is central to everything we do at MI. We reinforced our seamless efforts to maximize the satisfaction levels and to exceed their expectations in terms of service delivery and execution, to be the best. Speed of delivery coupled with personalized service has sustained lasting customer bonds for us, a vital feature in the current dynamic finance industry. Based on the key business spheres that we operate in, we have instilled unique service standard requirements.

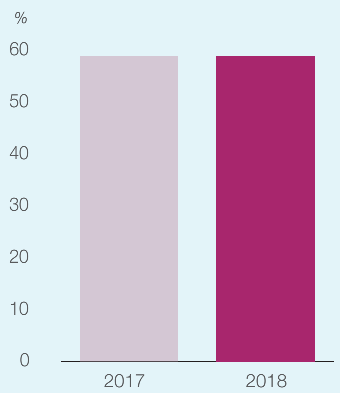
Customer Growth



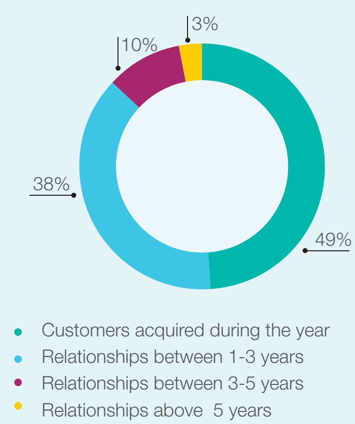
Credit /Supplementary Sphere Specific Service Standard

Our unwavering commitment towards service excellence in our core lending and related supplementary services has opened horizons for a customer experience beyond expectations. We have trained our sales staff to subject each and every walk-in customer to experience our legendary customer service. We provide support to select the most suitable financing product considering their repayment capacity and risk profile. We were able to introduce one day service enabling the customer to fulfill their financing needs even in an emergency. Going that extra mile through our comfort strategy, we offer a one-stop shop experience to all our customers, to select their dream vehicle from our vehicle showrooms, while arranging insurance cover, vehicle registration and after sales care through our workshop repair and service centre.

Inquiries Converted to Business



Lending Customer Relationships



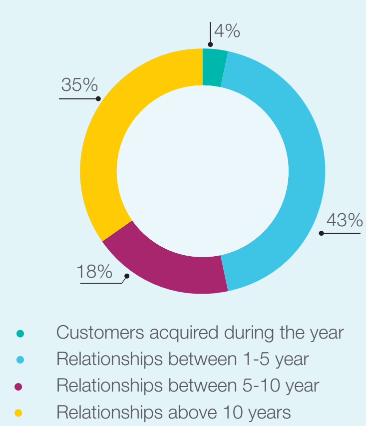
As a company that values shared growth opportunities, we strive to extend our support to both our existing and potential customers to realize their vehicle dream, whilst assisting our business intermediaries to market their vehicles during "MI Riya Pola" events. As part of strengthening our hassle-free service, we offer a doorstep service, enabling the customer to fulfill their financing needs with minimal effort. Recognizing the importance of uplifting lives and livelihoods of the underprivileged, we extended our support to specific customer segments by offering free vehicle insurance, traveler's kit, gift vouchers etc. Moreover, we offered complementary discounts for our special customers as we always strive to maximize customer satisfaction.

The strength of our customer bond is witnessed through the customer growth, percentage of inquiries converted to business and the longevity of the relationship.

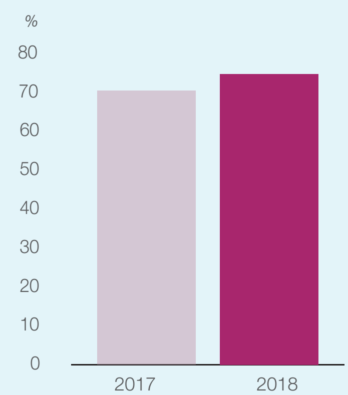
Deposit Specific Service Standards

Our strategic approach is achieved through a two-pronged focus on attracting new customers, while we retain our existing customer base. Thus, we offer personalized customer service with the aim of delighting customer expectations while safeguarding their trust, confidence and privacy. We always strive to extend unique product features to meet customer needs going beyond regular industry practices. We offered more flexibility to the customer to obtain part refunds and make further deposits without an array of choices, granting additional customer leeway. Furthermore, we provide doorstep service and special arrangements for withdrawals to enhance customer convenience and comfort. With the aim of strengthening our customer relationship and attracting more individual customers, we offered complementary discount offers to our deposit customers to spend their leisure time with their family members through tie-ups with recommended hotels. The strength of our customer bond is reflected through the high deposit retention, the longevity of the relationship and the customer growth as depicted below.

Deposit Customer Relationships



Deposit Retention



Accessibility and convenience

We have extended our customer outreach by expanding the branch network comprising of 36 branches/service centres covering key strategic locations. The branch network continued to be strengthened through the recruitment of knowledgeable and skilled workforce to deliver service quality, while making plans to further expand the deposits and micro finance arms of the branches. Our expanding reach goes beyond mere physical presence, through mobile sales teams, web inquiries and social networking has increased customer accessibility and convenience considerably. We harnessed digital technology and partnerships to create innovative seamless solutions introducing efficient payment modes to facilitate electronic fund transfers for all business spheres. We advanced our micro collection process through the use of point of sale (POS) systems to extend our hassle free service and customer convenience to the micro segment. Currently, we are planning to tie up with service providers to offer ATM facilities which will increase the convenience factor for our customer base.

Innovation and tailoring solutions

Being a company operating in a fierce competitive market, we strived to offer value accretive customer propositions, going beyond expectation levels. We also tailor-made our lending propositions that are both traditional and non-traditional to suit customer budgets and preferences; affording step up and structured lease and hire purchase financing and other tailor made repayment solutions. As a pioneer “one stop” financial service provider, we have offered innovative solutions that are flexible and hassle-free. Identifying customer needs, we recently launched our Auto draft and Cheque loan facilities, while plans are underway to offer another vibrant deposit product in the next financial year.

Customer Guardianship

As a guardian of people’s money and as a corporate leader, we are committed to inculcating ethical business practices and ensuring the transparency and accountability of our products and services. We believe that continuing to practice responsible customer care helps us to gain competitive advantage, while enabling us to fulfill our obligations towards our valued customers. In keeping with newly issued regulations as a significant measure towards customer guardianship, we developed a Board approved ‘Customer Protection Framework’, effective from the next financial period.

Product Responsibility

Being a responsible finance company, we strive to ensure and maintain the highest standards for our products and services by adhering to all statutory and regulatory requirements, local and international, as well as global best practices. In planning and developing many of our products, services and marketing communications, we engage with relevant experts and stakeholders to ensure that we maintain the standard of compliance. We conform to required product responsibilities towards our customers, other related parties and the general public, while ensuring that we don’t engage with any practices which have any adverse impact on the environment. By laying down clear policy and operational policies and procedures for our lending business and for deposit mobilization, and strengthening compliance through the process of training, the company expects all back office and front office staff responsible, who deal with product handling, to strictly comply with all such requirements.

Product responsibility policy - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/social-and-relationship-capital/

Responsible Marketing

As a trustworthy financial service provider, we want our customers to understand their financial portfolios and to extend our support to select the most suitable financial solution based on their need. That’s why the Company embeds responsible design, marketing and education into our suite of products and services, so that consumers will continue to view MI as an authentic and trusted brand. Our Integrated Marketing and Branding Strategy has been designed in line with the said objectives, going beyond all statutory and regulatory compliance requirements. We do not deal in promotion of banned or disputed products and products that are subject to stakeholder questions or public debate. To maintain a greater level of accountability, we strive to make all communications as transparent and focused as possible. The marketing and communication methods explained in page 52 to 55 under strategy, were carried out in an ethical manner reflecting true facts with responsibility.

GRI Standards Specific Disclosures
416-1 and 417-1

Product and Service Information Availability

As a responsible and caring service provider, we always strive to ensure that customers are fully aware of the terms and conditions of the financial products and services they use. To this end, we developed clear policies and procedures which are regularly monitored to ensure that transparency and integrity are maintained at all times. Furthermore, we adopt industry accepted documentation formats to execute our business transactions with customers which include lending agreements, guarantor documents, deposit certificates etc. Terms and conditions are given for the understanding of contracting parties and clear agreement clauses have been specified that are industry accepted and fair. (Visit our MI website for product related information)

Customer Safety

Being a financial service provider, there is no direct health and safety risk arising for our customers from our business operations. Nevertheless, as a responsible corporate, we ensure that whatever health and safety risk that may prevail is minimized and managed for all those who visit MI Head Office premises and our branch network. Required safety measures have been established to secure the health and safety of all our customers and employees.

GRI Standards Specific Disclosures
418-1

Safeguarding Customer Privacy

In keeping with MI's corporate values, we embedded a responsible corporate culture, with the aim of safeguarding trust and privacy of our customers. We have aligned company policies and procedures to safeguard customer privacy and expect employees to conduct their activities with integrity and ensure that ethical standards are complied with in the course of business operations at all levels of the corporate hierarchy. Furthermore, our corporate governance and risk management frameworks act as a safety net, ensuring that our customers' rights and monies deposited with us are safeguarded at all times.

The information security policy document that has been approved by the Board highlights the importance of protecting customer information from intruders and therefore has placed stringent internal procedures and rules for both IT staff and users. Numerous security features have been embedded in the core information system such as system passwords to limit access, automatic backing up of data, virus protection, firewalls etc. We did not come across any reported complaints regarding breaches of customer privacy and losses of customer data during the period under review.

Customer Feedback and Complaint Management

Having understood the importance of providing a platform for customers to provide constructive feedback and also for a fair and responsive complaint-resolution system, we have appointed well-trained dedicated staff at each business premises and mechanism to filter information upward to decision makers. We strive to provide an immediate solution to resolve any customer concerns. However, if more time is needed to resolve a problem, we feel it is vital that we "Go that extra mile for the customer" and provide a concrete solution to the issue in question. All material customer related complaints were successfully resolved or are being attended to.

Relationship with Regulatory Bodies

In our journey towards sustainable value creation for all our stakeholders, we have identified that it is vital to enhance our constructive relationship with all the regulatory bodies. Thus, we continued to endure in our business activities, complying with our regulators with professionalism and responsibility, preserving the relationship we've built over five decades. Going beyond complying with the existing regulatory framework, we strived to enhance our governance framework and business practices in line with local and global industry best practices and voluntary codes, winning trust and confidence from all the regulatory bodies. We continued to be well-informed on imminent regulations which are likely to impact our business and provide our immediate feedback to either the regulatory bodies or the associations that we are a part of, facilitating them to assess the industry impact and make proposed changes. Necessary disclosures have been made in line with the accounting standards and regulatory changes coming into effect in next period. (Refer page 244 to 247, on changes to new accounting standards and page 62 on Basel II guideline on Capital adequacy.) Knowing the importance of having a 'zero tolerance' policy for unethical behavior, we have reinforced our compliance framework, strengthening our Risk and Compliance unit towards the highest level of compliance, instilling ethics in all areas of our business.

The strength of our relationship with our regulators is reflected through our authenticity in tax payments, compliance with all the legal and regulatory requirements, zero penalty status and the unqualified audit opinion for the same. (Refer Financial Statement page 255 to 256 on government tax payments)

Regulator – Relationship Capital Value Building Process

Regulators	Our Approach			
Central Bank of Sri Lanka Sri Lanka Inland Revenue	Understanding our regulatory environment and anticipated reforms	Benefit to MI	Creates a level playing field & equal opportunities for the industry	Controls business risk & enhance governance
Colombo Stock Exchange/ Securities and Exchange Commission	Align our strategy to the regulatory environment	Benefit to Regulator	Financial Market Stability	Accomplish government goals
Sri Lanka Accounting and Auditing Standards Monitoring Board Other Statutory Bodies	Creating constructive forward looking relationship	Benefit to stakeholder & financial system	Stakeholder protection	Market Confidence

GRI Standards Specific Disclosures
201-4

During the year there were no direct or indirect financial assistance received from the government.

Relationship Capital – Investors

Whilst our ordinary investor share basis is limited, we continued to sustain lasting bonds with all our investors. We geared our strategic direction towards maximizing shareholder wealth, without compromising on other stakeholder expectations. We equally respect the rights of debt security holders and constantly ensured that we adhere to regulatory requirements and promote investor rights. We accommodated investor information demands, by providing timely, accurate and balanced disclosure of all material information about the activities and progress of the company. Furthermore, we keep our investors closely apprised of the corporate strategies, actual performance against planned performance, actions to realign with the plan, future forecasts and key strategic issues and risks, influencing both the company and the industry in gaining their trust and confidence in the management of the company.

Shareholder Wealth Accretion

Despite the challenging economic conditions that persisted during the year, our unwavering commitment to create steadfast value and sustainable growth for our shareholders realized commendable profitability growth for the financial year 2017/18, uplifting their trust and confidence to a greater height. Our investors over the years have enjoyed sound returns in terms of dividends and have seen their investments grow through a constant accumulation of shareholder funds that now stands in excess of Rs. 8.6 Billion. (Disclosure pertaining to investor's information is given on page 310 to 313 under "Investor Relation" section.)

Investor – Relationship Capital Value Building Process

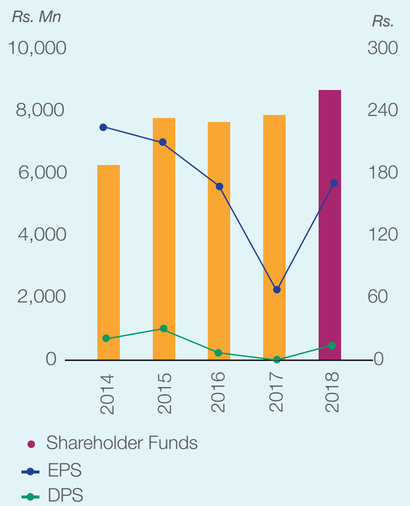
Capital Investment → Maximizing Investor Returns → Investor

Compliance to investor regulations & respecting rights →

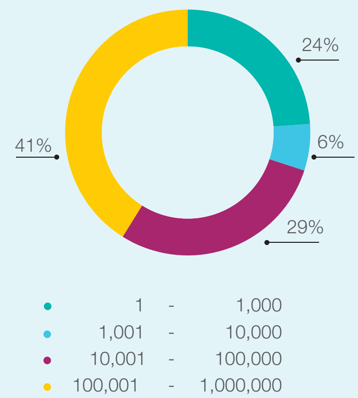
Reporting Transparency →

Investor Decision Making

Growth in Shareholder Funds & Earnings



Composition of Share Ownership



GRI Standards General and Specific Disclosures
102-9 and 204-1

Relationship Capital- Business Intermediaries

"Partnering for shared success" is the key behind our lasting and constructive dealings with our business intermediaries. Our longstanding relationships, which we have built on "Trust," "Shared Values," "Stability" and "longevity" in the industry, have created rewarding and sustainable business partnerships, enhancing our value creation to stakeholders. In strengthening our relationships, we strived to deliver the expectations of our funding intermediaries, vendors, suppliers and other intermediaries, while expecting them to share our core values. We maintained continuous dialogue with them to develop business propositions that are value enhancing and also to resolve any grievances or misunderstandings. Having understood the importance of their pivotal role in our supply chain, we strived our best to build lasting relationships through mutually beneficial strategic initiatives.

Funding Intermediaries

Being a financial service provider, sourcing funding is a critical factor in our core business activity. Funds obtained from our key banking partners and financial institutions through short-term and long-term loans, securitizations and issue of debt security are the main sources of our funding, excluding customer deposits. Thus, maintaining lasting relationship with our lenders enabled us to finance our lending growth at a minimal cost and enabled us to offer competitive rates to our customers, while maintaining our expected interest spread and margins. We continued to earn their trust and confidence, by furnishing required asset backed security information and complied with the loan covenants. (Refer the business sphere report pages 68 to 69)

Supplier – Relationship Capital Value Building Process

Funding Intermediaries →
Vendors & other Intermediaries →
Suppliers →

Lasting win-win relationship through
- **Trust**
- **Shared Values**
- **Stability**
- **Longevity**

→ Managing Expectations
→ Conformance to specifications
→ Creating shared growth opportunities

Vendors and other Intermediaries

To develop the core lending business, sole agents, vehicle sales agents and other intermediaries played a pivotal role in promoting and expanding our business activities. Thus, we continued to build and nurture lasting bonds with them, recognizing their contribution towards our value creation. We offered special promotions for our vehicle agents and tied up with intermediaries for mutual benefit.

Suppliers

As a company that strives to expand its outreach, procurement of Property, Plant and Equipment, and other office related items are required to create a well-equipped operating process platform and corporate ambiance. Thus, we created strong bonds with our key suppliers, sourcing quality products and services to suit our requirement at reasonable prices in keeping to our lead times. Although material purchasing is not significant to our business as a service provider, we required a considerable amount of stationery and other consumable supplies for our business operations.

In addition to the above mentioned suppliers, we maintained sound relationships with our utility providers, media, consultancy and advisory services in our value creation process enabling us to streamline our operational activities

Procurement Practice and Supplier Spend - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/social-and-relationship-capital/

Social Capital Value Creation Policy

Our social policy is that we stay receptive to people's needs - to satisfy their varying wants and empower them to pursue their goals, raise living standards and create for them a sustainable future. Based on this broad social policy, we expect to widen our impact on society each year, broad-basing our efforts towards society as a responsible corporate citizen. Our expanding reach, coupled with a wider product mix, has made this social policy a reality. We are able to cater to the needs of people living in different parts of the nation, penetrating into diverse segments of society, which include the low income segment and the poorest of the poor. The assistance we extend to communities continues to improve people's lives and livelihoods, especially empowering the low income earners to one day reach financial independence, thereby breaking away from the shackles of poverty. The philanthropic work we do beyond our financial services business will further our aspirations of creating a more sustainable society.

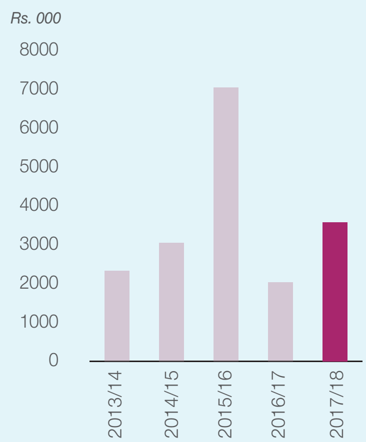
Working structure

A clear working structure has been established for the creation of social capital value and through this the MI board stands committed in pursuing rather challenging social aspirations set forth. Through the delegated responsibilities of the Board, the Sustainability Governance Committee works closely with key members of the corporate management team to make frequent assessments on various societal needs and to take steps to extend assistance within the specified budget allocation. In concurrence, our main business spheres, through their customer-oriented approach, provide feasible financial solutions and investment opportunities that benefit people's income status, empowering them to become entrepreneurs and better their lives and livelihoods. (Corporate Governance structure, "sustainability governance" refer page 140.)

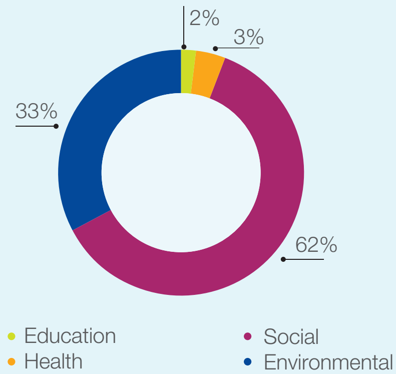
Social investment for last five years

By increasing our social investment and involvement especially in the recent decade, we have initiated various socially beneficial initiatives of a philanthropic nature to assist communities overcome hardships and poverty. We are proud to recognize the efforts of the Sustainability Governance Committee which was instrumental in creating a more meaningful impact on communities through various direct social projects undertaken this year. Our social support was not limited only to tangible gifts and monetary assistance, but also involved volunteerism from staff and management.

Community Investments



Aspects of Community Investment



GRI Standards Specific Disclosure
413-1 and 413-2

Our Social Impacts

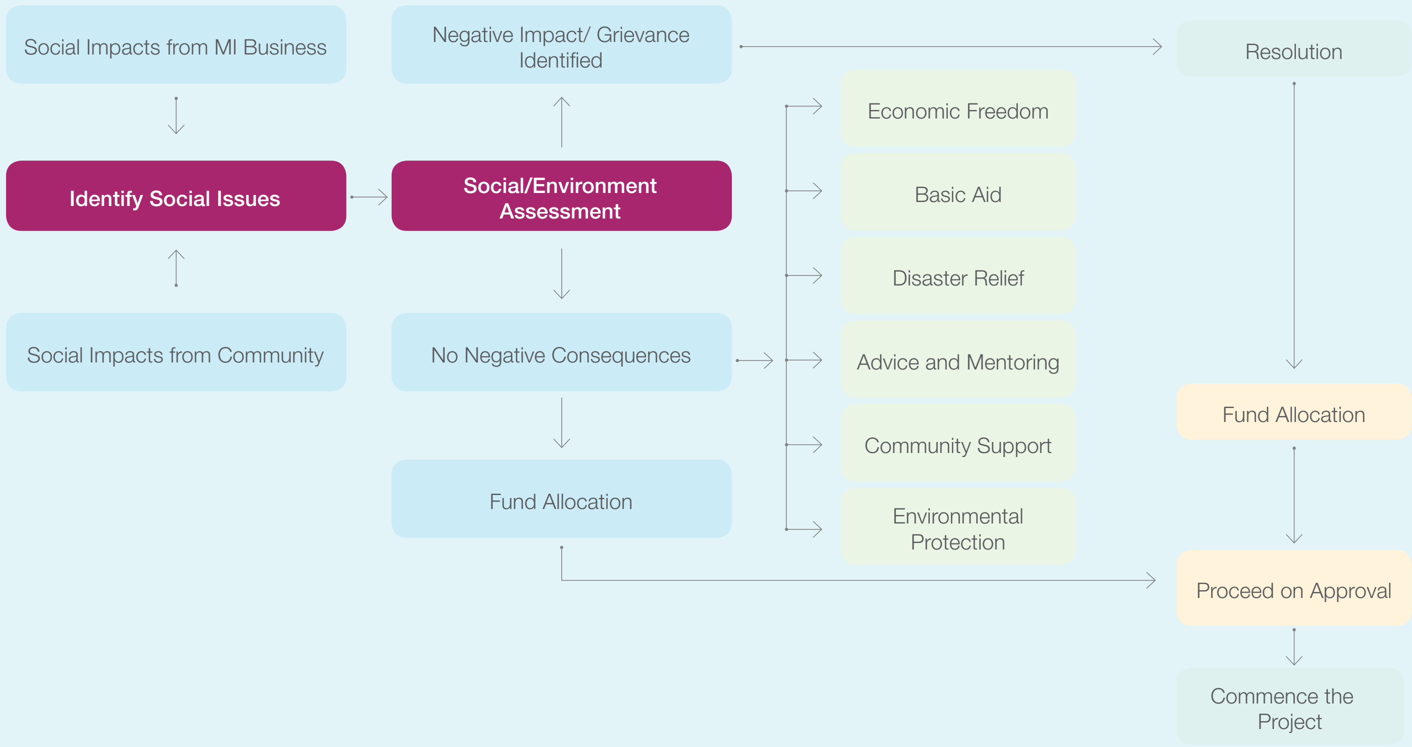
As a service organization, this year too we observed that our social and environment related negative impacts were minimal and insignificant. No material negative impacts on local community were reported to the Sustainability Governance Committee or senior management. The operational changes and new product launches did not impact society negatively. On the contrary, in keeping with MI's 'Sustenance strategy' (Refer pages 56 and 57), the company was able to empower communities, to pursue their wider aspirations.

Social empowerment

The strategy of consolidating business through our expanded branch operation also included acquisition of new customers as we catered to our diverse existing customer base from all MI's business locations across the island. By widening the customer portfolio (Refer customer relationship capital management pages 84 to 87), we became a financial partner to a wide spectrum of people hailing from diverse communities. The Micro Finance services we offer especially penetrated right into the very heart of communities, empowering primarily women towards self-sufficiency, to better their lives and livelihoods. Through the micro centers housed in 23 MI locations and our presence over 1,800 micro-operating centers scattered across the country, we empowered an unprecedented level of women through funding. The funding support helped widen their entrepreneurial abilities, increase earning capacity, and contributed towards employment creation and to stimulate self-employment in the country.

We also offered a wide spectrum of other funding services and investment opportunities that fit the budgets and requirements of people and throughout our 50-plus years in operation, we have managed to transform communities, and undoubtedly, the company will continue to be a catalyst in the nation's economic development to build a more sustainable nation.

Social/ Environment Impact/ Support Process



MI Lending having direct positive social impact

Initiatives	Target Social Group	Number of Customers Served	FY 2017/18 Rs. '000
Micro Finance	Low Income Earners	37,229	1,709,965
Senior Citizen Deposits	Senior Citizen Clients of MI	3,176	10,684,808
Riyadiriya	Low Income Earners	2,729	831,897

MI's core business operation impact

	FY 2017/18						
	Eastern	North-Central	North-Western	Sabaragamuwa	Southern	Western	Central
Number of branches	2	3	3	4	5	18	1
Number of new branches	0	0	0	0	0	0	0
Population*	1,555,510	1,266,663	2,380,861	1,928,655	2,477,285	5,851,130	2,558,716
Lending customers /Deposit customers	1,704	5,051	6,797	8,387	6,296	27,996	231
Lending customers /Deposit customers (% of population)	0.11%	0.40%	0.29%	0.43%	0.25%	0.48%	0.01%

* Population on 2012 population census statistics.

Social Assistance Beyond Business

As a socially responsible corporate, our social value creation process was not limited to funding support but extending through social projects resulting from our philanthropic ideologies and efforts. Through the Sustainability Governance Committee, we strived to help people from mainly the poor and the underprivileged communities, to fulfill their un-met, basic needs. We were able to identify needs of people lacking basic necessities ranging from shelter to education and those facing hardships in times of crisis. The Committee embarked on 16 social assistance projects and was able to complete 13 number by the year end. This reflected a 81 % (2017 -93%) successful completion rate. The total social investment cost as a percentage of MI's post tax profit stood 0.7%. The key social projects initiated by the Committee is given below together with the web link to detail project cost breakdown:

Contribution

Monetary Value – Rs. 90,000 (Budgeted Cost – N/A) and MI Staff Contribution Rs. 1,513,000
Management Time – 24 Hours
Staff Volunteerism – 420 hours and all MI staff volunteered to contribute a half-day's pay.
In-kind assistance – N/A
Number of beneficiaries – 23

1

Relief for Flood Affected Staff

On 7th June 2017

By volunteered MI staff jointly with the Sustainability Governance Committee

Project Rationale

The project was carried out with the aim of rebuilding the lives of MI staff affected by floods which occurred during mid-2017. The floods caused major interruptions in their daily routines, education and health conditions. As a responsible corporate citizen, MI provided financial support to overcome such interruptions and to ensure smooth continuation of their lifestyle.

Project Action

Financial assistance was extended for 23 MI staff members. The project was financed by the CSR budget and the contribution of half-day's pay by all staff members towards the "Disaster Management Fund".

Contribution

Monetary Value – Rs. 150,000 (Budgeted Cost – Rs. 200,000)
Management Time 18 hours
Staff Volunteerism – N/A
In-kind assistance – N/A
Number of beneficiaries – 1

2

Honouring heroism and life of Air Force Serviceman

On 4th December 2018

By the Sustainability Governance Committee

Project Rationale

The SGC came across the news of an Air Force soldier, who died from a fall from the helicopter during rescue operations. While declaring our gratitude towards the soldier, we emphasized the need for supporting his family and providing for his child's higher education. The project was focused on assisting the family of the Air Force soldier and building their future after his unfortunate death.

Project Action

In tribute to his heroic efforts, the SGC assisted the family and Rs. 150,000 was placed in a fixed deposit at MI under his son's name.

Contribution

Monetary Value – Rs. 60,000 (Budgeted Cost –N/A)
Management Time – 4 Hours
Staff Volunteerism – 4 Hours
In-kind assistance – N/A
Number of beneficiaries – 10

3
Enhanced Sight for visually impaired

On 19th January 2018

By the Sustainability Governance Committee

Project Rationale

As a part of our commitment to uplift the quality of life and health conditions of people, MI understands the value of providing financial support for healthcare services for individuals with financial obstacles. With this intention, the SGC decided to contribute towards a large scale campaign organized by Leo District of 306 C2 club named 'Color My Sight'.

Project Action

MI sponsored cataract operations under 'Color my sight' programme launched by the Leo District of 306 C2 club, which served selected patients from Horana area. The campaign was carried out at the Suwanetha Lions Eye Hospital, under special eye surgeons' supervision.

Contribution

Monetary Value – N/A (Budgeted Cost – Rs. 100,000)
Management Time –16 hours
Staff Volunteerism – 4 Hours
In-kind assistance – 2 steel book cupboards (Rs. 32,700) and books, value more than Rs. 20,362
Number of beneficiaries – 100

4
Educational support for a school in Kosgama

On 15th November 2017

By the Sustainability Governance Committee

Project Rationale

Educating children is the foundation for building a sustainable Sri Lanka and to uphold this belief, we lined up initiatives to support underprivileged school children in building their educational environment.

Project Action

Donated book cupboards and array of educational books to 'Kanampella Kanishta Vidyalaya' in Kanampella, Kosgama, where approximately 100 children from grade 1 to 5 are currently studying in the school.

Contribution

Monetary Value – Rs. 280,000 (Budgeted Cost – Rs. 300,000)
Management Time – 90 Hours
Staff Volunteerism – 25 Hours
In-kind assistance – N/A
Number of beneficiaries – 50

5
Sanitation support for orphanage

On 20th February 2018

By the Sustainability Governance Committee

Project Rationale

Under the goal of providing sanitation and clean water for everyone, we decided to build sanitary infrastructure for an orphanage.

Project Action

'Awanthidevi Girls Orphanage' in Anuradhapura houses young girls aged between 5-8 years old,who were in need of proper sanitary facilities. The committee stepped up to build suitable infrastructure with acceptable standards.

Contribution

Monetary Value (Rs.)– N/A (Budgeted Cost – 40,000)
Management Time – 4 hours
Staff Volunteerism – 8 hours
In-kind assistance – 10 Fans (Rs. 36,000), installation and other accessories (Rs. 21,055)
Number of beneficiaries – 10

6 Improve facilities for cancer patients

On 28th June 2017

By The Sustainability Governance Committee

Project Rationale

As another initiative to enhance healthcare facilities, the SGC decided to support patients suffering from cancer by improving their accommodation facilities. The committee identified the lack of accommodation facilities as a sensitive concern as most of the patients were from remote areas and lack financial capability in affording a rent.

Project Action

To comfort the sick, fans were installed at the 'Talitha Cum' - Providence House of welcome patients with cancer, at Pitakotte. They provide facilities for patients from all corners of the island who underwent treatment at Apeksha Cancer Hospital, Maharagama, especially patients coming from villages out of Colombo.

Contribution

Monetary Value (Rs.) – N/A (Budgeted Cost – 65,930)
Management Time – N/A
Staff Volunteerism – 36 hours
In-kind assistance – Construction (Rs. 70,355)
Number of beneficiaries – 1,050

7 Community Halls renovation in Balangoda and Ja-ela

On 16th November 2017 and 08th March 2018

By The Sustainability Governance Committee

Project Rationale

In our endeavour to help reduce poverty, MI believes that strengthening of small economic groups is important. We identified the lack of a proper place for communal activities in Balangoda and Ja-Ela areas. For the purpose of creating 'Sustainable cities and communities', assistance was extended to refurbish community centers in Balangoda and Ja-ela.

Project Action

By leveraging on MI's micro finance arm, the Sustainability Governance Committee was able to renovate the town community halls for the benefit of local community - for building bonds and fellowship.

Contribution

Monetary Value (Rs.) – 15,000 (Budgeted Cost – N/A)
Management Time – 5 hours
Staff Volunteerism – 2 hours
In-kind assistance – N/A
Number of beneficiaries – 11

8 Sponsorship for Hearing Impaired Cricketers

On 16th November 2017

By the Sustainability Governance Committee

Project Rationale

As part of our responsibilities towards the community, we took the opportunity to encourage differently-abled sportsmen to realize their aspirations. MI promotes diversity and supports the fact that differently-abled individuals should also enjoy a similar lifestyle as the others in the society.

Project Action

Sri Lanka Deaf Cricket Association is an authorised body registered & affiliated to the Disabled Federation in Sri Lanka to promote leather ball cricket. The SGC sponsored the 'Sri Lanka Vs Pakistan Deaf Cricket International Series' held in Kaduwela, offering a great chance for talented cricketers to show off their skills.

Contribution

Monetary Value – N/A (Budgeted Cost – Rs. 40,000)
Management Time – N/A
Staff Volunteerism – 16 Hours
In-kind assistance – Rs. 39,000
Number of beneficiaries – 300

9
Supported to strengthen school security

On 22nd November 2017

By the Sustainability Governance Committee

Project Rationale

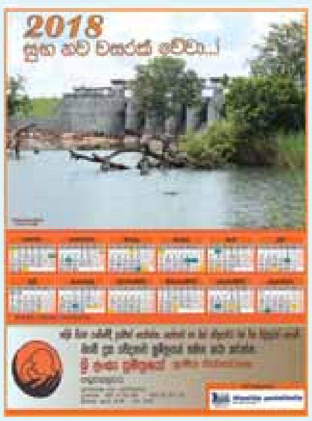
As part of Community Service, we identified the need to strengthen physical safety of school children. The safety from road accidents and unauthorized access to school is a major concern for parents.

Project Action

A gate was built at 'Kirinda Model School, Sri Lanka' in Gampola, a school serving over 100 students, of which 45 students have special needs.

Contribution

Monetary Value – Rs. 60,000
(Budgeted Cost –N/A)
Management Time – N/A
Staff Volunteerism – N/A
In-kind assistance – N/A
Number of beneficiaries – 300



10
Awareness building for "Sumithrayo- Sri Lanka"

On 19th January 2018

By the Sustainability Governance Committee

Project Rationale

Increasing rate of suicide incidents and related issues is becoming a vital social issue which results in loss of human energy for the country's economic growth and disruptive social behavior. We identified that this was the right time to support organizations that stand committed towards assisting those with suicidal thoughts.

Project Action

Financial Assistance was provided to supply materials for the awareness campaigns carried out by the 'Sri Lanka Sumithrayo' - a charity organization.

Social Projects and Assistance to Society - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/social-and-relationship-capital/

GRI Standards Specific Disclosure
205-1, 205 -2, 205 -3 and 206-1

Culture, Ethics and Compliance

The way we govern our business and the value system we practice ensures that we conduct our activities in a professional, responsible and ethical manner, adhering to regulatory requirements and at the same time implementing industry-best practices to safeguard public assets and key interests of our stakeholders. We have put in place an effective internal control systems with adequate oversight by the Audit function to continuously monitor for any non-compliance, fraud or corruption on a regular basis and report to the Board Audit Committee. Our internal value system requires that all our staff employ ethical practices, while the company acts as fair competitors in the industry, not denigrating other firms when carrying on its business activities. The company is an active participant in key commercial associations that have been formed for the common interest of all firms in the sector. MI has continued to contribute to the development of the Financial Services Sector, being an active player in the industry, championing innovation and growth. We have not been subject to any legal actions for any anti-competitive behavior, anti-trust and monopoly practices, throughout our business journey.

Combating Money Laundering

Through the Compliance Officer, the requirements of the Financial Transactions Reporting Act (FTRA) and other regulations issued by the Financial Intelligence Unit are monitored on a regular basis and any concerns are reported to the Board. The revised Anti Money Laundering policy was Board approved in March 2018, which encompassed strong controls to verify customer identity and a streamlined Know Your Customer (KYC) procedure, due diligence, record keeping, reporting obligations etc. Through an external regulatory expert, heads of divisions/branch managers were given broad training in 2017 on key regulations which included the Anti-money laundering requirements. Further, as part of the induction program, new recruits underwent standard compliance related training which included an overview of the internal Anti-Money Laundering procedures.

Policy on Anti- Corruption

The "Fraud and Whistle-Blowing Policy" revised and Board approved this financial year lays down a formal reporting process for any staff member to follow, if they come across any incidents of fraud and corruption. The internal audit team worked closely with the Audit Committee to detect and report shortcomings and lapses in internal procedures including incidents of corruption. During the next financial year, employees will be further apprised of the importance of this policy document together with the channels available to report incidents.

Through our risk assessment process, we were able to cover all material operational processors and did not come across significant risk related to corruption which include Money Laundering related incidents.

GRI Standards Specific Disclosure
416-2, 417-2, 417-3 and 419-1

MI's Socio economic compliance

The Board through its sub committees and the compliance unit closely reviewed MI's compliance to laws and regulations. There were no significant fines or non-monetary sanctions against the company for non compliance to social and economic area, product responsibility requirements which include product information and labelling, health and safety and Marketing communications.

GRI Standards Management Approach
103-2 and 103-3

Grievance Handling

Employee Grievances

Our "open door" corporate culture and the people-centric approach allows staff to interact freely with Directors and the senior management, thus eliminating or minimizing grievances that may materialize during routine work. Heads of divisions or line management along with the assistance of the human resource department remain the primary contact points for employees to voice any concerns. Grievances, if unresolved, or any human rights related issues of employee if it were to materialize, such concerns will be channeled upward through the human resources department to the relevant Director for its resolution. The "Human Resource handbook" and the HR policies and procedures established set forth a professional approach to HR management and clear instructions to staff which aid in minimizing unwarranted grievances. There were no reported violations of human rights against MI employees formally filed with the human resource division during the period.

Societal/Environmental Grievances

If any grievances were to arise from our customers and any social or environmental concerns that may arise at the locations we operate, these would be communicated upward from the location contact point to the senior management and the Executive Directors for their resolution. A feedback form is also affixed at the end of this Annual Report, which can be duly completed and submitted to the company, if they have experienced any social or environmental grievance due to MI's business operations.

There were no formally reported instances of social or environmental grievances or negative impacts reported by outside parties/groups to management during the year under review and also no grievances were brought forward from last year for follow-up

Grievances Handling - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/social-and-relationship-capital/

GRI Standards General Disclosure
102-12

External sustainability charters voluntarily adopted

Global Compact Considerations

As a corporate that continues to embrace sustainable practices, as a voluntary exercise, we draw reference to the Global Compact Considerations principles as means of embracing internationally highlighted social and environmental requirements. This has enhanced our sustainability focus and been a guide for us to develop our current sustainability polices, practices and processes and to benchmark ourselves to international practices. MI's position against the ten key principles of the Global Compact Considerations upheld by the United Nations Global Compact (UNGC), which covers the areas of human rights, labour, environment and anti-corruption, can be summarized as follows.

Global Compact Considerations 10 Principles		MI's extent of adoption in FY 2017/18
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights.	➲ Instilling of a comprehensive HR policy and procedures that not only ensure effective management of people but also takes into account the general rights of employees. ➲ Business decisions taken did not compromise the rights of our employees, customers and other outside parties whom we deal with.
	2. Make sure that they are not complicit in human rights abuses.	➲ There were no reported incidents of human rights abuses or violations during the period under review. ➲ MI remained a caring and receptive employer when managing its workforce and upholds the criteria of basic human rights necessities of the human resource. ➲ We conducted our business and deal with all external parties in a humane manner, without going against human rights considerations.
Labour	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	➲ By adopting an "Open Door Policy", our style of management and culture is such that it encourages free flow of communication between employees and the management. ➲ Employee concerns and grievances are tackled in an appropriate manner, paving the way for the management to sustain a harmonious relationship with all employees.
	4. The elimination of all forms of forced and compulsory labour.	➲ As a strict HR policy, we do not employ people forcefully under any circumstances.
	5. The effective abolition of child labour	➲ People below the age of 18 years are not employed in any capacity whatsoever.
	6. The elimination of discrimination in respect of employment and occupation.	➲ There is no form of discrimination taking place with regard to an employee's age, sex, ethnicity or religion. ➲ Performance appraisals of employees is based on a formal, transparent evaluation system. Employee efforts are evaluated purely on their capabilities and actual performance.
Environment	7. Businesses should support a precautionary approach to environmental challenges.	➲ The green policies, practices and procedures that MI embraces, promotes careful use of natural resources, cuts down on carbon emissions and encourages a greener environment.
	8. Undertake initiatives to promote greater environmental responsibility.	➲ Through the Sustainability Governance Committee, we continued to display commitment towards the protection of trees and the animal population.
	9. Encourage the development and diffusion of environmentally-friendly technologies.	➲ The adoption of environmentally-friendly technology and processes to save energy, water consumption, consumption of consumable items and efficient handling of waste. ➲ An evaluation is also underway to set up solar power for the workshop and servicing unit at Kohuwala, in combination with the national grid.
Anti-Corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.	➲ All employees are expected to maintain highest degree of integrity, honesty and ethical standards. Action was brought upon employees who did not conform to these high standards set. ➲ Through the "Whistleblowing and Fraud Policy", a clear process is established to identify corrupt individuals and to initiate action against them for fraudulent or wrongful acts.

Overview | Management Discussion and Analysis | Stewardship | Financial Reports | Additional Information

Intellectual Capital

http://mi.com.lk/value-creation/value-creating-sixcapitals/intellectual-capital/

Captures of the year

Branding Cost	Market share stood at	Human capital intelligence average	IT enhancement Migration to new HRIS
Rs. 68 Mn	**2.87%**	**7.45 Years**	

We utilised the insights and business intelligence we have gained thus far to venture out to new possibilities

Our approach to Intellectual Capital Management

GRI Standards Management Approach 103-2 and 103-3

Our expertise in the Finance Company sector has been long standing and dates back to the sixties. Since inception, we have continued to accumulate the required business intelligence and the know-how to carry on a successful enterprise. We are proud of our brand, the value of which increases year-on-year and strive to maintain the competitive advantage needed to stay ahead, we utilised the insights and business intelligence we have gained thus far to venture out to new possibilities, in an increasingly competitive financial market. To stay ahead, we understand the need to remain innovative, going that extra mile to add that extra value, differentiating our products and services from others. Our sector has certainly being shaped not only in by the rapid advancement technology, but also how we do business utilizing a geared workforce and tools to create awareness and recall in the people's minds about our services.

Objective	Constant acquiring of business intelligence and technology	Enhancing top-of-the-mind recall of customers
Goal	Operational efficiency through digitization	Wider reach and market share

Intellectual Capital Value Building Process

Inputs	Intellectual Capital Value Building Priorities	Outcomes
Brand Development	Brand positioning	Market Share
Business Acumen	Unique Customer Experience	Rating
IT Advantage	Automation of processes	
	Information Security	
	Enhanced MIS & reporting	

Interconnection with other capitals

Financial Capital	Manufactured Capital	Human Capital	Social & Relationship Capital	Natural Capital
Training & Development Rs. 3 Mn	POS and other additional features for service delivery	Created 321 job opportunities	E-based payment platforms and enhanced system features to cater to wider audience	Uphold environment protection, as key SGC goals and future strategy
Budgeted IT Investment Rs. >60 Mn		2,692 training hours for technical and soft skills development		

Key Intellectual capital achievements-2017/18

- Broad-based awareness creation and brand building, utilizing a communication and visibility driven strategy with 360 degree focus.
- Absorbed 14 skilled new recruits, who had already gained more than five years' experience in the Finance field.
- Ongoing enhancements from HR structure to HR working policy based on recommendation of external consultants.
- Recognized as a 'Great Place to Work' for the second time.
- Won 2 coveted annual report awards, endorsing MI's commitment towards reporting excellence and transparency.

Brand Strength

We position ourselves as a trusted financial services provider for over five decades, emphasizing the impeccable track record we have gained and the financial solidity of the MI brand. We have cultivated the "MI" Brand as a vibrant, customer-friendly, dependable name in the Non-Banking and Financial Services sector. A majority of MI's products are promoted using the umbrella "MI" logo, generating the needed "Top-of-the-mind recall" in the minds of our customers and prospective customers. Creating the necessary brand value is an essential part of our marketing communications strategy and comes under the direct purview of the Director - Credit and Marketing (Non Board). We utilize above the line, through the line and below the line marketing communication tools for brand positioning and brand building, to fortify "top-of-the-mind recall" in various communities where we have our business presence currently. To remain receptive, we carried out an annual customer survey to obtain feedback about our brand and its acceptance among the general public.

Brand Survey Results - Visit MI Website

http://mi.com.lk/value-creation/value-creating-sixcapitals/intellectual-capital/

Fifty plus years of Business Acumen

We have experienced senior officers who have gained a wealth of knowledge, knowhow and wisdom in their areas of expertise, to take the company to the next decade and beyond. As at the balance sheet date, 14 % of our workforce has been with us for more than 10 years, while 5% of the workforce has gained over 20 years of experience in the finance industry. Also, with the strong network of agents that we possess on vehicle sales, we are able to tap into potential business segments and maintain contacts with businesses around the country. Moreover, having been in the industry for 50-plus years, we have accumulated an active customer base, with all-around information about them, their preferences, backgrounds, type of markets, geographic disposition etc. so that we can cater our offerings to suit their needs. The insights we gained being in the motor trade and related financing, understanding of people's expectations on credit and also about collection methodology has helped us stay competitive. Within the last five years, more than 80 experienced individuals were recruited from the finance industry, to strengthen specific business operations and support functions.

Grade	Five years and above experience in the finance field (Number of employees)
Senior Management	5
Managers	29
Executives	40
Clerical	6

IT Systems and processes

MI's advanced and sophisticated Information Technology (IT) systems deliver the best value to its products and services. Our IT Systems ensure highest safety standards on data protection and create more effective processes and people. (Refer Manufactured Capital pages 79 to 81)

Work Culture

We encourage an open work culture for employees to freely interact with each other, including all the managerial levels, creating a platform to discuss innovative ideas and to share best practices. As a result of such effective brain storming sessions, we were able to embrace innovative practices into our business and to develop a forward thinking workforce that provides the input for a solid corporate plan.

Market Share

Against competition and the sophistication in the finance field, we kept steady pace, securing our revenue based market share of 2.9%. Our innovative methods of doing business and advanced systems, will give the needed impetus to maintain quality standards to further improve our market share in the coming years. Considering the growth plans set-forth, we have the objective of achieving a 4% market share by 2020.

Ratings

During the Financial year 2017/18, Fitch Ratings Lanka Limited re-assigned MI's credit rating at BBB-(lka) (stable outlook) based on our steady performance and capital strength.

Accolades & recognition

All Island Silver award for Sustainability reporting at the CA Sri Lanka Annual Report Competition

ACCA Sri Lanka Sustainability Reporting Awards – 2017 – Runner-up in Finance Services & Insurance Category

MI was recognized for the second time as one of the Top 25 companies in Sri Lanka to work, in the year 2017, by 'The Great Place to Work' Institute.

Human Capital

http://mi.com.lk/value-creation/value-creating-six-capitals/humancapital/

Captures of the year

Launched new HRIS Investment **Rs. 540,000**	Recruited **321** skilled Staff	Staff Strength grew by **9%**

I am truly blessed to be a part of MI family for over 28 years. Among many great things, what I admire the most is our colleagues and people based values.

Mr. Dhammika Thilakaratne
Employee of Mercantile Investments & Finance PLC

Our approach to human resource management

GRI Standards Management Approach
103-2 and 103-3

As a service organization, every day success depends on the way we motor our human resources, nurturing people to be specialist in their fields, to delivery productive anticipated results. We continued to invest in developing our workforce, to enhance the human capital value to required perceived productivity levels, whilst keeping them well compensated and motivated. Employees remain the backbone of our operation, as they provide life to fulfill our vision and remain the most valuable asset for the Company. MI has remained a caring employer throughout, adopting the required work environment to harness people's talents. MI has continued to adopt employee focused human resource strategies to sustain bonding between the institution and its employees which is mutually beneficial. This approach is built on clear human resource management policy and procedures and reflects a transparent declaration of 'our people strategy', which is aligned to the overall business strategy.

Objective

- Nurture a strong productive workforce
- Efficient management of human resources

Goal

- Average training hours per employee to be enhanced up to 60 hours.
- Develop strong human resource policy & systems

Human Capital Value Building Approach

Activities and Outputs

HR Policies and Procedures

Manpower Planning	Talent Acquisition	Training and Development	Employee Performance Appraisal System	Human Resource Information System
Assessment of Staffing Requirement	Recruitment and Selection Career Development and Succession Planning	Knowledge Enhancement Mentoring, Coaching and Morale Support	Performance Management and Reward System Monitor Productivity, Motivation and Morale	

Outcomes to MI

- Workforce productivity
- Achievement of organisational goals and targets
- Increased capacity of workforce
- Disciplined and professional culture
- Human capital competitive advantage

Outcomes to Employees

- Salary, bonus and other monetary benefits
- Non-monetary benefits
- Career advancement opportunities
- Knowledge accretion
- Retirement benefits
- Social interaction

MI's Vision, Mission and Core Values

Interconnection with other capitals

Financial Capital

Staff training investment Rs. 3 Mn

Financial benefits to employees Totaled Rs. 1.7 Bn

Manufactured Capital

Increased staff strength by 9% to 951

Intellectual Capital

20 new reports generated through launched HRIS

Social & Relationship Capital

36 staff volunteered for social projects

Customer handling training hours 15

Natural Capital

24 staff volunteered for environmental projects

Overview
Management Discussion and Analysis
Stewardship
Financial Reports
Additional Information

GRI Standards general disclosure
102-16

Human Resource Policies and Procedures

Our Human Resource (HR) policy is focused on continuous building of capabilities of the workforce, nurturing them professionally throughout their working lives to ensure a win-win relationship. Our HR policies recognize the importance of enhancing employees' technical skills and competencies at all levels of the hierarchy. It is aligned with the overall corporate objectives and goals of the company. The policy and procedures describe the norms of behaviors and standards that should be kept by employees and accordingly human resource handbook has been issued to employees while new recruits are subject to induction programs which cover expected standards of behavior. Based on an external human resource review conducted during 2017 and the recommendations, a revised HR policy is scheduled to be issued during the next financial year.

GRI Standards General Disclosure
102-8

GRI Standards Specific Disclosure
202-2, 401-1 and 405-1

Recruitment strategy

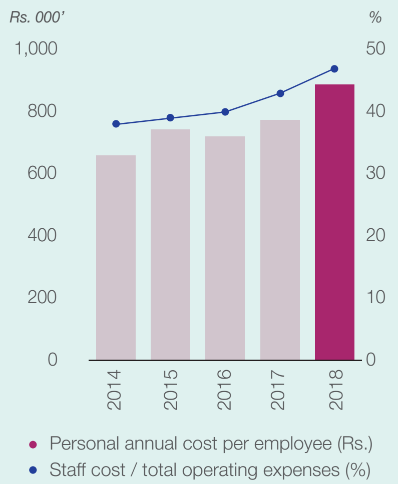
Manpower Planning

Our primary human capital objective is that we cultivate a strong productive workforce that is highly motivated and geared in achieving excellence while facing a tough competitive business environment.

As a result of our efforts, the Company was selected as one of the top 15 'Best Companies to Work For' in Sri Lanka by the Great Place to Work Institute in 2017, for the second time.

Based on moderate manpower requirement stemming from the on-going business consolidation strategy, the recruitments made for the year specially to strengthen the sales force showed an increase over last year. Greater attention was paid during the year in developing the knowledge and capabilities of the growing workforce which now totals 951, up by 9%.

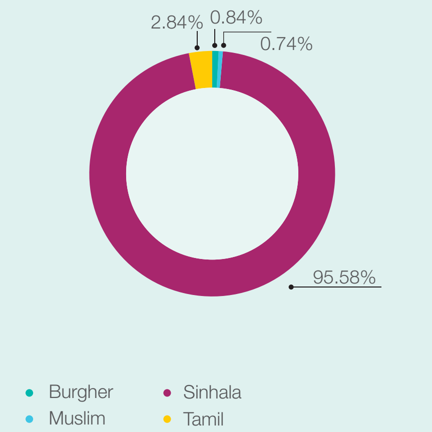
Workforce expenditure review



Talent Acquisition

To fulfill staffing requirements, the company resorted to external based recruitment, when suitable candidates were not identified internally. By attracting experienced and skilled individuals mostly from the finance industry, we were able to identify talented individuals for challenging positions. The streamlined recruitment process adopted involved a thorough screening and selection system for candidates. The applicants were duly assessed on their level of experience, qualifications and aptitude for the position at hand and were subjected to an interview process before selection. Recruitments for the year stood at 321 and reflected a 6% increase from a year before, while internal promotions totaled 117, declining by 28% YoY. Any variations in recruitment numbers was based on staffing needs and did not vary due to seasonal fluctuations. Majority of the workforce continued to be Sinhala Buddhists, while there is a growing representation from other ethnic groups and religions.

Ethnic Group



Staff Religion and Ethnicity by Gender 2017/18

		Ethnic Group				
Gender	Religion	Burgher	Muslim	Sinhala	Tamil	Grand Total
Female						
	Buddhist	0	0	130	0	130
	Catholic	3	0	18	2	23
	Hindu	0	0	0	1	1
	Islam	0	1	0	0	1
	Cristian	0	0	1	0	1
Female Total		3	1	149	3	156
Male						
	Buddhist	0	0	676	0	676
	Catholic	5	0	76	10	91
	Hindu	0	0	0	11	11
	Islam	0	6	0	0	6
	Cristian	0	0	8	3	11
Male Total		5	6	760	24	795
Grand Total		8	7	909	27	951

Total Number and Rates of New Employee Hires by Age Group, Gender and Region

Category	FY 2017/18				FY 2016/17				FY 2015/16			
	Male		Female		Male		Female		Male		Female	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
EASTERN												
BELOW 30 YEARS	12	3.74	1	0.31	2	0.66	1	0.33	5	1.89	2	0.76
30-50 YEARS	3	0.93	0	0.00	2	0.66	0	0.00	0	0.00	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
CENTRAL												
BELOW 30 YEARS	2	0.62	0	0.00	2	0.66	2	0.66	0	0.00	0	0.00
30-50 YEARS	2	0.62	0	0.00	3	0.99	0	0.00	0	0.00	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
NORTH CENTRAL												
BELOW 30 YEARS	13	4.05	4	1.25	17	5.63	4	1.32	10	3.79	2	0.76
30-50 YEARS	5	1.56	0	0.00	5	1.66	0	0.00	1	0.38	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
NORTH WESTERN												
BELOW 30 YEARS	15	4.67	1	0.31	21	6.95	1	0.33	18	6.82	2	0.76
30-50 YEARS	2	0.62	0	0.00	2	0.66	0	0.00	6	2.27	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
SABARAGAMUWA												
BELOW 30 YEARS	12	3.74	3	0.93	15	4.97	1	0.33	26	9.85	3	1.14
30-50 YEARS	6	1.87	0	0.00	2	0.66	0	0.00	3	1.14	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
SOUTHERN												
BELOW 30 YEARS	13	4.05	0	0.00	23	7.62	5	1.66	21	7.95	1	0.38
30-50 YEARS	7	2.18	1	0.31	4	1.32	0	0.00	7	2.65	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
WESTERN												
BELOW 30 YEARS	126	39.25	37	11.53	105	34.77	34	11.26	99	37.50	30	11.36
30-50 YEARS	34	10.59	5	1.56	29	9.60	1	0.33	20	7.58	2	0.76
OVER 50 YEARS	14	4.36	3	0.93	18	5.96	3	0.99	6	2.27	0	0.00
TOTAL	266	82.87	55	17.13	250	82.78	52	17.22	222	84.09	42	15.91

Employee hiring rate for the financial year was 35.14%.

Local Hiring

As a general practice, we hired individuals from those residing within close proximity of our branches/service centres to fulfill branch cadre requirements. This not only helped reduce time spent in commuting to and fro but also ensures local staff are more attuned to local conditions and familiar with the nature of the market. The cultural and traditional differences between different parts of the country that tend to be factors are not considered key concerns anymore for such employees. Based on our local hiring policies, 69% of staff have been locally hired and out of this 10% comprise senior officers who were locally hired. As a result, of the total workforce, 30% comprise personnel who have been recruited from outside the Western Province, reflecting a growth of 9% in the outskirts.

Locally hiring - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/humancapital/

Workforce composition, diversity and equal opportunity

Based on MI's caring and considerate approach to people management, we inculcated a clear learning culture, one that fosters equal opportunity and adequate prospects for career progression sans any bias towards an individual's age, gender, race, religion or creed. Our ethos for diversity and inclusivity embraces employees from all religions, ethnicities and abilities. It is our prerogative that we continue to implement the performance driven remuneration policy across the entire workforce, without any gender bias, providing opportunity for committed performing individuals to enjoy matching rewards.

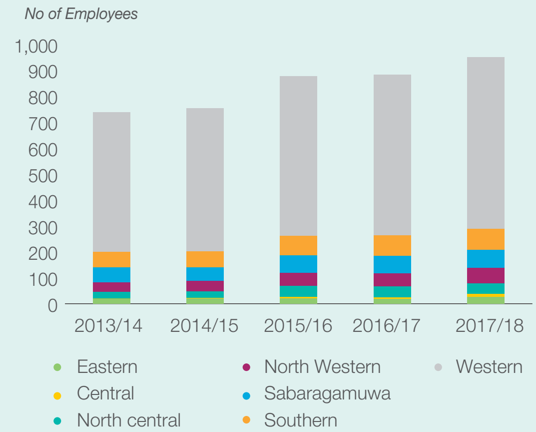
Our workforce comprises an optimal blend of youth and experience, from varying backgrounds and of both genders. Of the total workforce, 26% of our employees have remained with the company for more than five years. We are proud to observe that of this percentage, over 54% have recorded service tenures exceeding ten years.

A marginal increase was observed in female employees joining the organization from last year. Accordingly, the female gender percentage remained 17% on average, annually over the last five years. In terms of workforce age, of the total workforce, 42% consist of employees who are over 30 years of age, while the balance are below the age of 30, mostly supporting the core business front office activities. Further, through the local hiring strategy being practiced, we continued to identify the most fitting individuals to work in geographically dispersed locations that we now operate in.

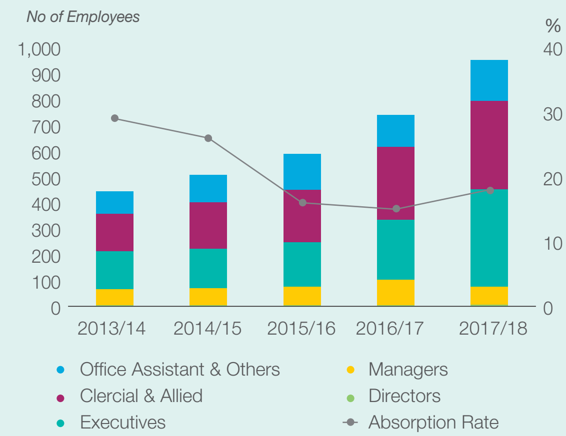
Human Capital Statistics - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/humancapital/

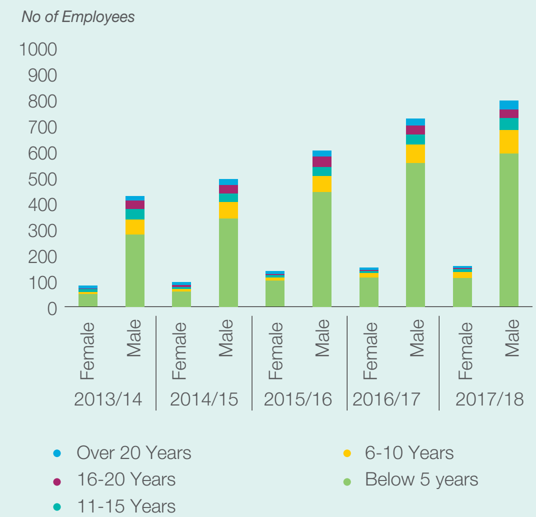
Province-wise Breakdown of Human Capital



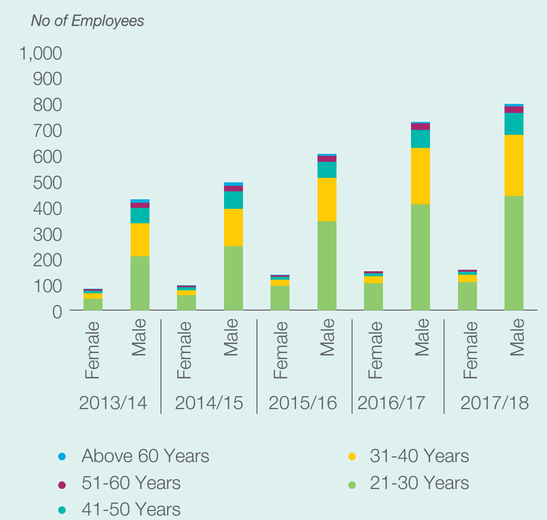
Staff strength



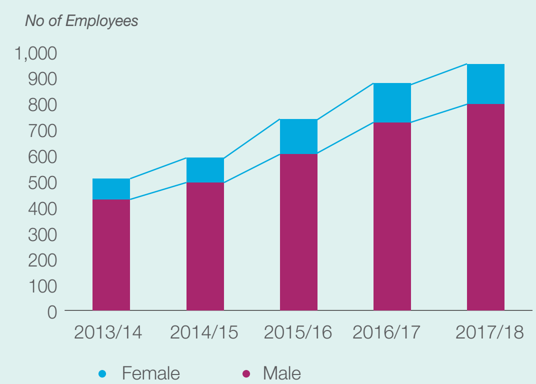
Service Analysis of Employees



Age Analysis of Employees



Gender Distribution of Employees



Employee attrition

Our unique work culture and employee centric approach continued to motivate our dedicated workforce, keeping attrition levels intact. Staff turnover this period stood somewhat higher than previous periods at 26%, owing to the fast paced nature of the finance industry and current trends in the widening job market. Out the total resignations of 246, a higher percentage of resignations resulted from staff below 30 years of age while 23% comprised female staff resignations.

Staff Turnover by Age Group, Gender and Region

Category	FY 2017/18				FY 2016/17				FY 2015/16			
	Male		Female		Male		Female		Male		Female	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
EASTERN												
BELOW 30 YEARS	4	1.63	2	0.81	4	2.44	0	0.00	2	1.75	0	0.00
30-50 YEARS	2	0.81	0	0.00	0	0.00	0	0.00	4	3.51	1	0.88
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
NORTH CENTRAL												
BELOW 30 YEARS	16	6.50	4	1.63	5	3.05	4	2.44	3	2.63	1	0.88
30-50 YEARS	2	0.81	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
NORTH WESTERN												
BELOW 30 YEARS	5	2.03	1	0.41	11	6.71	0	0.00	2	1.75	0	0.00
30-50 YEARS	3	1.22	1	0.41	1	0.61	0	0.00	1	0.88	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
SABARAGAMUWA												
BELOW 30 YEARS	11	4.47	2	0.81	5	3.05	3	1.83	4	3.51	1	0.88
30-50 YEARS	4	1.63	0	0.00	1	0.61	0	0.00	0	0.00	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
SOUTHERN												
BELOW 30 YEARS	7	2.85	1	0.41	7	4.27	2	1.22	8	7.02	2	1.75
30-50 YEARS	12	4.88	0	0.00	5	3.05	1	0.61	2	1.75	0	0.00
OVER 50 YEARS	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
WESTERN												
BELOW 30 YEARS	83	33.74	29	11.79	54	32.93	25	15.24	32	28.07	20	17.54
30-50 YEARS	26	10.57	6	2.44	16	9.76	1	0.61	12	10.53	4	3.51
OVER 50 YEARS	20	8.13	5	2.03	18	10.98	1	0.61	13	11.40	2	1.75
TOTAL	195	79.27	51	20.73	127	77.44	37	22.56	83	72.81	31	27.19

Rate of employee turnover during the financial year was 26.93%.

GRI Standards specific disclosure
404-1 and 404-2

Employee Training and Development

Training and development remained the key tool in nurturing the skills and capabilities of our workforce, a driving factor in enhancing their value over time. There was constant emphasis on broadening employee technical knowledge, to provide them the skills-set necessary to face evolving challenges of the finance industry. Through a comprehensive training calendar, the HR department was able to provide adequate training resource personnel to fulfill various departmental training needs.

The commitment shown by the company in subjecting employees to a training-intensive work environment reflected well on the quality of our service extended from all MI service points.

However, in comparison to last year's extensive training program, with a moderate training calendar exercised this period, the total training hours, dipped by 35% to 7,164 hours. Training hours per employee too went down significantly to 7.53 hours per employee per annum compared to 44.82 hours recorded per employee. Our in-house training centre located at Cotta Road was utilized to conduct most of

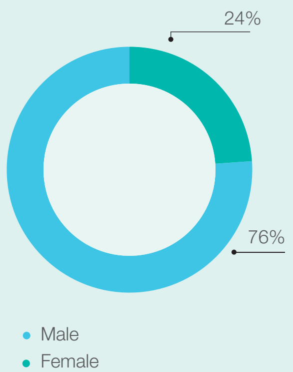
the internal technical training sessions while those handling key functions attended external training programs applicable to their fields. A healthy learning culture was adopted across all layers of the organization which facilitated continuous learning opportunities for all, fostering a creative learning culture and encouraging staff to be innovative thinkers.

GRI Standards specific disclosure
205-2

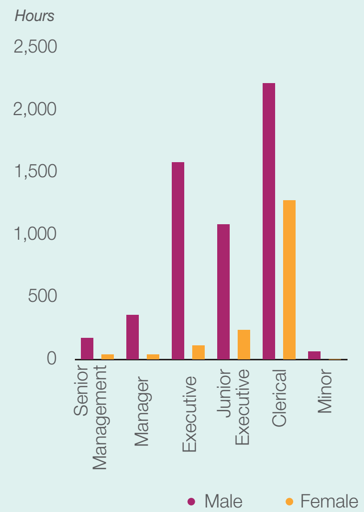
Training conducted in house on Anti-Money Laundering legislation

Grade	Number of Employees				
	FY 2017/18	FY 2016/17	FY 2015/16	FY 2014/15	FY 2013/14
Managers and above	48	50	28	16	11
Executives/Assistants	83	75	183	89	61
Total	131	125	211	105	72

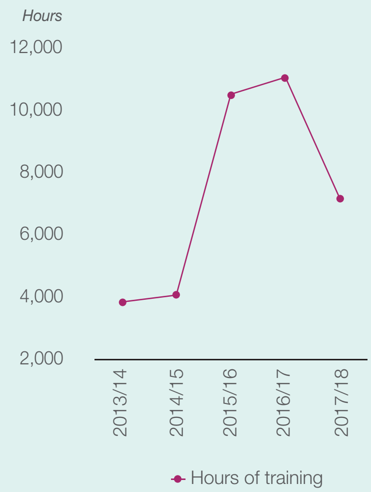
Training by Gender



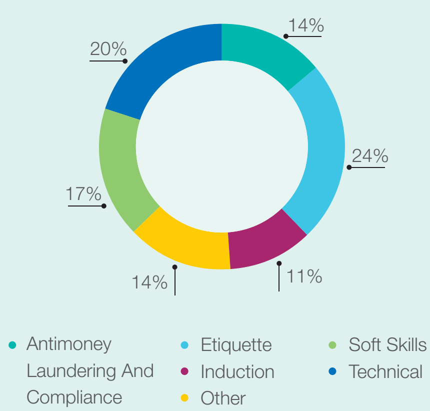
Training Hours by employee category



Hours of training



Training Programs



Training Calendar - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/humancapital/

As part of our long term employee nurturing program, staff underwent structured training sessions that included general knowledge in their relevant fields, personal grooming tips and a lifelong value accretion training support. This facilitated a 360-degree understanding of their work for each MI team member within his/her field, which is essential in widening skills and aiding capacity building.

Lifelong Learning Programs - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/humancapital/

GRI Standards Specific Disclosure
404-3

Appraising employee Performance

There is constant evaluation of employee performance and these bi-annual assessments are directly linked to the employee rewarding system and career advancement opportunities. All SBUs/departmental heads monitor their staff performance against key targets, reviewing specific individual based KPIs and intangible criterias and assign scores to decide on top performers and those who lagged. These evaluations helped decide on bi-annual bonuses, salary increments, and training requirements and to identify those top performing individuals for future higher positions. To face an evolving service oriented finance Industry, employee performance remained integral for the company's future success. Management was hence clear in identifying and recognizing those top performing capable and talented individuals and also grooming those under par, by way of one-on-one training, mentoring and coaching.

Employees Receiving Regular Performance Appraisal and Career Development 2017/18

Employee Category	Number of Employees Male	Number of Employees Female	No. Of Staff Not Evaluated	% Appraised
Corporate Management	109	14	126	49.40
Executive Officers	152	27	1	99.00
Junior Executive	126	25	7	95.60
Assistants & Allied Grades	270	86	8	97.80
Total	657	152	142	85.07

Workforce poductivity

Human Resource Management Information system (HRIS)

Understanding the importance that HRIS plays in the management of the workforce, the company took bold steps to migrate from the in-house developed HRIS to a sophisticated externally acquired HRIS system this year. The implementation is ongoing and will conclude next financial year and provide management with significant information and human resource management tools to better manage the workforce.

GRI Standards Specific Disclosure
401-3, 403-1,403-2 and 403-3

Employee Work Environment

The company is committed in ensuring that a safe, conducive work environment is maintained for all employees. We ensure physical safety of employees and provide necessary resources and facilities to expedite their duties without any frustrations and hindrances. We have taken the necessary precautionary measures to protect employees from fire and other physical hazards. To look after general safety, company security has been outsourced to an expert security company which handles security at head office premises. They have adequate resources to carry out this function effectively and equipped with CCTV technology to monitor activities across the head office and branch network.

Employee work stations are designed efficiently supported with the required infrastructure and online connectivity. Additional upgrades were made to work structures of key divisions housed at the head office premises in Kollupitiya. The spacious lunch room which is being constructed will be available to employees from next financial year with greater space and amenities.

Our employees do not directly pose high risk of diseases related to their occupation. As a result, the company has not established an employee health and safety committee. Few material injuries to our staff were reported for the period (Refer table). There were also 115 lost days and 70 days of absenteeism reported. Permanent Staff members based on their grade took advantage of the health insurance scheme available, also covering their families for hospitalization. In keeping with the Shop and Office Employees Act No 15 of 1954, four employees were sent on parental leave, while the return to work ratio improved to 67 %, due to more women continuing to work after maternity.

Rate of injuries or fatalities, Occupational diseases, lost days 2017/18

Region	Injuries (In Number) Male	%	Female	%	Lost Days (Based on Average Number of Days per Employee) *246 Days Male	%	Female	%	Type of Injuries
Eastern	0	0	0	0	0	0	0	0	
North Central	0	0	0	0	0	0	0	0	
North Western	0	0	0	0	0	0	0	0	
Sabaragamuwa	0	0	0	0	0	0	0	0	
Southern	2	2.78	0	0	89	18.09	0	0	Bike Accident **
Western	3	0.56	0	0	26	3.52	0	0	Bike Accident **

Number of fatalities - 1 incident

* Average number of days per employee - 246 days

** Physical Injuries occurred due to bike accidents

Absenteeism by region and gender 2017/18

Region	Absenteeism (In Days) Male	%	Female	%
Eastern	1	1.43	0	0.00
North Central	4	5.71	1	1.43
North Western	0	0.00	0	0.00
Sabaragamuwa	0	0.00	0	0.00
Southern	4	5.71	1	1.43
Western	46	65.71	13	18.57

* Occupational diseases are not applicable as there are no risks from diseases directly linked to finance business, for people at work.

** Report was compiled from the statistics generated by the HR department by obtaining information from various heads of divisions on an annual basis.

*** No independent contractors have been employed.

Return to work and retention rates after parental leave

	FY 2017/18	FY 2016/17	FY 2015/16
number of employees entitled for maternity leave	156	150	136
number of employees who took maternity leave	4	6	5
number of employees who returned to work after maternity leave	3	3	5
number of employees who returned to work after maternity leave ended who were still employeed 12 months after their return to work	2	2	2
return to work rate %	75	50	100
retention rate %	67	40	100

* One employee is on maternity leave and returning date is 03/08/2018

** As a general policy, only maternity leave for females are granted as parental leave.

*** Based on previous year's retention information.

GRI Standards Specific Disclosure
202-1, 401-2 and 405-2

Employee remuneration, benefits and welfare

The company's minimum salary paid to employees is above the minimum wage specified by the National Minimum Wage of Workers Act (2016), Budgetary Relief Allowance (BRA) Act No. 36 of 2005 and BRA Act No. 04 of 2016 and does not vary with the location of operations or gender. For the period under review, the ratio of standard entry level wage to local minimum wage at MI is 104%. Our employees enjoy an attractive remuneration package commensurate with their positions, along with other benefits that vary depending on grade and work experience. Monthly salaries of employees are paid after making due tax deductions to comply with existing tax regulations. In accordance with labour regulations, we also contribute monthly to the Employee Provident Fund and Employee Trust Fund, while employees are also entitled to gratuity in accordance with the Payment of Gratuity Act. Staff who fulfill the required criteria are entitled to staff loan facilities while permanent employees of executive grade and above are given health insurance cover, which includes their spouses and children. Assistant Managers and above can also avail of a comprehensive annual medical checkup scheme at the company's expense while staff in the senior manager grade are provided with use of an exclusive gymnasium in Colombo.

Based on MI's reputed corporate culture and close employee bonding, as a standard practice, a number of corporate events are held annually, departmental and company-wide. The main event in the corporate calendar is the annual get-together dinner held at a renowned hotel, followed by Christmas carols, which is held within MI premises during the festive season.

Ratio of Remuneration Women vs Men - Visit MI Website

http://mi.com.lk/value-creation/value-creating-six-capitals/humancapital/

GRI standards General Disclosure
102-41

GRI standards Specific Disclosure
402-1 and 403-4

A cordial employer-employee relationship

There is harmony and a close cordial employer-employee relationship with minimal or no concerns or disruptions for either party. Any employee grievance, material concerns and recommendations are received through the formal channels and followed up by Management. No Trade Union functions within the Company and no collective bargaining agreements prevail. Further, no formal agreements prevail between the organization and its employees on matters of health and safety.

In terms of the job role, a job description is issued to staff upon them joining the company, apart from the initial letter of appointment that is issued to every new entrant, specifying the terms and conditions of his/her employment. Management has the discretion to make any required material changes to staff job functions. In the event of a material change, new job duties are discussed with the relevant staff member prior to implementation. We do not specify minimum notice periods when any such changes are deemed necessary.

Permanent Employee Benefits

	2017/18	2016/17	2015/16
Key Benefits	Rs. 000	Rs. 000	Rs. 000
Salaries, Wages & Bonus	696,208	551,747	419,724
Overtime	14,978	13,761	14,257
Allowance	36,230	77,582	55,812
Medical Expenditure	987	1,188	2,718
Health Insurance	13,565	11,860	10,801
Professional Development	3,093	1,624	1,732
Staff loan	976,154	23,110	28,566
Gratuity	20,277	28,327	23,456
Parental Leave	716	506	909
Welfare Costs	1,100	1,068	1,060

Approach to Human Rights considerations

We respect rights of all individuals and this includes human rights of people we deal with such as our employees and the external parties. The organisational policies, procedures and practices have been developed without contravening human rights considerations. MI's corporate principles and value system highlights the importance of respecting people rights and the need to safeguard human ideals. New ventures and strategies that we embark upon are pursued after giving necessary consideration to standard human rights requisites and principles. We report that there were no human rights violations formally reported to the human resource department during the period under review.

Human Rights policy on workforce

We adopt a value system that safeguards the well-being of our employees, encouraging them to excel in their careers and support this policy by creating the right learning work environment. Employees of either gender have an equal opportunity of displaying their skills and to go up the corporate ladder. We at any point do not employ services of individuals below the specified legal age for employment, for any requirements whatsoever. The Company sustains healthy acceptable working conditions to all employees by keeping to accepted health and safety standards. Our HR polices uphold best practices in the industry and conforms to prevailing labor regulations.

GRI standards specific disclosure
412-1, 412-2 and 412-3

Human rights assessments

We did not subject any part of MI's operations to human rights screening, impact studies or assessments during this period. No separate human rights clauses were developed and incorporated into agreements this period. No separate training was conducted on human rights policies practiced by the company. However, it is the Company's prerogative that we respect rights of people, when carrying out daily business activities. Through formal and informal mechanisms of gathering information, we were able to obtain feedback from our employees, customers and community of our standing and their concerns.

GRI standards specific disclosure
410-1

Security personnel training

Trained security officers were deployed by the professional security firm at the head office premises, safeguarding the employee safety rights and also of the outsiders coming to MI premises. The outsourced firm's security personnel upholding best-in-industry security practices and norms and are well equipped to handle security situations including security breaches. Security personnel have the right attitude to deal with people in a humane manner and to handle security situations effectively. Apart from basic hands-on training given on security, no separate human rights training was afforded to security personnel stationed at MI, during the year.

GRI standards specific disclosure
406-1

Workplace equality

The Company does not discriminate against any individual based on their age, gender, religion or race for any reason and expect parties that transact with the company also to uphold similar values. There were no incidents of discrimination reported through our formal channels during this period.

GRI standards specific disclosure
408-1 & 409-1

Total prohibition of child labour and forced/compulsory labour

The recruitment policies of the company conformed to the prevailing labour laws that require strict compliance to the minimum age limit for providing employment. No individual is subject to forced labour or has been engaged against his/her free will at any of our locations. Our human resource policies completely prohibit enforcing of child labour in any of our operations. No part of our operation involves any form of forced or compulsory labour. We manage our human resources professionally, complying to prevailing laws and regulations relating to employee working hours, employee pay and other requisites, in line with the Shop and Office Employees Act No. 15 of 1954 as amended and the Wages Boards Ordinance. We do not evaluate labour policies of our suppliers, mainly because our dealings with them are not significant currently.

Overview
Management Discussion and Analysis
Stewardship
Financial Reports
Additional Information

Natural Capital

http://mi.com.lk/value-creation/value-creating-sixcapitals/natural-capital/

"We are incredibly grateful for your generosity and loyal support, towards the development of the second phase of the Attidiya wildlife rehabilitation centre. In an era, where the habitats are dwelling, your contribution will play a huge role in conserving our fellow species."

Sujeewa Jasinghe
Managing Director, Centre for Eco-Cultural Studies

Captures of the year

Carbon footprint **3,132 tCO2e**	Lending on Hybrid and electric vehicles rose by **70 %**	Recycled paper **1,126 Kg**

Our approach to Natural capital management

GRI Standards Management Approach 103-2 and 103-3

Environmental sustainability, being an immutable matter, has been embedded into MI's core business strategy, to better manage natural resources and meet corporate obligations towards protecting the natural environment and its habitats. Although our negative impacts on natural resources are considerably insignificant and indirect, at corporate level we stand committed to enhance natural capital. We have established various corporate management mechanisms, which include clear policy and practice to safeguard environment and its resources. MI adheres with environmental laws and has established best practices on environmental governance. While keeping the internal and external impact on nature at a lower level, on the contrary we have brought merits to the natural environment through various nature focused projects, strategic partnerships with 'Green Conscious Groups' and by promoting sustainable use of natural resources.

Objective

- Minimize our environmental Impact
- Protect environment, its resources and habitats

Goal

- Limit environmental impact arising from operational expansion
- Conservation Investment & corporate green focus

Natural Capital Value Building Process

		Green Living		Environmental Sustainability
Green Corporate Policy	Precautionary Approach →	Green Living	← Optimizing natural resources	Environmental Sustainability
	Environmental compliance →		← Waste management	
Green Responsiveness	Green Awareness →		← Emission Control	
	Green Collaboration →		← Bio Diversity Protection	

Interconnection with other capitals

Financial Capital	Intellectual Capital	Human Capital	Social & Relationship Capital	Manufactured Capital
Green Spending Rs. 1.8Mn	IT enhancements towards a paperless environment	Environmental employee volunteerism 99 hours	Media coverage on environment	Evaluation of solar energy to power the workshop & service unit

GRI Standards General Disclosures
102-11

GRI Standard Specific Disclosures
201-2

Green Corporate Policy

MI PLC has adopted a precautionary approach to manage environmental concerns, mainly to prevent and minimise negative impacts on the environment. Our efforts in managing business operations ensure a low level of impact on the natural environment and habitats, and remain conservative in the use of natural resources. In certain instances, we compensate by giving back to the environment through environmental restoration efforts such as tree planting, whilst ensuring associated risks and statutory obligations are addressed. (Refer Annual Report of the Board of Directors Page 215)

Our diligence extends to instilling green practices to encourage our stakeholders to operate in a sustainable manner. Moreover, we ensure that the impact of our business operations on nature is maintained at a minimum level and is reflected in our key corporate strategic decisions. Employee awareness and engagement is encouraged in the process of aligning the office environment, work culture and staff behavior with our Natural Capital framework.

Although our core business of vehicle financing does not have a direct significant environmental impact, consumption of non-renewable energy and emissions will result in negative environmental externalities. Environmental-friendly products such as electric and hybrid motor vehicles are promoted vastly with the aim of encouraging our clients to opt for green products which are energy-efficient. On the other hand, MI's sustainability strategy imposes controls on financing certain categories of vehicles. As a result of the Green Lending Policy, the indirect impacts on emission levels have been curtailed. We hope to embark on a much wider environment supportive programme by incorporating a stronger Green Lending Policy in the future.

Hybrid/ Electric Lending

Environment Benefiting Products	Total outstanding (Rs.Mn)			Variance (FY 2017/18 - FY 2016/17) (Rs.Mn)
	FY 2017/18	FY 2016/17	FY 2015/16	
Hybrid	33,418	19,610	4,638	70%
Electric Vehicles	128	154	159	-17%

Since we are receptive about the sustainability of natural resources, we manage our operations to limit the environmental and social risks associated with organization's activities and the parties involved in our supply chain.

As a result, MI does not facilitate:

- Activities that would result in the degradation of protected critical natural habitats as designated
- Activities that would involve the purchase of timber from illegal logging operations
- Production or trade of any product or activity deemed illegal under host-country's laws or regulations

We also believe in extending financial support to the agricultural sector, which is further propelled by our interest in growing the micro finance portfolio. This will reduce our indirect impact on the environment going forward. Moving ahead, we hope to develop policies to assess the environment compliance status of industrial borrowers in more detail.

Financial Implications Due to Climate Change

Key Indicators	2017/18	2016/17	Change %
Risks from Exposure to Agriculture and Agri - Based Industries ;			
Agriculture and related lending portfolio (Rs. 000)	1,282,218	901,570	42.22
Total Agriculture related Disbursements (Rs. 000)	848,240	546,206	55.30
Non performing Portfolio relate to Agriculture and related lending (Rs. 000)	84,179	90,819	-7.31
Non performing Ratio (%)	7	10	-34.83
Environmental Initiatives			
Environmental Investment (Rs. 000)	1,661	357	365.27

GRI Standards Specific Disclosure
307-1

Environmental Compliance

Despite the minimal operational impact, MI as a responsible corporate citizen continues to embrace best practices on environment governance, while complying with legal requirements. There were no violations reported for the FY 2017/18 on any environmental standards and the Company was not called upon to settle any environmental related fines. No sanctions were imposed as a result of non-compliance with any environmental regulations during this period. Assurance to this effect is provided in the Statement of Board of Directors on page 215 in the Annual Report. Going beyond our own compliance standards, we hope to bring in environmental policies to encourage our customers in adhering to environmental regulations by strengthening our prerequisites for granting of credit facilities.

GRI Standards Specific Disclosure
304-3

Green Responsiveness

Corporate behavior at MI PLC itself provides opportunities to work towards protecting the natural capital. Our annual CSR budget and the special funds collected allocate a significant percentage of funds for environmental initiatives. This year too, the Sustainability Governance Committee initiated 13 CSR and 3 wildlife projects with the whole-hearted support of volunteered staff members. Furthermore, special funds stemming from our microfinance and lease businesses finance environmentally supportive activities which provide protection to wildlife and also assist our clientele in safeguarding themselves from environmental hazards.

Through the 'Wildlife Conservation Fund' two projects were initiated, which includes the launching of the "Animal Rehabilitation Centre" on Wildlife Day, 2nd March 2018, in the presence of the Deputy Minister of Mahaweli Development and Environment, which was graced by the Managing Director, Gerard Ondaatjie. Out of Rs. 2,693,200 of the fund, Rs. 1,374,037 has been spent for projects during FY 2017/18.

Contribution

Monetary Value (Rs.) – N/A (Budgeted Cost – N/A)
Management Time – 60 hours
Staff Volunteerism – 384 hours
In-kind assistance – Rs. 1,004,000
Number of beneficiaries – N/A

1

Enhancing nursery facility for injured animals

On 05th January 2018

By the Sustainability Governance Committee

Project Rationale

Treating injured animals is one way of preserving wildlife and as a part of our commitment towards wildlife conservation, we decided to enhance physical infrastructure for a wildlife treatment unit.

Project Action

A nursery room was constructed at the Wildlife Rehabilitation Centre in Attidiya with the aim of treating and relieving the suffering of injured wild before reintroducing them to the wild. Further, MI's SGC members and staff volunteers jointly cleaned the surrounding of the rehabilitation centre at Attidiya, and planted trees to maintain and sustainable living environment for the animals and surrounding community.

Contribution

Monetary Value – N/A (Budgeted Cost – 208,000)
Management Time – 20 hours
Staff Volunteerism – N/A
In-kind assistance – Rs. 208,000
Number of beneficiaries – N/A

2

Construction of electric fences

On 14th June 2017

By the Sustainability Governance Committee

Project Rationale

Wild animals face life threats when entering bordering villages due to various human activities which can be avoided by building electric fences. This will help reduce depletion of the wildlife population.

Project Action

An electric fence was constructed for leopard enclosure at Wilpattu National Park, under the guidance of the Centre for Eco-Cultural Studies. Our efforts in building the 240 metres length electric fence provided adequate safety for leopards and freedom for them within the defined zone.

Green Awareness

As a result of efforts by the Sustainability Governance Committee (SGC), green awareness among employees has picked up considerably. Starting this year, a ‘Sub Committee’ was formed under the SGC to educate and obtain support for future green projects. An awareness campaign on ‘Waste Management’ was also carried out, focusing Micro Customers at Micro Centres, where groups of Micro customers were benefited during cash collection meetings. Employees of MI marketing division arranged 10 campaigns at each center for this purpose.

Green Collaboration

MI collaborated with a number of organizations and government institutions this year too, to continue with the green environment initiatives. Through the collaboration with ‘Think Green’, we continued to instill sound waste management practices, primarily to collect e-waste periodically and dispose them professionally with minimal impact to the environment. MI also collaborated with Sri Lanka Climate Fund in FY 2017/18 to assess its carbon footprint levels and consequently to streamline our operational activities to reduce our carbon footprint, while focusing on the activities of generating carbon credits. Our collaboration with the Dehiwala Animal Rehabilitation Centre was another significant green milestone that MI is proud of.

Environment Sustainability

As a growing organisation, we are obliged to protect our surroundings and habitats and extend a lending hand to protect the future of society over climate change. Despite the current investment on environment protection being relatively lower, we hope to contribute in our own way and to expand our positive environment mark in the years to come.

The Company has initiated safety procedures within the workplace, to preserve natural resources and the environment as follows:

- Maintaining a clean business environment
- Energy Management
- Water Management
- Controlling Consumable Intake
- Waste Management
- Conserving biodiversity
- Tree planting
- Monitoring GHG emission levels

Optimizing Natural Resources

Over time, we have optimised our material usage, energy intake and water usage. Within the organisation, staff are encouraged to work together for a greener tomorrow by reducing wastage and optimising the use of natural resources.

GRI Standard Specific Disclosures
301-1, 301-2 and 301-3

Material Management

Controlling Consumable Intake

Being a service provider, we do not use materials to a significant extent. However, due to the business transaction volumes, the documentation usage has increased and with its frequent use of printer toners and cartridges. These items are made of scarce resources and hence as a responsible corporate MI has its recycling methods in place, in order to ensure its impact on environment is minimised. The papers and box files are recycled and usage of stationery and other consumables are closely monitored at departmental and branch levels. With the support of the inventory management system, stationery in and out is accurately monitored and issued sparingly.

This year we launched a ‘Cost Optimization’ programme headed by the ‘Cost Controller’. Through this initiative, we obtained support of divisions to manage stationery sparingly and to recycle paper, based on priority. Usage and recycling trends of stationery and other consumables are portrayed in the table next page.

Reduce, Reuse and Recycle

Expenditure on Environmental Protection

Environmental protection initiatives	Activity involved	Expense for FY 2017/18 Rs.
Wild Life Conservation	Nursery room for injured animals was launched at Attidiya intending to protect the wild life.	1,373,937
GHG emission testing	Annual emission certificates obtained for MI fleet of motor vehicles, transport and other internal energy consumptions	287,450
Opportunity Cost of employee volunteerism	Staff members and managers spent 99 man hours for green initiatives	189,056

Recycled item	Items consumed in *		Items recycled in		% of items recycled against total consumption	
	FY 2017/18	FY 2016/17	FY 2017/18	FY 2016/17	FY 2017/18	FY 2016/17
Paper (Kg)	32,444	18,025	1,126	2,756	3%	15%
Box files (Number)	923	1,035	20	517	2%	50%

* Consumption does not include any recycled or reclaimed item

Consumable and Stationery Usage Trend

Type of item	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Photo copy paper : (reams)					
- A4	3,968	4,613	5,549	6,574	7,411
- Legal	200	263	228	164	137
- A4R	374	421	529	472	563
Total	4,542	5,297	6,306	7,210	8,111
Ink cartridges /Fax/Printers (No. of cartridges)	256	267	237	212	209
Photo copy toner, fax toner & laser jet printer toners (No. of units)	897	1,116	1,771	1,924	2,107
Box files (No. of box files)	301	1,078	992	1,035	923

Working towards a Paperless Environment

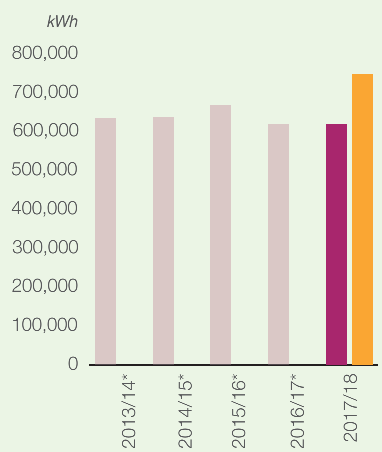
As another major step, through the Document Management System (DMS), we continue to minimise paper handling at the workplace, which eventually enables the Company to reduce or avoid paper movement and duplication of hard copies. We have been able to expand DMS features to support all core business units and support service divisions at head office and other service locations. Also, the Lanka Clear SLIPS system too has eased paper requirement and majority of our repetitive payments are done through the SLIPS system. MI has emphasised the need for a sustainability driven paperless working environment, upgrading its systems to provide automated daily reporting requirements that also includes information e-mailing to users in an automated environment.

GRI Standards Specific Disclosures
302-1, 302-2, 302-4 and 302-5

Energy Management

Since we are in the Financial services sector, energy requirement for sold services are not applicable. However, fuel and electricity are the

Electricity Utilization



Electricity energy consumption is measured in kilowatt hours (kWh). No major fluctuation has been observed in electricity consumption during the last five years

** Branch Information not gathered*
*** Reduction in electricity utilization at head office in FY 2017/18 is 1,512 kWh*

Utility Consumption - Visit MI Website

http://mi.com.lk/value-creation/value-creating-sixcapitals/natural-capital/

main sources of energy used for the business operations at MI. Our primary source of energy is electricity utilised from the national grid, which is used for day-to-day operations within the organization. Significant measures have been adopted by the Company to optimise the electricity and energy efficiency during the FY 2017/18.

Energy Saving Actions

- Upgrade lighting systems in the Company with LED, CFL and fluorescent tube.
- Use power management settings on equipment, such as screensavers on computer desktops and photocopy machines.
- Use of 365 cloud computing for daily operations.
- Sharing printers, using high capacity toner cartridges and photocopy machines.
- Reduced energy consumption from the air conditioning cooling systems with the aid of UV repelling film and purchasing energy saving equipment.
- Periodic maintenance checks to ensure the efficiency and effectiveness of the electrical equipment in use and energy usage.
- Strict monitoring of operating hours of the air conditioning system to ensure that central air conditioning is shut down after 5.00 pm.

Energy Awareness

- Display and communication of energy saving tips
- Training programmes conducted for staff to increase awareness about the need to conserve energy and tips to save energy.

Employee Engagement

- Shared employee effort to cut down on use of lighting and equipment use.
- Taking green practices home, such as switching off electronics when leaving the place, reuse and recycle resources etc.

In order to substitute renewable energy options for non-renewable energy resources, a thorough evaluation of solar power solutions was conducted for the Kohuwala Workshop service center for the upcoming year. This initiative is expected to generate major savings of electricity cost and contribute energy to the national grid in the long term.

GRI Standards Specific Disclosures
306-4

Transport

Fossil fuel remained the main energy source used for employee commuting, business travels, covering logistics between head office and branches and other fuel consumption (for generators, cooling systems etc.). We do not transport hazardous waste, however we adopt standard waste management practices. Considering the drawbacks resulting from burning fuel to the atmosphere, several steps have been taken to minimize the usage and emission levels as shown below.

- Emission certificates are obtained for vehicle fleet as per the prevailing regulations and vehicle maintenance processes are also brought in line, to ensure that the emission levels are under control.
- Obtained carbon footprint certificate by Sri Lanka Climate Fund for our energy usage for FY 2017/18. We are working with the fund in moving towards carbon neutral status.
- Encouraged alternative modes to reduce emissions caused by staff transportation.
- Efficiency of fuel usage and vehicle emission levels are monitored by the transport division to minimise environmental impacts.
- Employees are encouraged to use fuel efficiently in planning their journeys i.e., by pre-planning client visits and investigation visits in a way that the fuel usage is optimised.

Fuel Usage Trends:

	FY 2015/16	FY 2016/17	FY 2017/18
Fuel Allowance (litres)	448,080	592,419	667,417
Fuel (litres) used for Investigations	157,690	223,812	235,727

Utility Consumption - Visit MI Website

http://mi.com.lk/value-creation/value-creating-sixcapitals/natural-capital/

GRI Standards Specific Disclosures
302-3

Energy Intensity:

Energy source	Consumption Level		
	FY 2017/18	FY 2016/17	FY 2015/16
Energy used within organisation (kWh)	1,365,581	*619,824	*667,308
Energy used outside the organisation (fuel Liters)	235,727	223,812	157,690
Total Employees	951	*323	*313
Energy consumed per Employee (kWh per employee)	1,435.94	1,918.96	2,131.97
Energy consumed per Employee (Fuel Litres per employee)	247.87	255.49	213.67

* *Only Head Office.*

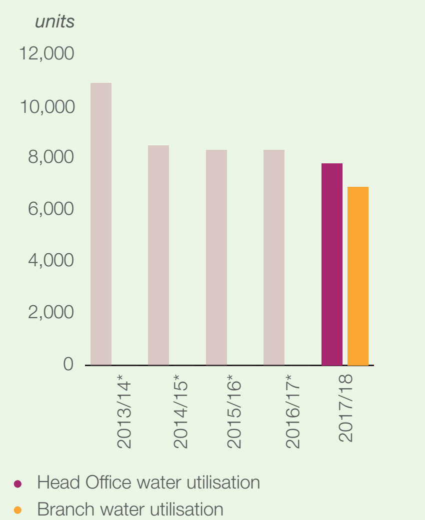
GRI Standards Specific Disclosures
303-1, 303-2, 303-3

Water Management

Controlling Water Usage

Water consumption at MI is increasing, along with the expansion of the branch network and workforce. However, consumption is well monitored and kept to a minimal level. Tube-wells are available in the Micro-finance unit and also at the head office to handle specific water requirements in concurrence with pipe borne water. Given that our operations do not consume vast amount of water and therefore we do not have significant effect to water bodies. our sustainability driven strategy currently does not consider reusing or recycling of water, but encourages employees through communication and notices to use water sparingly.

Water Utilization



** Information not gathered*
*** Reduction in water utilization at head office in FY 2017/18 is 505 units*

Utility Consumption - Visit MI Website

http://mi.com.lk/value-creation/value-creating-sixcapitals/natural-capital/

GRI Standards Specific Disclosures
306-1, 306-2, 306-3, 306-5

Waste Management

As a business, the waste we generate is minimal and is well managed. At the Head Office premises, waste is segregated into paper, food, plastic/polythene, e-waste and damaged office equipment. As a service provider, our waste water discharge is insignificant and therefore we do not quantify, also our operations do not result in spills. MI has set proactive methods to dispose wastewater released from our office operations and other types of waste. Thereby, we ensure that the waste does not harm the surrounding environment, water bodies and related habitats We do not deal materially in waste deemed hazardous under the terms of the BASEL Convention and below listed is our approach to waste disposal.

Type of waste item	Frequency of disposal	Weight of waste (KG)	Disposal method
1. Waste paper	Weekly	1,125.5 Kg	Daily collection of waste paper from departments at head office is carried out at basement stores and disposed off on a weekly basis to an authorised party.
2. E-waste	Bi-annual	296.46 Kg	A separate storage area is assigned to store e-waste. Periodically, inventory is taken and quotations called for e-waste disposal with items being sold at best price.
3. Damaged office equipment	Ad hoc	*	Damaged furniture, equipment and other similar items of various departments are forwarded to the maintenance department. The items are stored in Maharagama and sold when the realisable value is obtained with the approval of the management.
4. Polythene	Weekly	631 Kg	Daily collection of polythene taken from each department at head office is stored temporarily at a nominated location in the basement. Polythene is thereafter collected by the CMC.
5. Food	Daily	4,564.5 Kg	Collected daily at head office and disposed through the CMC garbage disposal process.

** Will be quantified from next Financial year*

Towards Green IT

In our sustainability journey, we identified potential environmental impacts and over the past years have stepped forward to keep negative results at a minimal level for the betterment of the environment. We, as a finance company, use computers and related peripherals items which results in e-waste. We have established a smooth transition process to dispose e-waste in an environmentally-friendly manner from procurement to disposal. The ‘Green IT’ initiative is yet another programme driving our environmental consciousness focusing on the following actions.

Virtual Servers

More than 20 application servers are being hosted on three physical servers. Through this measure, we save on energy, as we reduce the number of servers required.

Reducing Paper usage

Internal communication system includes, e-mail, Core System Modules and Document Management System (DMS). These facilities assist users to view documents online and limit the need for printing hard copies. Hence, at least 40,000 A4 sheets are saved per month.

Energy Efficient Computer Equipment Usage

MI’s sophisticated procurement strategy ensures energy efficient devices are purchased and configured with energy saving settings. Further, we have started purchasing Mini PC systems, which will result in major savings of power consumption.

Video Conferencing

The Company is carrying out testing to schedule corporate meetings through the use of video call conferencing with branches, which will reduce the level of emissions released and fuel usage.

GRI Standards Specific Disclosures
305-1, 305-2, 305-3, 305-4, 305-5, 305-6 and 305-7

Emission Control

Daily business activities at MI result in emissions directly or indirectly. With the implementation of strategy for mitigation, emission levels are duly controlled. While we internally monitor our business activities to mitigate the risk in facing the climate change, we pay attention to our stakeholders, particularly our suppliers, service providers and other third parties, to ensure their impact on environment is kept at a minimum. Vice-versa, MI provides financial solutions to customers in sectors that have negative impacts from climate changes, such as to the agriculture sector. MI, as a consequence, may also be exposed to indirect adverse effects, such as increased credit risk and non-performing loans.

We ensure that our emissions do not contribute to any climate change and significant preventive measures have been put in place. The tree planting campaigns conducted in the past few years have yielded environmental benefits and would generate future carbon credits. Our future plan on solar power generation is also another measure to minimize any negative impacts to the climate.

MI's Carbon Footprint

This year also, MI collaborated with Sri Lanka Climate Fund, to assess the carbon footprint levels of the Company for the third consecutive year. Based on the scope set last year, we evaluated our carbon footprint for FY 2017/18, according to the Green House Gas (GHG) accounting protocol of the World Business Council for Sustainable Development (WBCSD) and IPCC. The measurement of the CO_2 emission forms the point of origin for the Carbon Footprint Calculation, which is preceded by an extensive data gathering exercise that helps to ascertain the environmental imprint.

MI has very insignificant impact on ozone depleting substances and NOx, Sox and any other significant air emissions that include biogenic CO_2 and are seeking to move towards the challenging goal of reaching carbon neutrality by 2020 through the Company's green initiatives.

Green House Gas Emissions Summary by Scope

Scope	Type of emission	tCO2e
Scope I	Refrigerant Gas Loss	28.4064
	Emission from Business Purpose travels & Employee commuting - Investigation	544.98
	Emission from employee commuting - Fuel Claim	38.09
	Emission from Generators	7.24
	Emission from Business purpose travel and Commuting -Allowance	1,432.65
	Fire Extinguisher	0.002
Scope II	Emission from electricity consumption	899.11
Scope III	Emissions from water consumption (Drinking & Non-Drinking)	0.05
	Grid loss	78.25
	Emission from employee commuting by common and private transport	103.12
	Paper Recycling	0.02
	Waste Food	0.13
	Total	3,132.05

Carbon Footprint Intensity

Scope	Type of emission	Total Employees	Intensity per employee	Variance
FY 2017/18	3,132.05 tCO2e	951	3.29	0.50
vs FY 2016/17 (Base Year)	2,447.27 tCO2e	876	2.79	0.94
vs FY 2015/16 *	577.92 tCO2e	313*	1.85	

** Only head office*

*** An increase of 684.78* tCO2e was observed

Note: Scope 1, 2 and 3 of GHG emission (Carbon footprint) intensity computations have been based on head office and branches GHG emissions that include CO_2, N20, CH_4. (Does not include an assessment on possible indirect emissions resulting from our lending client business and actions.)

GRI Standards Specific Disclosure
304-1, 304-2 and 304-4

Biodiversity Protection

As MI's business operations expand, its focus on the environment also expands and, therefore, we ensure that the bio-diversity hotspots are not affected negatively through our business practices. Through an initial assessment and periodic audits, we ensure that our operations do not harm the designated protected areas of national conservation or areas of high significance in terms of biodiversity.

Based on the evaluation of branch/service center's proximity to demarcated areas of bio-diversity of the country, only Kegalle branch falls within a three Km radius from a designated site: Kurulukale. As per the assessments carried out on all our operating centres, these protected sites are not affected in any manner by our operations.

We do not assess the impact our business operations have on IUCN red listed species.

Bio diversity location - Visit MI Website

http://mi.com.lk/value-creation/value-creating-sixcapitals/natural-capital/

Outlook and Strategy Ahead

As key economic drivers in the medium term, government policy measures to bolster under-performing Industries and under-developed geographic location, and ongoing focus on international trade will continue to play a vital part in the nation's march towards economic prosperity. In harmony, private sector too will play a vital role, especially to widen business borders beyond the Western Province and take an active part in the development process, to enrich communities, and create further employment. To accelerate economic growth, it is necessary to manage inflationary effects and counter exchange rate impacts, and ease monetory policy to stimulate further economic activity. Further, benefits of the fiscal policy measures introduced from last budget proposals, is bound to yield results that will cascade to all sectors of the economy in the years to come.

For MI, the prevailing economic trends, industry dynamics and other external factors, are bound to have a contrasting impact on the company's value creation process. The company is therefore geared to harness opportunities and equipped to face challenges. Based on future predictions and the medium term corporate plan, we hope to pursue key goals/priorities by staying committed to the strategy and business plans already undertaken.

Financial Capital

Future Outlook

Positive Predictions

- Moderate GDP Growth with gradual per capita income increase of people
- Market interest rates to move down to single digit in the medium term
- Demand for non- traditional financing to pick up

Negative Predictions

- Credit growth will remain moderate and slow paced
- Exposure to Non-traditional term based lending will increase credit risk

Key Strategic Priorities (Based on expectations and impacts predicted)

- Noteworthy Core Revenue growth
- Maintaining healthy margins and spreads above threshold
- Bringing down the cost to income ratio to 55% and below
- Keeping the Non-performing lending ratio below 4% threshold limit

MI's Strategy Ahead

Revenue Growth

We expect to extend higher levels of non-traditional term based credit which will help boost revenue and sustain anticipated yields. We expect core margins to further improve once these high levels of interest rates ease and move downward.

Cost Management

Treasury will pursue cheaper borrowing opportunities while all departments will be expected to monitor their expenses to eliminate wastage and optimize on costs.

Asset Quality Optimization

Utilizing the strengthened credit risk control function, further measures will be instilled to enhance credit evaluation and post credit monitoring and to instill additional risk mitigation controls and early warning mechanisms.

Human Capital

Future Outlook

Positive predictions

- Having abundant skilled workforce, geared to face future business challenges

Negative predictions

- Competitive job market, with growing employee opportunities
- Tough Finance Industry work environment with wider expectations

Key Strategic Priorities (Based on expectations and impacts predicted)

- Nurturing employees to face future business complexities
- Sustaining a motivated productive workforce

MI's Strategy Ahead

Employee Productivity

Based on the recommendations of the external human resource consultancy firm, and MI's best practices, we hope to motivate the workforce in sustaining expected optimal productivity levels.

Broad-basing skills and capabilities

Training and development will play an integral role in the grooming of employees to face business challenges. Employees will be trained to adapt to various new operational changes that would result from the proposed system migration.

Social and Relationship Capital

Future Outlook

Positive predictions

- Increased presence to widen customer relationships and bonds with people
- Increase in middle income earners' purchasing power will boost demand for lower priced vehicle ownership

Negative predictions

- Intense market competition will increase customer sensitiveness
- Vehicle sales market will continue to be hampered by high import duty and restrictions on financing
- Wider societal interaction will call for more focused socially responsible practices

Key Strategic Priorities (Based on expectations and impacts predicted)

- Widen customer relationships
- Fortifying our social presence across regions

MI's Strategy Ahead

Growing the customer base

We hope to consolidate on the wider presence we have, targeting greater customer partnerships. The varying financial needs of people will be supported through our broad-based product mix.

Empowerment Communities through funding

Greater amount of credit is planned to be disbursed outside Western Province, with emphasis on developing the micro finance, personal lending and other non-traditional lending towards SME sector, to penetrate deep into communities.

Broad-basing social projects

We hope to widen our social imprint thereby sustaining a meaningful positive impact on society. Through a broad-based social assistance programme, we hope to obtain a greater social license to operate within these communities, thereby further strengthening MI's brand value.

Intellectual Capital

Future Outlook

Positive predictions

- Strong brands will remain competitive and sustainable

Negative predictions

- Embracing new products, technology and processes will require investment in continuous skills building

Key Strategic Priorities (Based on expectations and impacts predicted)

- Increasing the value of the MI Brand
- Building skills and business intelligence

MI's Strategy Ahead

Branding and promotions

Through a higher marketing and promotion budget, we hope to build the MI brand across the island, focusing also on cementing strong "top of the mind recall" in recently established regions.

Building Intelligence and skills base

A coordinated effort will be implemented to further acquire, groom and retain high calibre staff to handle the planned business advancement and technology changes.

Manufactured Capital

Future Outlook

Positive predictions

- Technology will advance further, creating opportunities for the finance industry

Negative predictions

- Will require significant IT infrastructure investment to keep pace with future expected advancements

Key Strategic Priorities (Based on expectations and impacts predicted)

- To embrace advanced IT capabilities for competitive advantage
- Strengthen the branch network and support staff capabilities

MI's Strategy Ahead

Embracing advanced IT technology

To pursue an external system solution that will bring greater flexibility and advantage to users and afford customers enhanced e-based solutions for their convenience.

Key operational process will be reengineered in tandem with the proposed system, for the ease of doing business. Staff will undergo continuous training to maintain service standards, to efficiently meet future requirements.

Natural Capital

Future Outlook

Positive predictions

- Corporates that are environment conscious will be in a better social footing to operate in a widening social platform

Negative predictions

- For any industry player, negative environmental impacts will dent corporate reputation

Key Strategic Priorities (Based on expectations and impacts predicted)

- Broad-basing our " green focus " over time
- Staying committed to the wider protection of the environment and its habitats

MI's Strategy Ahead

Green Business practices

We will remain committed to controlling the usage of energy, stationery and other naturally produced consumables in the wake of operational expansion. We also hope to proceed on a pilot project to convert Kohuwela Workshop Unit to solar power in combination with the national grid.

Protecting the environment and habitats

Through the Wild Life Fund and the CSR budget, we hope to support greater planting of trees and measures to safeguard animals especially the endangered species.

Independent Assurance Report on Sustainability

Building a better working world

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Independent Assurance Report to Mercantile Investments and Finance PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2017/18

Introduction and scope of the engagement

The management of Mercantile Investments and Finance PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2017/18 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 71 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' - Comprehensive guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' - Comprehensive guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company's responsibility for the Report

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 08 March 2018. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 March 2018.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' - Comprehensive guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 71 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2018.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Comprehensive.

Ernst & Young
Chartered Accountants

Ernst & Young

17th May 2018
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

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Where did we get our direction from

Stewardship

Board of Directors

AC
RC
RP
NC

Saroja Hemakumara Jayawickrema Weerasuriya

Chairman- (Independent Non- Executive)

Date of Appointment

26th January 2011

Date of Last Re-election

14th July 2016

Service period as a Director

7 years

Qualifications

BSc (Lond.), MICE. FIE (SL), FSSE (SL), FIPM (SL) C.Eng.

CC
RM
NC

Gerard George Ondaatjie

Managing Director (Executive)

Date of Appointment

2nd December 1993

Service period as a Director

24 years

Qualifications

B.Sc. (Accountancy) (Arizona State University – USA)

CC
RM

Pathiranage Mahes Amarasekara

Deputy Managing Director (Executive)

Date of Appointment

18th December 1995

Date of Last Re-election

20th October 2017

Service period as a Director

22 years

RP
CC
RM

Shermal Hemaka Jayasuriya

Finance Director (Executive)

Date of Appointment

05th January 2001

Date of Last Re-election

14th July 2016

Service period as a Director

17 years

Qualifications

FCA, FCMA (UK), CGMA, FCMA (SL), MBA (Sri.J.)

AC *Audit Committee* RC *Remuneration Committee* CC *Credit Committee*

Expertise	Sector	Qualities	Present Directorship with other Companies/ Positions	No of Shares held in MI As at 31.03.2018
Strategic Management Human Resource Management Financial Public Relations Governance Risk Management Project Management	Civil Engineering Tourism and Hotels Financial Services Insurance Sector	Strategic Thinker Visionary Analytical Idea Generator Able to deal with ambiguity Networking	Director of Kognoscenti (Pvt) Limited Ceylinco Insurance PLC Proprietor of Saro Weerasuriya Associates	Nil
Strategic Management Human Resource Management Financial Public Relations Governance Risk Management	Tourism and Hotels Automobile Financial Services Trading Sector	Strategic Thinker Visionary Analytical Idea Generator Able to deal with ambiguity Networking	Chairman of Fair View Hotel (Pvt) Limited, Nilaveli Hotels (Pvt) Limited & Mercantile Fortunes Insurance Brokers (Pvt) Ltd, Deputy Chairman of Nilaveli Beach Hotels (Pvt) Limited, Mercantile Fortunes (Pvt) Limited & Mercantile Orient (Pvt) Limited. Managing Director of The Nuwara Eliya Hotels Co. PLC. Director of Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC, Security Ceylon (Pvt) Limited, Tangerine Tours (Pvt) Limited, Global Films Limited, International Fortunes (Pvt) Ltd, Tangerine Vacations (Pvt) Ltd.	477,213
Strategic Management Legal Recoveries Public Relations	Legal Enforcement Small Businesses Automobile Financial Services	Visionary Analytical Idea Generator Networking	Director of Security Ceylon (Pvt) Limited, Fair View Hotel (Pvt) Limited and Mercantile Fortunes Insurance Brokers (Pvt) Ltd.	Nil
Strategic Management Recoveries Human Resource Management Financial Fundraising Public Relations Governance Risk Management	Financial Services Insurance Manufacturing Small Businesses Trading sector Automobile Auditing	Strategic Thinker Visionary Analytical Idea Generator Able to deal with ambiguity Networking	Director of Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited, Mercantile Fortunes Insurance Brokers (Pvt) Ltd and The Finance Houses Association of Sri Lanka	Nil

RM *Integrated Risk Management Committee* RP *Related Party Review Committee* NC *Nomination Committee*

Board of Directors

Qualifications

Angeline Myrese Ondaatjie

Director (Executive)

Date of Appointment

20th January 1992

Date of Last Re-election

20th October 2017

Service period as a Director

26 Years

MBA (University of Texas in Austin) USA, BSc (Massachusetts Institute of Technology USA)

Travice John Ondaatjie

Director (Executive)

Date of Appointment

13th July 1995

Date of Last Re-election

20th October 2017

Service period as a Director

22 Years

BSc. (Arizona State University – USA)

RC

Punyakanthi Tikiri Kumari Navaratne

Director (Independent Non-Executive)

Date of Appointment

17th January 2012

Date of Last Re-election

30th June 2015

Service period as a Director

6 Years

LLB (Col.), Attorney at Law

AC *Audit Committee* RC *Remuneration Committee* CC *Credit Committee*

Competencies			Present Directorship with other Companies/ Positions	No of Shares held in MI As at 31.03.2018
Expertise	Sector	Qualities		
Strategic Management Human Resource Management Financial Public Relations	Tourism and Hotels Financial Services Manufacturing	Strategic Thinker Visionary Analytical Idea Generator Able to deal with ambiguity Networking	Chairman of Tangerine Vacations (Pvt) Ltd Managing Director of Tangerine Tours (Pvt) Limited and Joint Managing Director of Tangerine Beach Hotels PLC and Royal Palms Beach Hotels PLC Director of The Nuwara Eliya Hotels Co. PLC, Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited, Nilaveli Beach Hotels (Pvt) Limited, Global Films Limited, International Fortunes (Pvt) Limited, Mercantile Orient (Pvt) Limited, Fair View Hotels (Pvt) Limited, Nilaveli Hotels (Pvt) Limited, Mercantile Fortunes Insurance Brokers (Pvt) Limited, The Light House Hotel PLC, Phoenix Industries Limited and Brushco (Pvt) Ltd. Vice President of Tourist Hotels Association Director of Sri Lanka Tourism Promotion Bureau.	477,213
Strategic Management Human Resource Management Financial Public Relations Risk Management	Tourism and Hotels Automobile Financial Services	Strategic Thinker Visionary Analytical Idea Generator Networking	Managing Director of Nilaveli Beach Hotels (Pvt) Limited & Nilaveli Hotels (Pvt) Limited Director of Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC, The Nuwara Eliya Hotels Co. PLC, Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited, Fair View Hotel (Pvt) Limited, Tangerine Tours (Pvt) Limited, Global Films Limited, International Fortunes (Pvt) Limited, Mercantile Orient (Pvt) Limited, Mercantile Fortunes Insurance Brokers (Pvt) Limited and Tangerine Vacations (Pvt) Ltd	477,213
Legal Human Resource Management Public Relations Risk Management	Corporate Legal Enforcement and advisory Information Technology	Strategic Thinker Visionary Idea Generator Networking	Vice President-Legal Affairs at WSO2 Lanka (Pvt) Limited	Nil

RM *Integrated Risk Management Committee* RP *Related Party Review Committee* NC *Nomination Committee*

Board of Directors

Qualifications

RP NC RM RC AC

Nawagamuwage Hasantha Viraj Perera

Director (Non-Executive)

Date of Appointment

09th February 2012

Date of Last Re-election

30th October 2015

Service period as a Director

6 Years

Diploma in Business Management, Organizational Behaviour and HR Management

RP NC AC

Singappuli Mudiyanselage Susantha Sanjaya Bandara

Director (Independent Non-Executive)

Date of Appointment

09th February 2012

Date of Last Re-election

30th June 2015

Service period as a Director

6 Years

FCA (SL), FAAT (SL), MBA (Col.), BSc. (Sri J.)

Pathmanathan Cumarasamy Guhashanka

Director (Independent Non-Executive)

Date of Appointment

28th June 2013

Date of Last Re-election

14th July 2016

Service period as a Director

4 Years

MBA (USA)

AC *Audit Committee* RC *Remuneration Committee* CC *Credit Committee*

Competencies			Present Directorship with other Companies/ Positions	No of Shares held in MI As at 31.03.2018
Expertise	Sector	Qualities		
Legal Recoveries Human Resource Management Public Relations Governance Risk Management	Financial services Legal Enforcement and advisory Tourism and Hotels Corporate	Analytical Able to deal with ambiguity	Director of Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC, Blue Oceanic Beach Hotel Limited, Yala Safari Beach Hotels Limited, Yala Properties (Pvt) Limited, South asia Economic and Trade Corporation (Pvt) Limited, Ceylon Electro Mechanical Services (Pvt) Ltd, Desano Investments Limited, Tisara Hotels (Pvt) Limited, Thisara Investments (Pvt) Ltd,Koggala Beach Hotel (Pvt) Limited, Ranyan Industries (Pvt) Ltd, Ranali Marketing (Pvt) Ltd, Ranali Industries (Pvt) Ltd and Janath Trading & Investments (Pvt) Ltd.	10,020
Strategic Management Finance Accounting and Taxation Governance	Auditing Financial services Education	Strategic thinker Analytical Able to deal with ambiguity	Partner of B. R De Silva & Co.	Nil
Strategic Management Fundraising Public Relations Governance	Automobile Corporate Construction Financial services	Strategic Thinker Visionary Analytical Idea Generator Able to deal with ambiguity Networking	Group Director of Micro Holdings (Pvt) Limited CEO of Micro Constructions (Pvt) Limited Director of Micro Cars Limited, Transmec International (Pvt) Limited, Transmec Engineering (Pvt) Limited, Euro Sports Auto Lanka (Pvt) Ltd, Fujitec Lanka (Pvt) Limited and Superlative Properties (Pvt) Ltd.	Nil

RM *Integrated Risk Management Committee* RP *Related Party Review Committee* NC *Nomination Committee*

Corporate Management Team

1. Dhanushka Fonseka
2. Deva Anthony
3. Ravi Ekanayake
4. Sonali Pethiyagoda
5. Priyantha Athukorala
6. Hirantha Pandithasekera
7. Dharshana Senerath
8. Lahiru Dayananda
9. Prasad Indika
10. Jayanka Kahawevithana
11. Roshini Induruwage
12. Shehan Cooray
13. Tharanga Deepal Peiris
14. Prasad Wickramasinghe
15. Chandana Nanayakkara
16. Avindra Wijesundara
17. Chaminda Paranayapa
18. Wasantha Petikiri
19. Dinesh Perera
20. Pubudu Dayaratne
21. Nilusha Perera
22. U M M K Bandara
23. Dinesh Prabhath
24. Ramidu Costa
25. Rohitha Rupesinghe
26. Anjula Ganegoda
27. Indunil Jayawardena

1 DHANUSHKA FONSEKA

MCIM, MBA (Wales)

DIRECTOR (NON-BOARD) – CREDIT & MARKETING

Areas of expertise and contribution:

20 years of experience in the Financial Services sector

Directorships and Memberships:

Director of Fair View Hotels (Pvt) Ltd

Director of Mercantile Fortunes Insurance Brokers (Pvt) Ltd

Member of Credit Committee

2 DEVA ANTHONY

FCA, FCMA (UK), CGMA, FCMA (SL), ACIM

GENERAL MANAGER - FINANCE

Areas of expertise and contribution:

16 years of experience in the Financial Services sector

6 years of experience in Audit and Accounting

Directorships and Memberships:

Director of Mercantile Fortunes Insurance Brokers (Pvt) Ltd

3 RAVI EKANAYAKE

Dipl. Engineering (UK)

GENERAL MANAGER – MOTOR DIVISION

Areas of expertise and contribution:

36 years of experience in the Automobile Industry (in UK and Sri Lanka)

Directorships and Memberships:

Director of Mercantile Fortunes (Pvt) Ltd

4 SONALI PETHIYAGODA

ACIS (UK), ACCS

COMPANY SECRETARY

Areas of expertise and contribution:

27 years of experience in the Financial Services and Tourism sector

5 PRIYANTHA ATHUKORALA

MBA (Wales)

DEPUTY GENERAL MANAGER - HR & TRAINNING

Areas of expertise and contribution:

22 years of experience in the Banking and Financial Services sector

6 HIRANTHA PANDITHASEKERA

ASSISTANT GENERAL MANAGER – CORPORATE LEASING

Areas of expertise and contribution:

16 years of experience in the Financial Services sector

2 years experience in the Insurance field

7 DHARSHANA SENERATH

ASSISTANT GENERAL MANAGER - LEASING

Areas of expertise and contribution:

20 years of experience in the Financial Services sector

8 LAHIRU DAYANANDA

ASSISTANT GENERAL MANAGER – CREDIT & MARKETING

Areas of expertise and contribution:

18 years of experience in the Financial Services sector

9 PRASAD INDIKA

FBCS, Dip. (NIBM)

ASSISTANT GENERAL MANAGER - IT

Areas of expertise and contribution:

15 years of experience in the Financial Services sector

10 JAYANKA KAHAWEVITHANA

LLB (Hons.), Attorney-at-law, Notary Public, Commissioner for Oaths

ASSISTANT GENERAL MANAGER - LEGAL

Areas of expertise and contribution:

8 years of experience in the Financial Services sector

11 ROSHINI INDURUWAGE

MBA – Edith Cowan University (Australia)

ASSISTANT GENERAL MANAGER – DEPOSITS & MARKETING

Areas of expertise and contribution:

18 years of experience in the Banking and Financial Services sector

12 SHEHAN COORAY

ASSISTANT GENERAL MANAGER - RECOVERIES

Areas of expertise and contribution:

18 years of experience in the Financial Services sector

Over one and half years experience Inbound sector

13 THARANGA DEEPAL PEIRIS

Dipl. Micro Finance (IBSL)

ASSISTANT GENERAL MANAGER - MICROFINANCE

Areas of expertise and contribution:

17 years of experience in the Financial Services sector

14 PRASAD WICKRAMASINGHE

Diploma in taxation (CA Sri Lanka)

SENIOR MANAGER – PAYMENTS & COST CONTROL

Areas of expertise and contribution:

30 years of experience in the Financial Services sector

15 CHANDANA NANAYAKKARA

ACA, ACMA (SL), CTA

SENIOR MANAGER - FINANCE

Areas of expertise and contribution:

13 years of experience in the Financial Services sector

6 years of experience in Audit and Assurance sector

16 AVINDRA WIJESUNDARA

SENIOR MANAGER – CREDIT OPERATIONS

Areas of expertise and contribution:

20 years of experience in the Financial Services sector

17 CHAMINDA PARANAYAPA

SENIOR MANAGER – INSURANCE

Areas of expertise and contribution:

28 years of experience in the Insurance Field

18 WASANTHA PETIKIRI

*LLB (Hons.), Attorney-at-Law, Notary Public **and Commissioner for Oaths***

SENIOR MANAGER – LEGAL

Areas of expertise and contribution:

13 years of experience in the Financial Services Sector

19 DINESH PERERA

MBA (Australia), Member of MABE (UK)

REGIONAL MANAGER – LEASING NEGOMBO

Areas of expertise and contribution:

20 years of experience in the Financial Services sector

20 PUBUDU DAYARATNE

REGIONAL MANAGER

Areas of expertise and contribution:

15 years of experience in the Financial Services sector

21 NILUSHA PERERA

MBA (UK)

REGIONAL MANAGER

Areas of expertise and contribution:

11 years of experience in the Financial Services sector

22 U M M K BANDARA

Fellow member of SLICM, PGDip. Business Management (Colombo), BA (Colombo)

REGIONAL MANAGER

Areas of expertise and contribution:

19 years of experience in the Financial Services sector

23 DINESH PRABHATH

ACA, ACMA (UK), CGMA, B.Sc.(Acc.Sp) Sri Jayawardenepura

HEAD OF INTERNAL AUDIT

Areas of expertise and contribution:

6 years of experience in the Financial Services sector

3 years of experience in Audit and Assurance sector

24 RAMIDU COSTA

FCCA (UK), MCISI (UK), MBA (Cardiff Metropolitan University - UK) Distinction

BBA (Acc.Sp) Colombo

HEAD OF COMPLIANCE & RISK MANAGEMENT

Areas of expertise and contribution:

5 years of experience in the Accounting/ Insurance /Financial Analysis Shared Services

6 years of experience in the Accounting and Financial Services Sector

25 ROHITHA RUPESINGHE

SENIOR MANAGER - RECOVERIES

Areas of expertise & contributions:

29 years of experience in Financial Services Sector

26 ANJULA GANEGODA

CMA Passed Finalist

SENIOR MANAGER - RECOVERIES

Areas of expertise & contributions:

16 years of experience in Financial Services Sector

27 INDUNIL JAYAWARDENA

MBA - Sp (Finance) - Manipal University India

SENIOR MANAGER CREDIT & RISK

Areas of expertise & contributions:

20 years of experience in Commercial & Development Banking

4 years of experience in Leasing

How Do We Govern Ourselves

Governance

Corporate Governance

Chairman's Statement

We are pleased to present our Corporate Governance report for FY 2017/2018. This Report aims to present our approach to governance in practice along with the Board's governance commitment and key related developments for the year and includes reports from each of the Board's Committees.

At MI, we believe that good governance and a strong corporate culture is vital to maintain credible, competitive and sustainable business operations across the country. A robust governance framework is essential in establishing a strong corporate culture within the company, to deliver organizational strategic goals and to secure the interests of our stakeholders.

I am proud to state that MI's corporate culture is anchored in a strong commitment from the Board and corporate management who clearly emphasise the importance of conducting business with integrity. Corporate ethics and Code of Conduct were encouraged company wide and considered top priority. During the year, we have not come across any material violations of any of the regulatory requirements.

Business integrity and compliance is fundamental to build trust. MI takes compliance concerns very seriously and uses considerable resources to investigate compliance concerns and to take preventive actions. We are already in the process of implementing "The Code of Best Practices in Corporate Governance-December 2017" issued by the Chartered Institute of Sri Lanka to strengthen our ability to do the right thing. I continue to recognize the importance of the efforts undertaken by the Central Bank of Sri Lanka and other regulatory bodies in strengthening governance practices that have contributed towards the stability of the entire Licensed Finance Companies (LFC) sector, shaping finance companies into more prudent corporates.

Governance in Practice

Our Board is well-equipped with the right level of professional capacity - with qualified and experienced individuals to drive our business towards the Company's vision. I can confirm that they actively contributed to the decisions made at the meetings and provided direction in achieving the Company's strategic objectives in a sustainable and responsible manner. All decisions made at the top leadership level were assessed based on their sustainability impact. During the year, the Board paid sufficient attention to cyber security related matters. As a financial institution, we are highly sensitive to any breach of information security and obliged to maintain confidentiality and safety of all information, especially the customer records. Thus, the Board exercised its oversight over IT Steering Committee activities through the IRMC.

The Board ensured that internal procedures and a sound risk management mechanism are in place wherever necessary and also provided guidance in optimising the use of resources effectively.

The Board appointed Sub-Committees worked in a committed manner to assist the Board in different areas of governance. These Sub-Committees contributed effectively, having clearly defined duties, roles and responsibilities, headed by a chairperson who provided feedback to the Board. The contribution from Board Sub-Committees was maximized through formal reporting structures and clearly defined scope of responsibilities. While the Board of Directors practiced an important role in providing the right governance framework, mandates and setting the strategy, our corporate culture always strived for an open and meaningful dialogue, both within the Board and between the Board and the Corporate Management and staff.

Future Governance

Moving ahead, achieving corporate strategic objectives will become highly challenging, especially for the LFC sector - with the rapid changes in the economy, intensively competitive market conditions and technology and regulatory environment. In this context, it will be essential for MI to maintain these high levels of sound corporate governance practices to safeguard the business from external vulnerabilities and to ensure that the company is focused at the strategic objectives. The Governance Framework and current practices of MI may require changes in the future in order to face the changes in the external business environment. Accordingly, we will gear our resources towards future growth potential to enhance stakeholder capital value.

As the Chairman, I re-affirm the commitment of the Board of Directors and all company personnel in complying with the applicable regulatory and statutory requirements.

Saro Weerasuriya
Chairman

17th May 2018

Our Governance Journey

Governance Actions 17/18 — 1 — 2 — 3 — 4 — Governance Objectives

Governance Goals 2020

Governance Actions 17/18

- Issued the Strategic Plan for next three years.
- Introduced a Board-approved Credit Policy.
- Reviewed, updated and approved the AML Policy, Liquidity Policy, Borrowings Policy and the Communication Policy.
- Strengthened the governance practices by adopting the "Code of Best Practices in Corporate Governance" issued in December 2017 by the Chartered Institute of Sri Lanka.
- Developed a Board approved "Customer Protection Policy" in compliance with the regulatory requirements, to be implied from the next F/Y.

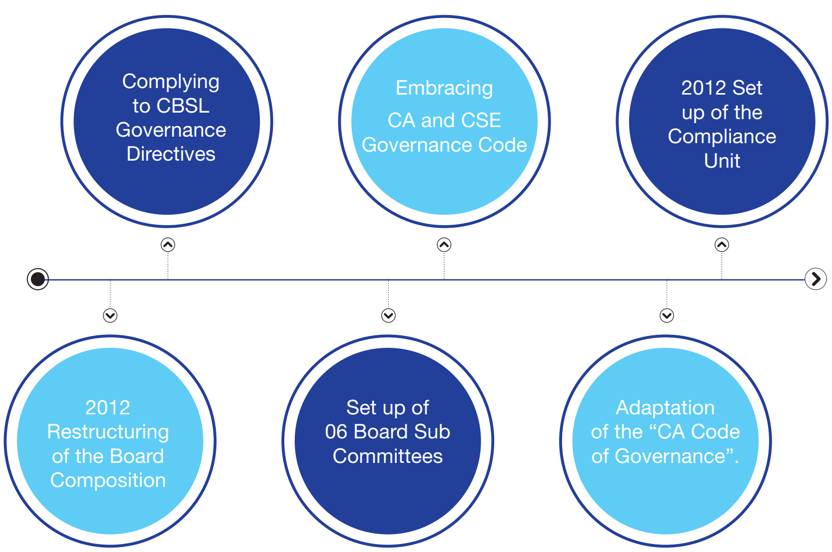
Governance Goals 2020

1. Strengthen corporate planning and strategy process with greater involvement and periodic oversight of the Board to set and realign performance with targets.
2. Establish clear policy guidelines for all essential areas of business functions.
3. Improve the quality, relevance and timeliness of corporate information provided to the Board.
4. Expand External and Internal Audit and Compliance coverage.

Governance Objectives

- To carry out business operations based on the governing philosophy of prudence and in keeping with best practice, to safeguard the assets of the Company, the investments of depositors and interests of key stakeholders.
- Ethical and compliant corporate behavior to minimize reputational risk and safeguard the Company's Brand.

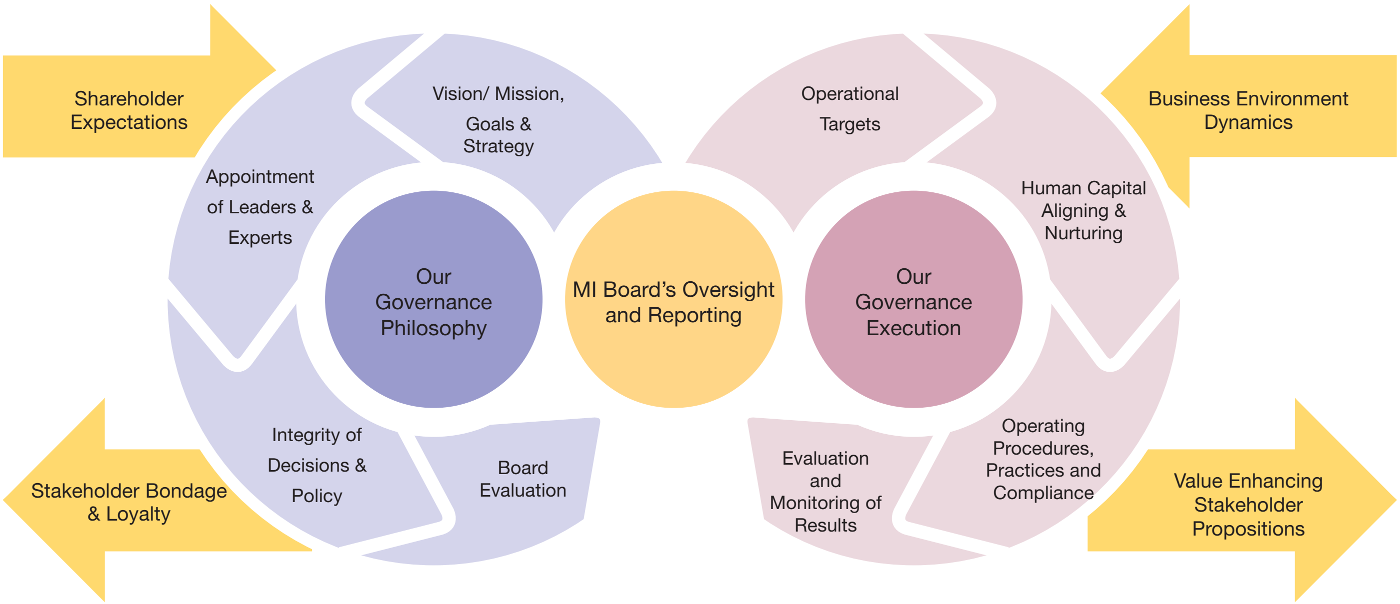
Corporate Governance in the Past Decade



Governance Framework

In the creation and delivery of sustainable value to our stakeholders, we govern the affairs of the company using a comprehensive corporate governance framework unique to us. The Framework provides a governance structure and process that is directed towards regulatory adherence, embedding sound practices in our day-to-day operations through strong corporate values, culture, corporate policies and control procedures. By doing this, we ensure that all aspects of the business are in line with the philosophy of prudence. MI's Corporate Governance Framework is agile to new developments in the economy, sector and technology as well as the regulatory environment. The framework will continuously evolve with the aim of enhancing quality of services to stakeholders and improved quality of external communication.

MI Governance Framework

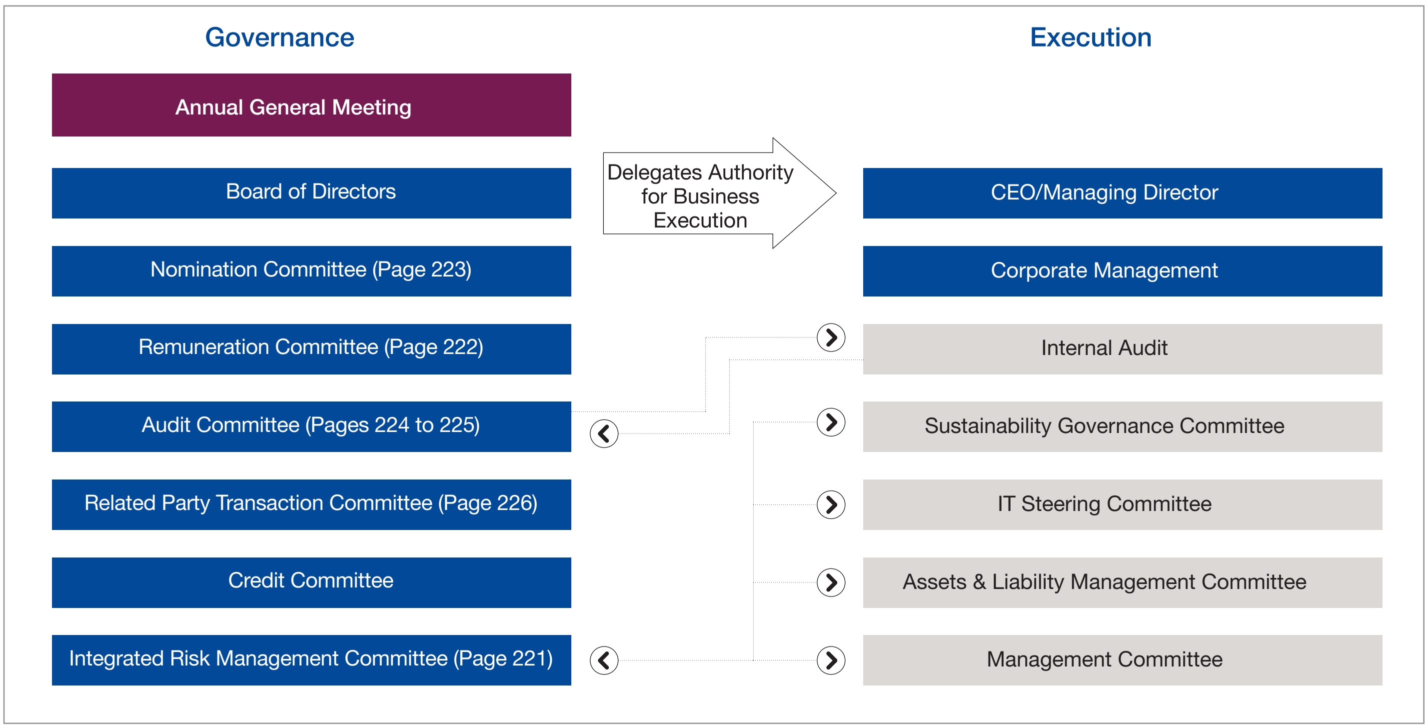


- Vision/ Mission, Goals & Strategy: The Board sets future milestones for long, medium and short term. (Refer pages 30 & 54 to 57)
- Appointment of Leaders & Experts: The Nomination Committee decides on the skill composition of the Board required to achieve the Company's goals and objectives and recommends members for the Board. (Refer page 223). The Board then appoints Sub-Committees through which the Board exercises its oversight over the Company's affairs. (Refer Page 146)
- Integrity of Decisions & Policy: The Board meetings and Sub Committee meetings are held regularly, allowing open and transparent dialogue. As a result, a number of policies were developed or revised during the year and many effective decisions were made. (Refer page 150). These policies and decisions were directed towards MI's strategic objectives and provided the foundation of our internal control mechanism.
- Board Evaluation: The sufficiency and effectiveness of the Board's decision and policy making in achieving strategic objectives is evaluated by the Remuneration Committee. (Refer page 222)
- MI Board's Oversight and Reporting: The Corporate Management team headed by the Managing Director/CEO set the link between Governance philosophy and Governance execution. The Board exercises oversight over the governance execution and is being reported to on the performance of Company operations. (Refer page 141)
- Operational Targets: Vision/ Mission, Strategic Goals and Objectives are now cascaded down into operational targets set at the branch, department and staff levels. (Refer pages 52 to 57)
- Human Capital Aligning & Nurturing: Sufficient and effective training provided to all staff and the right corporate culture in place to facilitate staff to utilize company resources in a sustainable manner towards achieving the operational targets. (Refer page 102 to 111).
- Operating Procedures, Practices and Compliance: The operations are strengthened with operating procedures and carried out in compliance with internal controls and external regulations. (Refer page 140)
- Evaluation and Monitoring of Results: The performance of Company operations will be measured and the Board sub-Committees and the Board will be reported to accordingly. This will be taken as input information for future amendments in policies and to update the strategy. (Refer pages 52 to 57)

Governance Structure

GRI Standards General Disclosures on
102-18, 102-28, 102-29, 102-33 & 102-34

The highest governance body with regards to all business decisions is the Board of Directors who delegates the authority of execution to the corporate management team headed by the Managing Director who is also the CEO of the Company. In return, the corporate management reports back to the Board through IRMC and Audit Committee. In addition to periodic reporting, the Board is informed in a timely manner of any critical concerns through the formal reporting process. MI's Governance structure facilitates the flow of authority, communication, control and reporting within the company in managing business operations with integrity. The ultimate purpose of MI's governance structure is to provide clear scope and authority to staff at all levels in achieving our strategic business objectives and sustainable goals.



Enhancing the Oversight Function

- **Strengthening of the Internal Audit Function**

  Our Internal Audit Function is handled by both the in-house Internal Audit Department and as well as by PricewaterhouseCoopers (Pvt) Limited. The Internal Audit Department ensures the Company's compliance to prevailing regulations and procedures. Weaknesses of business processes and findings by the Internal Audit Function were reported to the Audit Committee and then reported to the Board depending on the materiality of such matters. During the year, there were number of new recruits to the division strengthening our talent pool to tackle the challenges faced by the Company as a result of business expansion and changes in the economic, social and regulatory environment.

- **Strengthening of the Risk Management Function**

  The Company's Risk Management Function took number of preventive actions for the risks anticipated and strengthened contingency planning to increase corporate readiness for unexpected business interruptions. (Refer the Risk Management Report from pages 195 to 208 for a comprehensive overview of MI's Risk Management process.)

- **Strengthening the Compliance Function**

  The regulatory environment applicable for LFC sector rapidly evolved during the recent years in response to the trends that challenged customer protection, anti-money laundering and in order to safeguard stakeholder interests. The Head of Compliance and Risk Management is the Compliance Officer of the company who reviewed the level of compliance with various regulatory and statutory directives. The Board was apprised on the Company's compliance status on a monthly basis.

MI Board's role in Governance: Oversight and Responsibilities

GRI Standards General Disclosures
102-21,102-26, 102-28, 102-29, 102-30, 102-31, 102-32 & 102-33

The Board provides leadership in governing all matters associated with Company's business activities. The Board oversees and monitors the Company's business activities carried out by the Corporate Management team through numerous Board appointed Sub-Committees;

- The decisions taken by the Board will result in economic, social and environmental impacts; hence, the Board vigilantly evaluates the information submitted by Sub-Committees in arriving at decisions. The Sub-Committees report to the Board based on their investigations and analysis conducted using the information provided by different business functions, which also include customer feedback and information inputs from other stakeholders such as regulators.
- The Board reviews and approves the strategic plan once in every three years, which includes strategic milestones of the Company. All the policies which have been implemented are approved by the Board and any amendments to policies are also approved by the Board thereafter. MI's strategic plan for the next three years was approved by the Board in March 2018 and there were many policies which were reviewed and updated in order to reflect the changes in our business environment.
- Effectiveness of the Risk management process is reviewed by the Board, mainly through the Integrated Risk Management Committee (IRMC). The IRMC reviews quarterly risk reports prepared by the Risk Management Unit covering all the risk concerns of the Company and reports to the Board on material risk issues, which require the Board's attention on a quarterly basis. Apart from quarterly reporting, significant risk concerns are reported to the Board through IRMC as they occur.
- Further, the Board exercises governance over risk management by setting a clear policy which provides robust risk management mechanisms for different business areas.
- By appointing Board Sub-Committees and an effective Audit Function, the Board is able to obtain timely feedback and advice on effective decision making.
- The Board self-evaluates its performance on an annual basis by completing an evaluation checklist for each director. The evaluation process of the Board considers the aspects of economic, social and environmental substance incorporated in decision making. The annual performance evaluation was conducted for the FY 2017/18.

Board's Role in Managing Environmental and Social Factors

GRI Standards General Disclosures
102-18,102-19,102-20 & 102-31

The Board ensures the interests of stakeholders are met with our six capital value enhancing business model and sustainable business practices. The Board focuses on driving a sustainable business, directing both the Corporate Management and the Sustainability Governance Committee (SGC) to generate sustainable economic, social and environmental value. Our efforts in bringing sustainability into the business are included in the annual report. The Board is responsible for the reporting of sustainability goals and actions and formally approving the sustainability report each financial year.

Chairman's Leading Role at MI Board

The Chairman heads the Board in guiding the Company to create and deliver sustainable value to our stakeholders. The Chairman is an Independent Non-Executive Director who will independently direct the affairs of the Board. (Refer to the Chairman's role, duties and responsibilities stated in page 156 in this report)

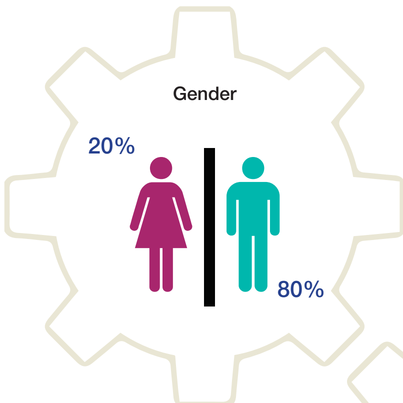
Our Board Dynamics

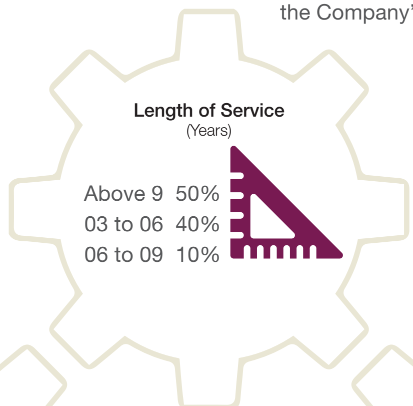
Diversity, Skills and Composition

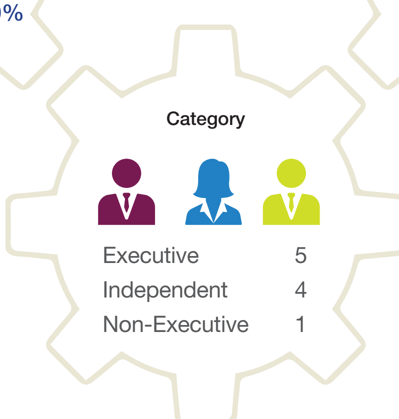
GRI Standards Specific Disclosures
405-1

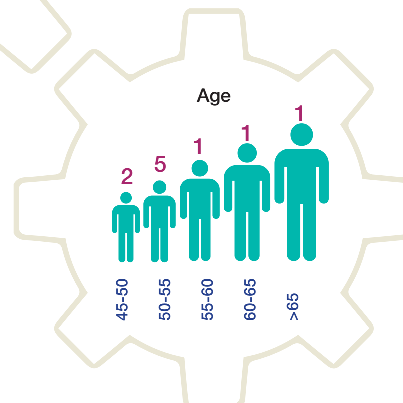
GRI Standards General Disclosures
102-22

Our Board comprises of ten Directors possessing the right mix of skills and experience who are collectively responsible for overseeing delivery of the Company's strategy.

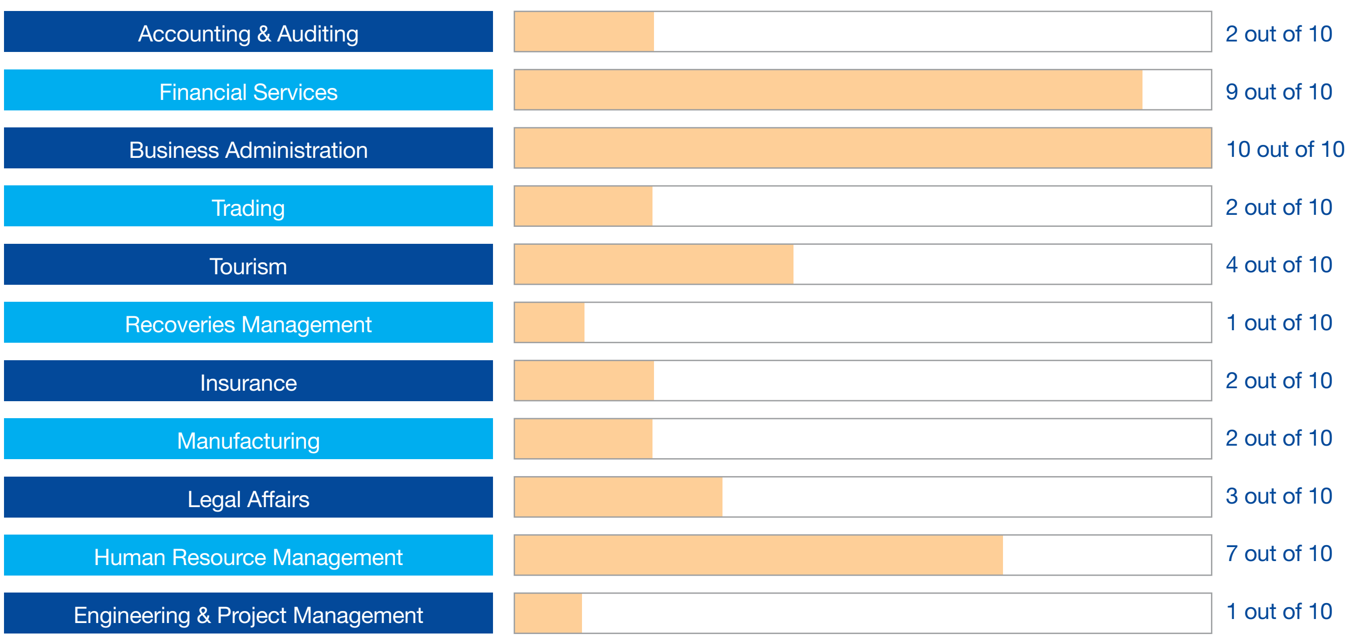








Professional Background and Experience



GRI Standards General Disclosures
102-13

Memberships in Associations & Councils

- Member of the Finance Houses Association of Sri Lanka
- Member of the Leasing Association of Sri Lanka
- Member of Ceylon Chamber of Commerce
- Member of the Integrated Reporting Council of Sri Lanka

Board Meetings

Scheduling	➲ The Board meetings were scheduled at monthly interval to allow the key matters to be addressed in a timely manner.
Agenda Set	➲ The Company Secretary prepared the agenda for Board Meetings with the guidance and supervision of the Chairman.
Papers Compiled and Distributed	➲ With the aim of optimizing the contribution of the Board Members, the agenda and other relevant papers were distributed at least seven days prior to the Board Meetings, providing sufficient time for preparation. In doing this, the company secretary provided more than seven days of meeting notice. ➲ The agenda of the Board Meeting, relevant circulars and information packs were distributed among the Board Members. ➲ The information distributed included monthly management accounts, key statistics and trends of the company's performance. ➲ The Directors were provided with the opportunity to input topics to be included in the agenda which may be significant internal matters, external events or regulatory initiatives. The Directors were able to obtain external consultancy on any matter where required.
Before the Meeting	➲ Regular Management meetings were held ahead of all Board meetings to ensure all matters being presented to the Board have been through a thorough discussion and escalation process. ➲ Board Sub-Committee meetings were held prior to Board meetings, with the Chairman of each Committee thereafter reporting on key matters discussed to the Board.
Board Meeting	➲ The Managing Director/CEO provided and updated on the operational, financial and non-financial performance of the Company, updates relevant to LFC sector, developments in the external environment and matters pertaining to the sustainability agenda of the Company. ➲ Updates on the risk dashboard and changes in the risk profile presented to the Board. ➲ Board papers submitted by the Heads of Divisions were taken up for discussion and were approved by the Board. ➲ All the Directors contributed towards a meaningful dialogue at the Board meetings. The Balanced mix of skills enabled the Board to evaluate all aspects of the matters discussed
After the Meeting	➲ Minutes and matters arising from the meeting are produced and circulated to the Directors for review.

Highlights of the Board's Annual Work Cycle 2017/18

April 17
- Review of composition of the board.
- Evaluate Board Performance Check List

May 17
- Approval for Disposal of Assets
- MI Compliance Status for CBSL Rules / Directions/ Guidelines

Jun 17
- Review of Risk Activity Report
- Evaluation of Budget 2017/18

Jul 17
- Approval for Deposits Division's Procedure Manual Amendments
- Review of ALCO report.

Aug 17
- MI Compliance Status for CBSL Rules / Directions/ Guidelines
- Review of Past due Credit

Sep 17
- Maturity Gap & Competitor Analysis with the Management

Oct 17
- Amendments to the Remuneration Policy
- Bi-annual Review of Politically Exposed Customers

Nov 17
- Review of Top Borrowers with Credit Committee

Dec 17
- Review of Risk Activity Reports
- Approval of amended Investment Policy/ Credit Policy

Jan 18
- Review of ALCO Summery Report & Liquidity Management Policy
- Interim Financial Statements
- Approval of Liquidity risk Management policy/Credit Policy

Feb 18
- Review of Risk Management Policy
- Review of Time Bound Action Plan

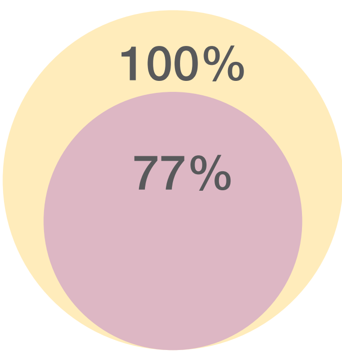
Mar 18
- Internal Audit Charter
- Evaluate Board Performance Summery
- Whistle Blowing & Corporate Fraud Policy
- IT business Continuity plan
- Strategic Plan for 2018/19-2020/21

Board's Interaction with Stakeholders

GRI Standards General Disclosures
102-21 & 102-29

Shareholders	Employees	Customers	Community
• At Annual General Meeting • Direct E-Mail • By Appointment • "Feedback Form" of the Annual Report	• "Open Door Policy" • Staff meetings • Weekly corporate review meetings	• Accessible via Heads of Divisions	• Board's oversight through the SGC engaged with communities • Accessible via Heads of Divisions

Total Numbers of Papers approved in 2017/18



- The Number of Board Papers Submitted - 130
- The Number of Board Papers Approved- 100

Independent Selection of Board Members

GRI Standards General Disclosures
102- 23, 102- 24 & 102-25

Right through the history of the Company, the Board of Directors has been contributing their knowledge, skills and experiences towards the success of the company. The Board comprises of individuals with diversified backgrounds enhancing our value creation process year on year. The Board's skills, capabilities and experience were evaluated to assess the Boards' capacity in meeting demanding market conditions.

The Nomination Committee recommends new members to the Board based on a thorough evaluation of their profile, professional qualification and expertise. Information pertaining to the Nominations Committee is given on page 223.

The Chairman of the Board is an Independent Non-Executive Director who performs his duties and responsibilities independently and impartially.

Board Sub-Committee Authorities and Responsibilities

GRI Standards General Disclosures
102-18, 102-19 & 102-24

The Sub-Committee structure defines the terms, responsibilities, reporting and escalation mechanisms. The Sub-Committee structure is designed with the aim of strengthening the Board's oversight over key functions and to improve interaction between the Board and management.

The key areas of the Board appointed Sub-Committee structure are highlighted below.

- Committee responsibilities, interaction between the Committee, the broader executive team, and the Board of Directors.
- Scope of Committee, composition of the Committee and attendance records of members.
- Report of the respective Committee.
- Methods of escalating and reporting of significant matters to the Committee.
- Maintain records of the number of papers tabled and approved.

GRI Standards General Disclosures
102-22

Board Committee Overview

Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Nomination Committee	Related Party Transaction Review Committee	Credit Committee
Members and Meeting Attendance - 2017/18					
• S.M.S.S. Bandara 6/6	• S.H.J. Weerasuriya 1/1	• N.H.V. Perera 4/4	• S.H.J. Weerasuriya 1/1	• S.M.S.S. Bandara 4/4	• G.G. Ondaatjie 9/9
• S.H.J. Weerasuriya 6/6	• P.T.K. Navaratne 1/1	• G.G. Ondaatjie 4/4	• S.M.S.S. Bandara 1/1	• S.H.J. Weerasuriya 4/4	• P.M. Amarasekara 9/9
• N.H.V. Perera 5/6	• N.H.V. Perera 1/1	• S.H. Jayasuriya 4/4	• N.H.V. Perera 1/1	• N.H.V. Perera 4/4	• S.H. Jayasuriya 9/9
		• P.M. Amarasekara 4/4	• G.G. Ondaatjie 1/1	• S.H. Jayasuriya 4/4	
• S. Pethiyagoda	• S. Pethiyagoda	• M.R.S.K. Costa	• S. Pethiyagoda	• S. Pethiyagoda	• D. Fonseka
• Independent Directors	• Non-Executive Directors	• Executive Directors	• Secretary		

Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Nomination Committee	Related Party Transaction Review Committee	Credit Committee
Key Responsibilities					
Ensure the Company's compliance with accounting standards and regulations imposed by various regulators including the CBSL.	Decide on the remuneration levels of the Executive Directors and the Non-Executive fees.	Oversee the Company's risk management function, identify risk and recommend risk mitigation strategies.	Nominate member to MI's Board with right mix of knowledge, skills and expertise.	Evaluation of significant acquisitions, disposals, investments, credit arrangements and related party transactions.	Oversee the implementation of the Credit Policy.
Ensure the Company's compliance with disclosure requirements of accounting standards and regulations imposed by various regulators including the CBSL.	Formulation and timely update of the remuneration strategy and policies.	Report key risk concerns to the Board.	Prepare evaluation forms for members of the Board and Sub-Committees at least annually.	Assist the Board in reviewing material related party transactions and to provide feedback.	Maintenance of sound credit review, Disbursement and recovery process.
Evaluate the adequacy and effectiveness of internal control mechanism. Setting up of a process that provides continuous feedback.	Engage with stakeholders to obtain input on remuneration related matters where necessary.	Determine the appropriate risk appetite limits in addition to limits imposed by regulations	Recommend ways in which the Board could improve its performance.	Making Immediate Market Disclosures on applicable related party transactions as required by Colombo Stock Exchange (CSE)	
Overseeing the matters related to external auditors and the nomination of external auditors.	Monitoring the implementation and effectiveness of such policies.	Review MI's approach for Risk Management periodically and introduce changes to bridge any gaps.	Identify suitable individuals for future succession.	Establishing Guidelines to be followed by the Senior Management in respect of ongoing related party transactions.	
Following up on the recommendations of the Internal Auditors.					
Reviewing the scope of work and engaging with External Auditors, Corporate Management to identify and resolve concerns.					

Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Nomination Committee	Related Party Transaction Review Committee	Credit Committee
Key Actions during 17/18					
Reviewed the process of risk management to ensure the Company meets required risk management Standards.	Approved annual increments for Executive Directors.	Determined the Risk Appetite criteria and tolerance levels of risk.	Recommended re-election of Directors retiring by rotation.	Reviewed and monitored related party transactions of MI.	The Committee reviewed the revised credit policy and advised on recommendations to improve control and credit risk management.
The committee ensured that the IT systems were audited as part of annual audit process of the company. The Committee paid special attention on emerging cyber security risks.	Revised and made recommendations to the applied human resource policies and procedures.	Reviewed the Company's risk exposure on a quarterly basis and advised ALCO and other management committees on preventive risk measures.	Revised and obtained the Board approval for the Terms of Reference of Nomination Committee.	Revised and obtained the Board approval for the Terms of Reference of the committee drawing due reference to the "Code of Best Practices on Related Party Transaction reporting and reviewing "issued by the Institute of Chartered Accountants of Sri Lanka	Reviewed existing and proposed exposure limits on customers against set parameters giving consideration to aspects such as lending growth, exposure values, risk levels of counterparties, overall sector exposure levels and demographic exposure levels.
Evaluated External Auditor's scope of work and its cost effectiveness with final results.	Revised and obtained the Board approval for the Terms of Reference of Remuneration Committee.	Approved major decisions affecting MI's risk profile and exposure.	Assessed the composition of the Board.	Advised management on the reporting format to committee.	Approval of credit which requires the approval credit committee as per the Board approved limits.
Followed up on the key matters highlighted by External Auditors during the last year Audit.		Established a mechanism to oversee the overall risk management process	Provided guidance in revising the succession plan of Key Management Personnel	Formulated, revised and approved policies on related party transactions.	
Reviewed the integrity of the financial information provided by the Finance Department in consultation with the CFO.					
Followed up with the matters highlighted by the Internal Auditors. Internal Auditors presented their observations and recommendations on remedial actions to be taken by the Corporate Management.					
Submission Status of the Board Papers					
• Papers Approved - **7**	• Papers Approved - **2**	• Papers Approved - **9**	• Papers Approved - **2**	• Papers Approved - **1**	• Papers Approved - **9**

Governance through Corporate Management

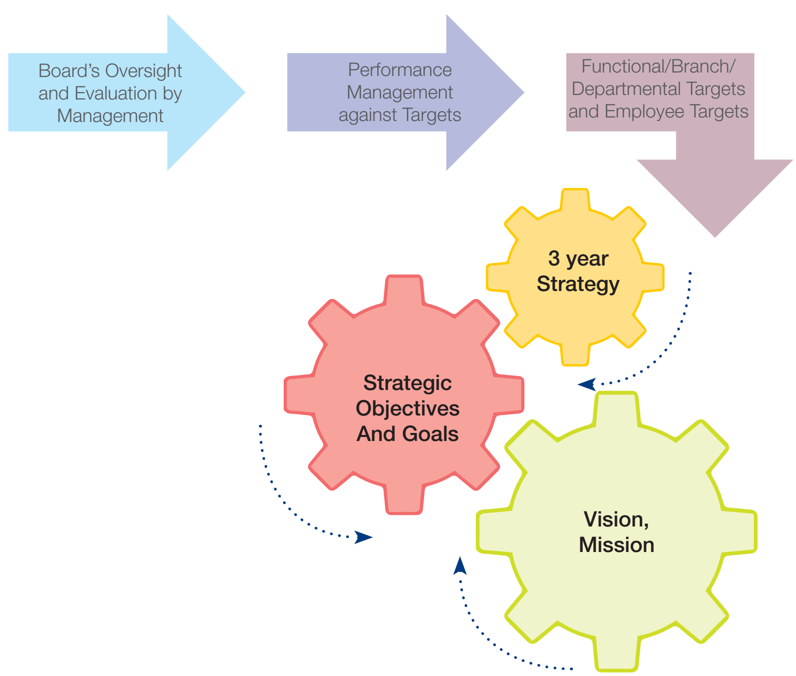
	Management Committee	Assets & Liability Management Committee	Sustainability Governance Committee	IT Steering Committee
Key Responsibilities	• Review management information on performance • Identify early warning signals • Assess gaps between targets and actual performance	• Evaluate and make recommendations to the Board on Asset and Liability concerns focusing on liquidity and Interest Rate Risks	• Develop internal sustainability goals and measure progress • Assess prevailing sustainability concerns • Initiate sustainability projects, with social and environmental focus.	• Ensure information security and safety from cyber threats • Review the effectiveness of existing IT controls and recommend new controls to improve system security • Review the performance of IT systems and identify the gaps to develop/ update the systems
Actions for 2017/18	• Monthly meetings were held where financial and business information was reviewed • Monthly performance review with respective cluster AGMs, Regional Managers and other Key Officers	• Monitored interest rate trends and advised the Treasury division on the impact on net interest income • Reviewed liquidity risk and interest rate sensitivity of the Company and made recommendations on maintaining the liquidity levels within risk appetite limits • Informed the Board on material risk concerns with regards to liquidity management	• Initiated and completed various CSR projects • Approved the list of CSR projects carried out during the 2017/18 financial year	• The committee regularly reviewed the IT systems and controls and ensured there was no material adverse impact on business operations or customers caused by failure of systems • The committee acted proactively in safeguarding MI's IT systems and information during the cyber threat incidents took place globally during the year
Submission Status of the Board Papers	4 Papers Approved	5 Papers Approved	1 Papers Approved	3 Papers Approved

Governance towards 2020 and Beyond

GRI Standards General Disclosures
102-26

Over the past, we have significantly transformed our business in the process of sustainable value creation through a strategic planning process. The next chapter of our strategy is included in the "Strategic Plan 2018-2021" which describes our future responses to changing customer expectations, technology, competitive environment and regulations. The strategic plan approved by the Board during FY 2017/2018 was a collaborative effort of the staff across the company, the corporate management team and the Directors and the process of developing the strategic plan included thorough analysis of economic, social and environmental impacts. The strategic plan was built on MI's vision, mission and the value system. The key objectives were defined clearly, with sufficient attention given for sustainability goals as well.

Strategic Planning Process



The Role of the Managing Director

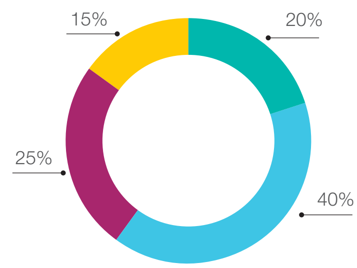
The Managing Director is the CEO of the Company. He is delegated with the authority by the Board, for detailed planning and development of the corporate plan. The Managing Director drives the Company and the workforce towards achievement of the corporate plan and strategic objectives. The responsibility of adhering to governance and compliance to external regulations and internal policies and procedures also lies with the Managing Director.

The Corporate Management Committee's Role in Governance

GRI Standards General Disclosures
102-19

- The primary focus of the Corporate Management Committee is to enhance the value created for shareholders. From a broader perspective, the Committee works towards meeting and balancing the interests of all stakeholders.
- Effective people management is one of the key focused areas of the Corporate Management Committee. The authority of managing people of the Company is delegated to respective Executive Directors, GMs, AGMs and Managers. In fulfilling these responsibilities, the Senior Management conducts performance appraisal of their staff against the key operational targets. Achievement of operational targets will eventually lead to improved financial performance of the Company.
- The Managing Director and other Executive Directors closely monitor the performance of each strategic unit through the Management Committee.
- Not restricting to commercial boundaries, the members of the Corporate Management Committee works closely with the Sustainability Governance Committee (SGC) to ensure the operational targets and performance are in line with our sustainability initiatives.

Corporate Management Meeting Focus



Employee Training on Regulations and Enriching Institutional Knowledge

GRI Standards General Disclosures
102-16, 102-17 & 102-27

All staff at MI were provided with ample opportunities for training which helped in enhancing their knowledge on technical matters, regulations, as well as improving their skills in ethics and integrity. The trainings were conducted by our in-house resource personnel and also by external bodies where necessary. Further, the SGC members were well trained on sustainability management who were responsible for reporting the relevant matters to the Board through IRMC.(Refer Human Capital on pages 102 to 111 for more details.)

Performance Evaluation, Rewards and Recognition

GRI Standards General Disclosures
102-28,102- 35 & 102-36

- The Remuneration Committee independently reviewed the performance of the Executive Board Members and the Managing Director for the FY 2017/2018. The performance appraisal cycle is conducted on an annual basis.
- The Annual performance review of the Board considers all aspects of the Board's role, not restricting to economic value addition, but also the environmental and social impact.
- Based on the performance evaluation conducted by Executive Directors, the Remuneration Committee decides on the remuneration levels. The fees for the Non-Executive Directors are decided based on the expertise, commitment and the contribution made in performing the Board's role.
- Performance of the corporate management and all other staff are evaluated through a formal procedure where the performance is matched against pre-determined targets. These targets are directed at achieving the three-year strategic plan and ultimately the strategic goals and the Company's Vision.
- At the end of the performance evaluation process, employees are rewarded with changes in the remunerations annually and the bonuses are decided on a bi-annual basis.

Compliance

Compliance with rules and regulations and business integrity are fundamental to build trust among the public and this is established at MI through a robust governance framework set up by the Board. High standards of good governance are maintained at all levels, by ensuring conformity to numerous external rules and regulations and internal policies and procedures. During the Financial Year 2017/18, no material breaches have been identified that require separate disclosure.

Key policies and procedures issued during the year

Key Internal Policies and Controls	Policy Reviewed/Newly Issued During FY 2017/18
Schedule of Matters Specifically Reserved for Board Decision	✓
Investments Policy	✓
Audit Committee Terms of Reference	✓
MI Credit Policy	✓
Risk Management Policy	✓
IT Steering Committee Terms of Reference	✓
Nomination Committee Terms of Reference	✓
Internal Audit Charter	✓
Whistle Blowing and Corporate Fraud Policy	✓
Terms of Reference of Remuneration Committee	✓
Terms of Reference of Related Party Transaction Review Committee	✓
Terms of Reference Sustainable Governance Committee	✓
Procedure to seek Independent Professional Advice	✓
Procedure Manual – Deposit Department	✓
Remuneration Policy	✓
Finance Payment Procedure Manual	✓
IT Procedure Manual	✓
Terms of Reference of Integrated Risk Management Committee	✓
Anti- Money Laundering, Combating of Financial Terrorism, Know your Customer and Customer Due Diligence Policy	✓
Terms of Reference ALCO	✓
Communication Policy of the Company	✓
Customer Protection Framework Policy	✓
Terms of Reference Head Office Credit Committee	✓
Recoveries Manual	✓

Key external regulations affecting the governance of MI

Key External Regulations	Compliance Status
Finance Business Act No. 42 of 2011	✓
Securities and Exchange Commission of Sri Lanka (SEC) Act No. 36 of 1987 (as amended)	✓
Code of Best Practice on Corporate Governance issued jointly by Institute of Chartered Accountants of Sri Lanka (ICASL)	✓
Finance Companies (Corporate Governance) Directions issued by CBSL	✓
Listing Rules of Colombo Stock Exchange(CSE)	✓
Companies Act No. 07 of 2007	✓
Sri Lanka Deposit Insurance Scheme Regulations and Circulars	✓
Financial Transaction Reporting Act No. 06 of 2006 (FIU)	✓
Know Your Customer (KYC) and Customer Due Diligence (CDD) Rules	✓
GRI Guidelines on Sustainability	✓
Carbon Disclosure	✓

The Company's Compliance Status to Key Corporate Governance Best Practices/Regulations

In order to reflect the extent of MI's Compliance to Regulations and Best Practices on Corporate Governance, four separate statements have been provided to illustrate MI's level of conformity with prevailing regulations and best practices on Corporate Governance.

Part one provides disclosure on the Company's level of conformity with the recommended Code of Best Practice on Corporate Governance, issued to public companies by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued in December 2017.

Part two provides disclosure on the Company's level of compliance with the Direction issued on Corporate Governance to Finance Companies by the Central Bank of Sri Lanka, under Direction No. 03 of 2008 and amendments issued under Direction No. 04 of 2008 and Direction No. 06 of 2013.

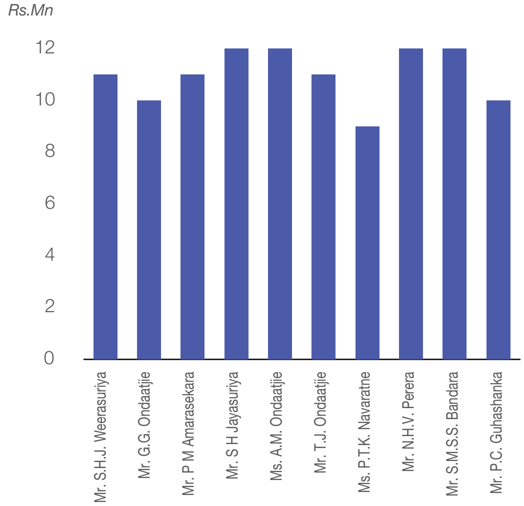
Part three provides disclosure on the Company's level of compliance with section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE) on Corporate Governance.

Part four provides disclosure on the company's level of compliance with the rules and guidelines issued by the Central Bank of Sri Lanka to the LFC sector.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption(2017/18 Update)
Section 1 The Company:			
A. Directors			
A.1. The Board GRI Standards General Disclosures 102-18, 102-22	Principle A.1	Adopted	MI is governed by an effective Board of Directors who involve themselves in directing, leading and controlling operations of the company in a prudent manner. The Board of Directors provide the necessary leadership in moving towards its visionary thinking, setting the strategic direction for the company, upholding a successful business model that couples effective strategic management with good governance and sound controls. The profile of the Board members with their qualification, competencies and experience is provided on pages 126 to 131. MI Board is headed by an Independent Non-Executive Chairman who is well supported by the Managing Director, Executive Directors and Non-Executive Directors, reflecting a sound balance of independence.
Board meetings	Code A. 1.1	Adopted	Twelve Board meetings were held during the financial year 2017/18. The agreed practice is to hold regular Board meetings at monthly intervals. The Company Secretary duly informs all Directors to attend meetings through a formal notice of meeting with agenda, which is sent out well in advance, providing adequate time for analysis, evaluation and preparation. There were no special Board meetings held during the FY 2017/18.

Attendance at Board Meetings



Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption(2017/18 Update)
Board Responsibilities	Code A. 1.2	Adopted	The Board takes responsibility for setting the overall strategy and level of risk appetite in governing affairs of the Company and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set. This ensures the efficient application of MI resources for the achievement of corporate objectives. (Refer strategic plan on pages 54 to 57). The Board discharges these responsibilities through continuous meetings that cover regular reviews of financial performance, non-financial performance, critical business issues and the annual strategy review process.

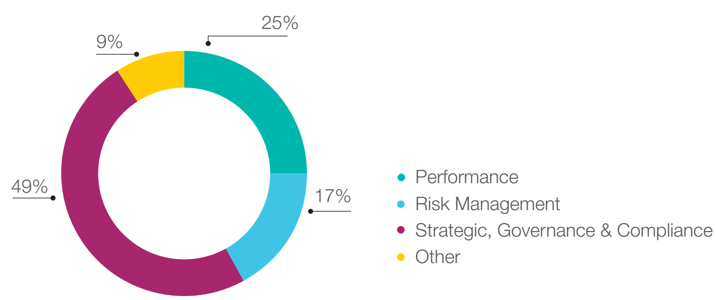
MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
➲ Formulation and implementation of a sound business strategy			During FY 2017/18, the Company finalized the next medium term "strategic plan", covering financial periods 2018/19 to 2020/21 and submitted it for Board approval. The guiding document in governing business activity in this period under review remained the medium-term FY 2015/16 to 2017/18 strategic plan. This was the last applicable financial year of this guiding document. By devising the fresh strategic plan, the Board intends to put into perspective MI's corporate vision and mission, setting forth overall business objectives, business strategies, policies and processes for the various divisions and employees to adhere and concentrate implementing proposed strategy moving forward in the medium term and beyond 2020. In keeping to MI's top-down hierarchical approach, the Board ensured that the corporate objectives and goals, corporate values and strategies have been communicated to the corporate management and all key officers for implementation of planned strategies. The Board reviewed the progress of the business strategy implementation and the compliance status against annual targets at regular intervals. MI's actual financial performance highlights against annual set targets for financial year 2017/18 has been provided in the Financial Highlights on pages 12 and 13.
➲ Appointing the chair and the Senior Independent Director if relevant			N/A
➲ The CEO and management team possess the skills, experience and knowledge to implement the strategy			Implementation of the strategy set by the Board is delegated to the Managing Director and corporate management team who have the necessary skills, experience and knowledge to execute the strategic plan devised. Brief biographical particulars of each member of the corporate management team are provided on pages 132 to 135.
➲ Adoption of an effective CEO and senior management succession plan			At MI, succession to Key Managerial Positions (KMP) primarily focuses on developing and grooming people internally so as to have adequate options within the Company for replacement of KMP's in future. The updated succession plan was Board approved on 27th March 2018 for the financial year under review to facilitate this process.
➲ Approving budgets and major capital expenditure			Key strategic financial decisions in relation to funding, pricing, liquidity and decisions on capital expenditure and reviewing annual budgets are handled by the Board. By approving the next three-year plan, the budget, including capital expenditure, was established by the Board for FY 2018/19.
➲ Determining the matters expressly reserved to the Board and those delegated to the management including limits of authority and financial delegation.			The role of the Board and matters expressly reserved to the Board are clearly laid out in the "Board Responsibility Document "and Executive Directors detailed role of the organization, specified in their Job Description. The Board has delegated its authority to the Corporate Management for each specific function, handed by the Executive Directors or Senior Head of Division. The powers vested are governed by the corporate policy, procedures and other instructions issued by the Board from time to time.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
➲ Effective systems to secure integrity of information, risk management and internal controls			Managing risk associated with a finance company business is a prime responsibility of the MI Board. For this purpose, the Integrated Risk Management Committee and an Audit Committee was established to have close oversight over risky activities and to obtain feedback on the effectiveness of risk management practices and internal control mechanisms regularly. A comprehensive set of Board approved internal control policies have been adopted by MI to instill a prudent management environment and to evaluate the methods and procedures for risk management, implementation of the Company's corporate governance framework and compliance with related laws and regulations. This internal control framework ultimately aims to safeguard stakeholder interest and this importantly involves safeguarding shareholders' investment and the Company's assets and to ensure the reliability and integrity of the information handled and its privacy. Following reports provide comprehensive overview in this regard; Risk Management Report on pages 195 to 208 Board IRMC report on page 221 Board Audit Committee Report on pages 224 to 225 Directors' statement on Internal Control on page 227 Auditor's Assurance Report on adequacy of internal control on financial reporting on page 228 Integrity of management information and its privacy on page 172.
➲ Compliance with laws, regulations and ethical standards			To monitor MI's compliance to laws and regulations, the Board has established a sound compliance system through a dedicated Compliance Officer. Head of Risk Management and Compliance submits a monthly compliance update to the Board, highlighting any compliance issues. At the same time, the Board has hand-picked knowledgeable officers to head core divisions, individuals who are conversant with applicable regulations.
➲ All stakeholder interests are considered in corporate decisions			The Board recognizes its responsibility towards all stakeholders including its depositors when directing the affairs of the Company. In fulfilling expectations of its stakeholders the Board adopts an integrated business model unique to MI, which is aimed at creating and enhancing stakeholder value either financially or non-financially as envisaged in MI business model (refer pages 6 and 7). The Board devised stakeholder specific strategy to enhance value and considered stakeholder impacts occurring from various Board decisions. Additionally, the Board approved the updated "Communication Policy" during FY 2017/18 which specifies communication methods and channels that would be adopted when interacting with various MI stakeholders. Refer: Stakeholder Engagement and impact (pages 34 to 36) and Social and Relationship Capital (pages 82 to 97).

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
➲ Sustainable business development in corporate strategy, decisions and activities and adopting "Integrated Reporting"			In keeping to MI's fundamentals and business model, the business strategy followed is directed at creating long term sustainable growth and enhancing stakeholder value, as a constant exercise. MI's integrated business model articulated in pages 6 and 7 highlight the sustainable value generated through the company's business process.
➲ Ensuring the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations			MI's accounting policies are reviewed annually by the Board and Audit Committee to ensure inclusion of the changing business requirements, developing international and local accounting standards and industry best practices. MI placed significant emphasis on compliance with Finance Business Act, Anti-Money Laundering regulations, Listing Rules, and all other relevant regulations applicable to the LFC sector. (Refer page 150 in the Corporate Governance report) Refer "Independent Auditors" Report on pages 229 to 231, which provides an affirmation on the Company's financial statements that it is in line with applicable reporting standards and regulations and Directors' Statement on Internal Control over Financial Reporting on page 227.
➲ Establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks			Managing Director/Executive Directors had regular meetings with the corporate management team and other key officers to monitor progress for the attainment of corporate objectives. As a routine practice, they instructed and guided corporate management to identify gaps and specified means of bridging them. Towards this endeavour, Executive Directors and other department/ functional heads reviewed financial budgets, departmental/functional plans, changes in risk aspects to ensure up to date evaluation of the progress while establishing clear communication lines among employees.(Refer MDA Financial Capital pages 58 to 75)
➲ Process of corporate reporting on annual and quarterly basis or more regularly			Company prepares financial reports on monthly basis and circulates to the Board to review the financial status of the Company and make timely decisions. In parallel, the Company published interim accounts on a quarterly basis in timely manner in three languages, complying with State Language Policy and circulated its annual report to the investors and updated financial statements to the CSE website in keeping with regulations.
➲ Fulfilling other Board functions are vital given the scale, nature and complexity of the organisation			Board was committed throughout the year on fulfilling its stewardship obligations towards all stakeholders by accomplishing their role in line with, laws and regulations and good governance practices implemented and directing the Company towards desired performance. Key policy document updated (Refer page 150)
Compliance with laws and access to independent professional advice	Code - A. 1.3	Adopted	The Board affirms collectively and also the Directors individually their duty to abide by the laws of this land for the running of the company. An affirmation to applicable laws and regulations is given on page 216 by the Directors. The Board approved the revised formal policy for Directors to obtain independent professional advice in FY 2017/18, in keeping with requirements of this section. Accordingly, Directors have full access to all relevant information and can take independent professional advice if necessary at the Company's expense to enhance the quality of decision-making.

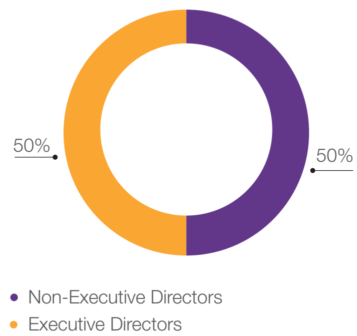
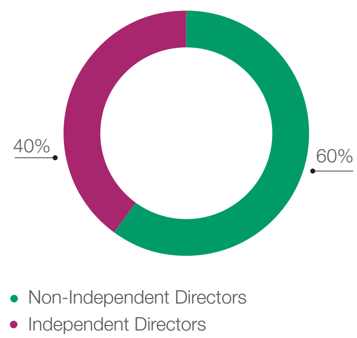
MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Company Secretary	Code – A. 1.4	Adopted	All Directors have access to the Board Secretary, Mrs. Pethiyagoda, who is a qualified Chartered Secretary with over 20 years' experience in the related field. Her services were available to all Directors, particularly the Non-Executive Directors, who needed additional support to ensure they receive timely and accurate information. The Company secretary is mainly responsible for advising the Board on corporate governance issues, Board procedures, and compliance with applicable laws and regulations. Currently, the role prescribed under schedule G of the code for Company Secretaries is undertaken by Mrs. Pethiyagoda, in executing her routine functions. Additional requirement of obtaining appropriate insurance coverage for all the key management personnel as recommended by the Nomination Committee will be looked into in the next financial year. Please refer page 134 for the profile of the Company Secretary.
Independent judgment	Code – A. 1.5	Adopted	By having regular meetings of the Board, equal opportunity is available for Directors to express their views independently and bring independent judgment based on the expertise and knowledge. Majority of the Directors have been appointed to various Board Sub-Committees, enabling them to exercise effective control over strategic, performance management, resource allocation, risk management, compliance, business conduct and governance issues.
Dedication of adequate time and effort by the Board	Code – A. 1.6	Adopted	The Chairman and the Managing Director act impartially on proposals of all Directors, encouraging them to profess their own views on matters brought up at meetings. All Non-Executive Directors have attended majority of the meetings and have devoted their time adequately despite their undertaking in other institutions. Through prior circulation of pertinent information, the Directors were able to be prepared for meetings. Information pertaining to Directors' participation levels at Board meetings and Board Sub-Committee meetings are given on pages 151 and 146

Board Meeting Discussion Composition



One third of Directors can call for resolution to be presented to the Board	Code – A. 1.7	Adopted	Not applicable as no such resolution was presented to the Board during 2017/18.
Training needs of Directors GRI Standards General Disclosures 102-27	Code – A. 1.8	Adopted	A personalized approach to training and development of Directors was applied throughout this period. All Directors regularly updated themselves on evolving Non-Banking Finance Sector operations, sustainability management and regulatory aspects. Non-Executive Directors serving on key Committees updated themselves continuously on matters particularly related to the Committee.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
A.2 Chairman and Chief Executive Officer	Principle - A.2	Adopted	The position and role of the Chairman and Managing Director have been kept separated in line with corporate governance best practices. There is a clear division of responsibilities at the helm of the hierarchy, between running of the Board and executive responsibility for running MI's business.
Division of responsibility between the Chairperson and MD/CEO	Code - A. 2.1	Adopted	The Managing Director (MD) is in charge of company's Chief Executive Officer's role, managing day-to-day running of the company. Based on the delegated authority given to him by the Board, Mr. Gerard Ondaatjie the MD, displays leadership for corporate management in handling routine affairs of the company. As part of his role, MD appraises the Board on status of company performance, proposes strategies and advices Board on operational aspects on an ongoing basis and tables proposals recommendations, information necessary for which Board's direction and approval necessary.
A.3 Chairman's Role	Principle – A.3	Adopted	The Chairman of the Board, Mr. Saro Weerasuriya, is a Non-Executive Director who continued to demonstrate leadership to the Board for the 06 years as Chairperson by discharging Board functions effectively and in a methodical manner.
Chairperson's role in conducting Board proceedings	Code – A. 3.1	Adopted	Having a wealth of experience behind him, the Chairman was able to properly maintain high level of independency and impartiality in Board matters. He obtained advice from across the Board, given the well-blended knowledge and collective experience of MI Directors. Mr. Weerasuriya was able to: Lead the Board and ensure related functions are effectively discharged by taking up matters raised by Directors and corporate management Maintain a high level of independency and impartiality in Board matters, and ensure effectiveness of the Board Ensure adequate information was provided to the Directors Obtain advice from across the Board and ensure critical issues were addressed in a timely manner Prepared and circulated a formal agenda for the Board under his supervision Conduct the AGM within the specified regulatory time frame and ensure active communication with the Shareholders Ensure Director responsibilities and Board Sub-Committee terms and reference were clearly set forth.
A.4 Financial Acumen Availability of sufficient financial acumen and knowledge within the Board	Principle - A.4	Adopted	The Board is equipped with qualified Directors in the field of Finance and Accountancy and possesses the necessary financial wisdom. MI is fortunate to have a highly qualified Finance Director to advice the Board on matters of finance. Each Director at MI brings a particular range of diversified skills and expertise to the boardroom table, which ranges from accounting and auditing, financial services and insurance, business administration, engineering, recoveries, legal and human resources. Please refer Directors profile on pages 126 to 131

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
A.5 Board Balance	Principle – A.5	Adopted	As per Finance Companies Corporate Governance Direction No.03 of 2008 issued by CBSL, MI Board maintains the requirement, keeping proper checks and balance between Executive and Non-Executive Directors, so that no individual or small group of individuals can dominate the Board's decision-taking.
Presence of Non-Executive Directors	Code – A. 5.1	Adopted	During the year under review, the ratio of 50% between Executive and Non-Executive Directors maintained throughout the period is well above the minimum requirement prescribed by the code and Board Chairman is also an independent Non-Executive Director. Executive Vs. Non-Executive Directors 
Independent Directors	Code – A. 5.2	Adopted	Of the five Non-Executive Directors four are independent, and therefore an effective 80% ratio was maintained in terms of the criteria defined by CSE Rule 7.10.4 on corporate governance. Independent Vs. Non - Independent Directors 
Criteria for evaluating the independence of Non-Executive Directors	Code – A. 5.3	Adopted	All four Independent Non-Executive Directors remained distant from management and free from any other business relationships that could impair independence in decision making. The Independent Non – Executive Directors complied with independency criteria stipulated by the SEC, CSE and ICASL guidelines during financial year 2017/18.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Signed Independence declaration by the Non-Executive Directors	Code – A. 5.4	Adopted	During the FY 2017/18, each Non-Executive Director of the Company has made written submissions as to their independence as per schedule K of the code.
Determination of independence of Non-Executive Directors	Code – A. 5.5	Adopted	Based on the written submissions made by the following Non-Executive Directors and taking into account the criteria specified in section 4.4 of the Corporate Governance Direction issued by CBSL, the Board deems the said Directors "Independent" as at 31st March 2018. 1. Mr. S.H.J. Weerasuriya 2. Ms. P.T.K. Navaratne 3. Mr. S.M.S.S. Bandara 4. Mr. P.C. Guhashanka
Appointment of an Alternate Director by a Non-Executive Director	Code – A. 5.6	Not Applicable	Not applicable as no Alternate Director was appointed during 2017/18.
Senior Independent Director (SID)	Code – A. 5.7	Adopted	Chairman's and Managing Director's roles remained separate throughout the FY and therefore there was no requirement to appoint a Senior Independent Director.
Confidential discussion with SID	Code – A. 5.8	Adopted	Please refer Code – A. 5.7 above.
Meeting of Non- Executive Directors	Code – A. 5.9	Adopted	The Chairman held meetings with Non-Executive Directors without the presence of the Executive Directors 01 times during 2017/18.
Recording of concerns in Board minutes GRI Standards General Disclosures 102-34	Code – A. 5.10	Adopted	Company Secretary records any concerns raised by the Directors during the year in Board minutes with sufficient details. Nevertheless, there were no issues/concerns raised that could not be unanimously resolved, requiring same to be minuted.
A.6. Supply of information	Principle – A.6	Adopted	Comprehensive information is an essential part of the decision making process of the MI Board. As a practice, agenda together with high quality information was circulated seven days prior to the Board meeting to discharge the Board obligations effectively.
Information to the Board by management	Code – A. 6.1	Adopted	The Board receives regular reports and presentations on strategies and developments in relation to its business lines and geographical areas and overall plans and performance from senior management. Regular reports also provide the Board and Board Subcommittees information on risk appetite profile, emerging risks & analytics, credit exposures, asset and liability management including liquidity, compliance and other vital matters. This enabled the Board Directors to review situations and risks with enough time and prepare for discussions, and make inquiries for additional information from the Management when necessary.
Adequate time for effective Board meetings	Code – A. 6.2	Partially Adopted	The meeting agenda and the Board Papers are circulated by the Company Secretary seven days prior to Board meetings, providing the Directors with adequate time to study the papers and prepare themselves for constructive discussions at Board meetings. Board meeting minutes are circulated after Board meetings as practice. Providing Board meeting minutes within two weeks to the Board members will be adhered to consistently from the next financial year.
A.7. Appointments to the Board GRI Standards General Disclosures 102-24	Principle – A.7	Adopted	MI has established a Nomination Committee since 2013 to streamline new Director appointments and re-election process of Directors. The Chairman of the Committee is Mr. Saro Weerasuriya who is also the Non-Executive Chairman of the Company.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Nomination Committee	Code – A. 7.1	Adopted	All new appointments to the Board are considered and recommended by the Nominations Committee. Based on such recommendations, final decisions on appointment / re-election are made by the Board in an objective and transparent manner. This financial year no new appointments were made to the board under the recommendation of the Committee. Please refer Board Committee table in pages 146 and 147 for the Nomination Committee's composition, attendance at Committee meetings and the formal process that the Committee will adopt to for new future appointments. The Nomination Committee Report for the financial period 2017/18 is given on page 223.
Assessment of Board Composition by the Nomination Committee	Code – A. 7.2	Adopted	Nominations Committee carried out an annual assessment of MI Board's composition to assess the level of skills, experience, qualifications, and knowledge of the Board members' to address the growing strategic needs of the Company. The complexities associated with the LFC sector in terms of business dynamics, regulatory changes and other relevant factors that took place during the financial period, were also reviewed by the committee. Hence, there was no necessity for the appointment of any new Directors during the financial period.
Disclosure of new Director appointments to Shareholders	Code - A. 7.3	Adopted	All new Board appointments as it happens are communicated to shareholders via the Colombo Stock Exchange and also informed to the regulator. There were no new Board appointments for the year 2017/18.
A.8 Re-election	Principle – A.8	Adopted	The Nominations Committee provides recommendations on Directors who are retiring by rotation for shareholder approval at the AGM. One third of the Directors for the time being are required to submit themselves for re-election by the shareholders at every Annual General Meeting. The Managing Director shall not, while holding that office, be subject to retirement by rotation.
Appointment of Non-Executive Directors	Code – A. 8.1	Adopted	As explained in Principle A.8 above, following Executive Directors retire by rotation in the financial year 2017/18 and are eligible for reappointment: 1. Mr. S.M.S.S Bandara 2. Ms. P.T.K Navaratne 3. Mr. N.H.V Perera
Election of Directors by Shareholders	Code – A. 8.2	Adopted	As explained in Principle A.8 above.
Resignation of Directors	Code – A. 8.3	Not Applicable	Not applicable as no Board member resigned during 2017/18.
A.9 Appraisal of Board Performance	Principle – A.9	Adopted	An annual appraisal by each Director of the Board performance was carried out for 2017/18. The appraisal took into account important business aspects such as meeting shareholders expectations and priorities, strategic focus, financial performance, regulations, corporate governance issues and other important matters within the financial period under review.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption(2017/18 Update)
Appraisal of Board performance	Code – A. 9.1	Adopted	The Board carried out a comprehensive self-assessment for the FY 2017/18 of its performance and its committees. This year, the criteria of assessment was revised as per new code of best practices issued by CA. The assessment mainly focused on the Board's contribution towards developing and monitoring strategy, Board's and Committees mix of knowledge and skills, Board's commitment towards enhancing Economic, Social and Environmental Value; ensuring robust and effective risk management; quality of the relationships with the management, employees and shareholders; and ensuring proper functioning of Board Sub-Committees. A summary report of all the assessments was tabled at the Board meeting, which highlighted areas requiring improvements to ensure the efficiency and effectiveness of the Board.
Annual self- assessment of the Board and its committees	Code – A. 9.2	Adopted	The self- assessment carried out by each Board Director for 2017/18 included an evaluation of the performance of the Board as a whole as well as of its Committees and the summary report of the collective outcome of the evaluation was tabled at Nomination Committee meeting for future consideration.
Process to review the participation, contribution and engagement of individual director at time of re-election	Code – A. 9.3	Adopted	In keeping to the section, the Nomination committee reviewed the level of re-election Directors participation, contribution and engagement prior to the re-election of Directors to the Board, in an objective and transparent manner.
Disclosure of the method of Appraisal of Board and Board Sub Committee performance	Code – A. 9.4	Adopted	The Chairman and the Company Secretary gave their fullest corporation and led the process of MI board self- assessment. Views of all Directors were canvassed in respect of the performance of the Board as a whole as well as of its Committees by requiring the individual Directors to complete a comprehensive evaluation form. The full results of the Board evaluations were then analysed by the Company Secretary and the findings were presented to the Board and Nomination Committee in April 2018. Based on the report, the Nomination Committee is expected to consider future need to strengthen Board resources and to make recommendations promptly.
A.10 Disclosure of information on Directors	Principle – A. 10	Adopted	Information pertaining to all MI Directors is made available to the shareholders through the Annual report.
Director information	Code – A. 10.1	Adopted	The following information pertaining to Directors are provided in the Annual Report:

Information	Page(s)
Brief Profile with Qualification, Experience and Expertise	126 to 131
Composition of the Board Sub-Committees	146 and 147
Directors' Interest in Transactions	217 and 218
Directors' Shareholdings	215
Directors' Remuneration	254
Directors' Attendance at Board Meetings	151
Directors' Attendance at Sub-committee Meetings	146

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption(2017/18 Update)
A. 11 Appraisal of the Chief Executive Officer	Principle – A. 11	Adopted	Through a formal appraisal process, the Chairman and other Board members reviewed the performance of the Managing Director for FY 2017/18.The Remuneration Committee through a formal evaluation decided his remuneration package, and changes thereof.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Targets for the Managing Director	Code – A. 11.1	Adopted	The Managing Director being the apex chief executive of the company is entrusted by the Board to conduct day- to- day operations effectively to attain broad strategic targets /goals after giving necessary consideration to market reality and changes in relevant variables. The Board, upon approving the Strategic Plan of the company in 2015, specified its corporate objectives and annual forecasted targets and expects to attain these aspirations through the MD and corporate management team in FY 2017/18. The new strategic plan approved in the current financial year provides strategic targets and goals for the next three years till 2020/21. Performance of the Managing Director is reviewed on an ongoing basis by the Board, evaluating the extent to which these organizational objectives have been achieved overall, from an overall perspective.
Evaluation of MD's Performance	Code – A. 11.2	Adopted	MD's performance assessment by the Board is an ongoing process. The performance of the MD is evaluated by the Board at the end of each financial year by taking into consideration the performance results of the Company, evaluating the actual against the financial and non-financial targets set at the beginning of the financial year.
B. Directors' Remuneration GRI Standards General Disclosures 102-37			
B.1 Remuneration Procedure	Principle – B.1	Adopted	MI has a well-established, formal, rational and transparent procedure in place to decide on remuneration of Executive Directors. No Director is involved in deciding his or her own remuneration package.
Remuneration Committee	Code – B. 1.1	Adopted	In keeping to specific terms of reference, the Board has established a Remuneration Committee authorized to evaluate, assess, decide and recommend, to the Board, the Executive Directors remuneration. Please refer the Remuneration Committee Report on page 222
Remuneration Committee composition	Code B. 1.2 and 1.3	Adopted	Remuneration Committee comprises of two Independent Non- Executives Directors and one Non-Executive Director while the Chairman of the Company (Independent Non-Executive Director) Mr. Saro Weerasuriya also acts as the Chairman of the Committee. The report of the Remuneration Committee is given on page 222, in which the details of members of the committee, meetings held and participation status are given on page 146
Remuneration of Non-Executive Directors	Code B. 1.4	Adopted	The Board as a whole decides the remuneration of the Non-Executive Directors, including the members of the Remuneration and Nomination Committee. The Non-Executive Directors receive a fee for attending meetings of the Board and Board Committees. Fees paid to the Non-Executive Directors are neither performance related nor pensionable.
Remuneration Committee's access to Managing Director and professional advice	Code B. 1.5	Adopted	Based on the Remuneration Committee's composition, the advice of the Chairman of the company is already available since he chairs the Committee as well. When deciding on remuneration of other Executive Directors, the Committee also obtains advice from the Managing Director as necessary. The Remuneration Committee was not required to seek external professional advice to expedite its duties for FY 2017/18.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
B.2 The level and make up of remuneration structure	Principle – B.2	Adopted	The Board together with the Remuneration Committee aims to attract retain and motivate high calibre individuals for top executive positions. As trust and relationships are vital in the business of a finance company, MI's broad policy is to identify those who are committed to either devoting their time towards the Board or making a lifelong career with the organization. The remuneration policy of the company has been devised to be commensurate with future retention requirements. In deciding Executive Director remuneration, the evaluation took into account the individuals performance level for a given year based on overall goals achieved by the organization that related to him or her.
Managing Director's Remuneration	Code – B. 2.1	Adopted	The Remuneration Committee made its assessment on the sufficiency of remuneration of Executive Directors including the Managing Director to ensure current remuneration levels are competitive and that there is a strategy of retention. They evaluated prevailing market remuneration levels and made policy amendments on remuneration when deemed necessary. To ensure fair policy on remuneration, Executive Directors, and performance of the Managing Director was evaluated annually and suitable remuneration levels were decided by the Committee.
Executive directors' remuneration should be designed to promote the long-term success of the company.	Code – B 2.2	Adopted	Please refer B.2.1 above.
Comparison of remuneration with other Institutions	Code – B. 2.3	Adopted	When positioning remuneration levels relative to other companies in the industry, Remuneration Committee reviews the information related to the Executive Directors' pay level against the industry players on par with MI's status. This mechanism ensures remuneration packages of the Directors are competitive against the industry / market while ensuring alignment with MI's strategic, objectives, performance goals and sustainable growth expectations.
Remuneration comparison with other group companies	Code B. 2.4	Adopted	MI does not have subsidiary companies or a parent company under its structure to which it could draw reference to. However, pay levels of peer Directors within the company are considered when deciding on Executive Director remunerations.
Executive Directors' performance related payments	Code – B. 2.5	Adopted	Please refer principle B.2 and Code – B. 2.1 above.
Executive share Options	Code – B. 2.6	Not applicable	There was no executive share option schemes offered to any Director during 2017/18 period.
Deciding Executive Director Remuneration	Code – B. 2.7	Adopted	In deciding remuneration of Executive Directors, the Remuneration Committee referred provisions set out in Schedule E of the Code. (Refer comments given in Principle B.2 for details on Executive Director Remuneration) There were no long term incentive schemes or share option schemes proposed for Executive Directors during this period.
Early terminations clauses in service contract of Directors	Code – B. 2.8	Adopted	The Remuneration Committee incorporated early termination compensation commitment clauses in service contracts of the Executive Directors from this financial year under review and will be implemented for all the future appointments.
Early terminations of Directors	Code – B. 2.9	Not Applicable	There were no early terminations carried out during FY 2017/18.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Level of Remuneration of Non-Executive Directors	Code B. 2.10	Adopted	The Non-Executive Directors are paid a fee for attending main Board meetings and Board sub-committee meetings. No share options schemes were afforded to Non-Executive Directors during FY 2017/18.
B.3 Disclosure of Remuneration	Principle – B.3	Adopted	The MI remuneration policy is fair, competitive and reflects the performance of the business. A statement on MI's Remuneration policy is provided for in page 222 and the details related to the basis on which Executive and Non – Executive Directors remuneration is decided has been given in the same statement. Details of remuneration of the Board as a whole are mentioned in Code B.3.1 below.
Names of members in the Remuneration Committee and remuneration paid to Directors	Code – B. 3.1	Adopted	Page 222 provides composition details of the Remuneration Committee with meetings held and participation status of members. The remuneration paid to Executive and Non-Executive Directors in aggregate is disclosed in the notes to the financial statements on page 288 under "Related Party disclosure note".
C. Relations with shareholders			
C.1 Constructive use of AGM	Principle – C.1	Adopted	By holding the Annual General Meeting, MI Board is able to facilitate effective communication with shareholders. Directors are expected to take a positive approach to views of all shareholders. The Board always encourages all shareholders to participate at the AGM and convey their views and make suggestions, in order to achieve this purpose, the notice of meeting is dispatched to the shareholders within the prescribed time periods. (Refer page 330 for further information with this regard)
Notice of the AGM and related papers	C.1.1	Adopted	The Annual Report including Financial Statements and notice of the meeting are sent to shareholders at least 15 working days prior to the date of the AGM, by the Company Secretary complying with the Companies Act No. 07 of 2007. The Annual report of FY 2017/18 was submitted to the CSE and was released to all shareholders on the same day. This mechanism improves the stewardship and transparency of MI's activities, performance, and provides opportunity for shareholders to review progress early and present views and seek clarifications at the AGM.
Separate resolutions for each separate issue	Code – C. 1.2	Adopted	Company proposes separate resolution for all substantially separate matters to provide shareholders an opportunity to deal with each material issue separately with the option of vote, either for or against the resolution or to withhold their vote. A separate resolution is passed for the adoption of the "Report of the Directors" and "Statement of Accounts and the Report of the Auditors" contained in the Annual Report. Clear Proxy Instructions are attached to the Annual Report covering this section.
Level of proxies at AGMs	Code – C. 1.3	Partially Adopted	Proxy forms are made available in the Annual report which allows adequate prior notice to all shareholders in accordance with the Companies Act. The Company has in place an effective mechanism through the Company Secretarial Division to record all proxy votes logged on each resolution and number of votes for or against or withhold for each resolution. Company will provide a disclosure on number of votes for or against or withheld for each resolution and number of proxy appointment in Company's website from next financial year.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Availability of all Board Sub-committee Chairmen at the AGM	Code – C. 1.4	Adopted	At the AGM held in previous FY 2016/17, the Chairpersons of all the Board Sub-Committees were present in answering any questions raised by the shareholders.
Voting procedures at General Meetings	Code – C. 1.5	Adopted	All notices circulated to shareholders of general meetings carry a summary of the procedures governing voting at such meetings.
C.2 Communication with Shareholders	Principle – C.2	Adopted	MI Board has identified the importance of having two-way communication with its stakeholders. Extensive financial and non-financial information of the Company's activities are provided to shareholders and other stakeholders through the Annual Report and the Interim Reports published on a quarterly basis or through various corporate communication methods as given on pages 34 to 36. Page 34 provides additional disclosure on the shareholder communication process with the Company.
Channel to reach all shareholders of the Company	Code – C. 2.1	Adopted	There is concise dialogue with shareholders on matters relating to their shareholdings and on business matters, which are being dealt promptly. As per the revised communication policy 2018, financial information such as Annual Reports, Interim reports are made available to shareholders via CSE website or mail. All shareholders are encouraged to attend the Annual General Meeting and extra ordinary meeting of shareholders.
Policy and methodology for communication with shareholders	Code – C. 2.2 & C. 2.3	Adopted	The Board approved "Communication Policy", revised in 2018 adopts various communication mediums to interact with MI stakeholders including shareholders. The Communication Policy requisites are being implemented by the corporate management and their teams.
Disclosure of contact person for shareholders	Code – C. 2.4	Adopted	As per the general practice of the company, main point of contact for the shareholders for their concerns and clarification is the Company Secretary who acts as the intermediary between shareholders and the Board.
Process to raise awareness of major issues and concerns of shareholders	Code – C. 2.5	Adopted	As per the Communication Policy, all major issues and concerns impacting shareholders are communicated by the Company via meetings with shareholders. All shareholders are encouraged to attend the Annual General Meeting and other meetings of shareholders to discuss MI's progress and concerns. The Company Secretary maintains a record of all enquiries sent by shareholders and directs those enquires to relevant Director or the Board as per the materiality of the issue. In addition, a stakeholder feedback form is given at the end of the Annual Report which can be used as a medium of communication by shareholders.
Person to Contact in relation to shareholder matters	Code – C. 2.6	Adopted	Apart from the main contact being the Company Secretary, MI's open door policy extends to our stakeholders and therefore our shareholders are welcome to contact any Executive Director or members of the corporate management to obtain clarifications on any matter.
The process in responding to shareholder matters	Code – C. 2.7	Adopted	Please refer comment on Principle C.2.5 above.
C.3 Major transactions	Principle – C.3	Adopted	MI Board has established a process to capture and disclose any material transactions proposed that would alter or vary the net asset position of Company either through its audited financial statements or in interim publication or by making an announcement to the Colombo Stock Exchange. MI's Board has established a Related Party Transaction Review Committee, to further consolidate this critical area to capture and disclose vital market information through formal channels.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Disclosure of material facts on major transactions	Code – C. 3.1	Adopted	MI had not engaged in or committed to any material related party transactions or corporate transactions involving acquisitions, mergers or disposal, which materially affect MI net assets position for the concluded period.
Disclosures requirements and shareholder approval by special resolution as required by SEC and CSE	Code – C. 3.2	Adopted	As per comment provided in above C.3 &C 3.1 MI had not engaged in any material related party transaction and therefore there was no necessity for a special resolution or disclosure.
D. Accountability and Audit			
D.1 Financial reporting and Annual Reporting	Principle – D.1	Adopted	MI has published a comprehensive Annual Report which incorporates the audited financial statements together with comprehensive disclosures on the performance, business model, risk management, governance, internal controls and future outlook to ensure disclosure of a balanced, complete and understandable assessment of MI's financial position, performance, risk management mechanisms and stewardship and prospects to its stakeholders.
Financial reporting according to relevant laws and regulations	Code – D. 1.1	Adopted	MI complied with all financial reporting regulations which include the Sri Lanka Accounting Standards (LKAS) and other regulations specified in the Finance Business Act, Colombo Stock Exchange Listing Rules and the Companies Act No. 07 of 2007. During the FY 2017/18, the interim accounts and annual financial statements were published on a timely basis and regulatory reports were filed by the due dates. Information disclosed to the CSE was also done on a timely basis during this period.
Balanced and understandable assessment of the company	Code – D. 1.2	Adopted	MI's Board takes on the responsibility of presenting a balanced and understandable assessment highlighting impacts positive and negative to stakeholders, through issue/dissemination of annual report. The Interim results and other public reports and reports to regulators as well as information required to be furnished by statutory requirements to provide an accurate position of the company.
CEO (Managing Director's) and Chief Financial Officer's declaration on financial statements	Code – D. 1.3	Adopted	A declaration statement of the Managing Director and Finance Director/ CFO that the financial statements give a true and fair view and has been prepared accordance with appropriate accounting standards and also the effectiveness of the risk management and internal control mechanism of the Company for the financial year under review is given on page 220.
Directors' Report	Code – D. 1.4	Adopted	Annual Report of the Board of Directors on the Affairs of MI is given on page 211 to 216 covering all areas of this section.
Directors' and Auditors' responsibility statement	Code – D. 1.5	Adopted	The Directors' Responsibility for Financial Reporting given on page 219 provides a statement setting out the responsibilities of the Board for the preparation and presentation of the Financial Statements. The Auditors' Report provided on pages 229 to 231 specifies reporting responsibilities of both the Management and the Auditors. Statement on Internal Controls issued by the Board provided on page 227 complies with content of Annexure L of the code.
Management Discussion and Analysis	Code – D. 1.6	Adopted	The Overview and "Management Discussion and Analysis" given on pages 3 to 40 and 41 to 124 covers all the requirements of this section, providing a comprehensive commentary of the Company's performance on a structured international Integrated Reporting Framework and CA Sri Lanka Integrated Reporting guidance.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Calling of an EGM when net assets fall below 50% of shareholders' funds	Code – D. 1.7	Adopted	The net assets were well above the 50% shareholders fund threshold. Net assets stood positive and over Rs 8 Billion. If such a situation was to arise an EGM will be called for and shareholders will be notified.
Adequacy and accuracy of related third party transaction disclosures	Code – D. 1.8	Adopted	MI has a Related Party Transaction (RPT) policy in place, whereby the categories of persons who shall be considered as "related parties" have been identified. In accordance with the RPT Policy, self-declarations are obtained from each Director for the purpose of identifying related parties coming under the "related party" definition. Based on the information furnished in these declarations, an "Interest Register" is maintained under the coordination of the Company Secretary to record related party transactions as and when they occur. To further strengthen the above process, a Board Related Party Transactions Review Committee was established in 2015 on a voluntary basis, complying with best practice recommended by CA Sri Lanka 2017 Corporate Governance Code. (Refer Related Party Transactions Review Committee Report, given on page 226 for the detail Committee information, and the Financial Statements, given on pages 233 to 237 for details on related party transactions during the FY 2017/18)
D.2 Risk management and Maintaining a sound system of internal controls	Principle – D.2	Adopted	The Board has established an effective risk management and internal control system to safeguard the assets of the company in pursuit of its corporate strategic objectives. The systems of internal controls in place have been designed to counter various risks that could either arise from dealing in financial transactions or from other events and changes in environment and business conditions. The next three-year strategic plan accordingly has proposed broad risk control measures for future strategic risks.
Reviewing effectiveness of risk management and internal control system	Code – D. 2.1	Adopted	Internal Auditors have been entrusted to periodically review the adequacy and effectiveness of internal controls of the Company, feedback of which is given to the higher level Audit Committee. The Audit Committee comprises Non- Executive Directors who make an independent assessment on adequacy and application of internal controls and provide in turn their own feedback to the Board on matters they deem are material with remedial measures. Statement on Internal Controls provided on page 227 complies with content of Annexure L of the code. MI Board during 2017/18 was able duly assess of the adequacy and effectiveness of the Company's internal control system through its established governance mechanism and obtained clarifications from corporate management and Audit Committee, as deemed necessary. Also, the Integrated Risk Management Committee and the Audit Committee assisted the Board in reviewing all associated critical risk factors and monitored the effectiveness of risk mitigating mechanisms in place. The Integrated Risk Management Committee Report on page 221 provides further information with this regard.
Robust assessment of the principle risks faced by the Company	Code – D. 2.2	Adopted	The risk management report given on page 195 to 208 provides a clear assessment of Company risks and the process of risk identification, measurement and control.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Internal Audit function	Code – D. 2.3	Adopted	MI's Internal Audit division which is centrally located provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of internal controls and governance process across the Company. Audit of head office's high risk business areas have separately been outsourced to independent PricewaterhouseCoopers (Private) Ltd (PWC).
Audit Committee to review process and effectiveness of risk management and internal controls and to report to the Board	Code – D. 2.4	Adopted	The Company continued to enhance its risk management framework including use of the risk and controls assessment process that provides business areas and functions with a forward looking view of key risks and an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage risks within acceptable levels. Systems and procedures are in place to identify, control and report on the major risks facing MI including credit risk, market risk, liquidity risk and other risks such as reputational risk. Audit Committee, with the support of Integrated Risk Management Committee and the Head of Risk Management and Compliance, continuously reviewed the effectiveness of risk management process and internal controls and ensured the soundness of the risk management process and internal controls and managed to report any deficiencies and matters to the Board with recommendations.
Statement of Internal Control	Code – D. 2.5	Adopted	The Board Statement on Internal Controls given on page 227 complies with the contents in Annexure L of the Code. Some of the salient aspects highlighted therein are; ➲ External auditors' review of content of Board's internal control statements and affirmation that the process in place actually is in line with the statement. ➲ Internal Control linkage to Financial Reporting ➲ Audit Committee's role in reviewing internal controls. ➲ Mechanism to identify, evaluate and manage risk ➲ To ensure the accuracy of financial reporting.
D.3 Audit Committee – A Committee to review financial reporting aspects, internal controls and maintaining relationships with Company Auditors	Principle – D.3	Adopted	The Audit Committee assisted the Board of Directors in its general oversight of financial reporting, internal controls, risk management and functions relating to internal and external audits. The selection and application of accounting policy, corporate reporting structure and content was thoroughly reviewed under the guidance of the Audit Committee Chairman, who is a Chartered Accountant and a Partner of B. R. De Silva, Chartered Accountants.
Audit Committee composition	Code – D. 3.1	Adopted	The Audit Committee comprise three Directors, all of whom are Non-Executive. Two Directors of the Committee were Independent Non-Executive Directors. The names of members forming the Audit Committee, their participation level, secretary and invitees of the Committee are disclosed on page 146.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Terms of reference of the Audit Committee	Code – D. 3.2	Adopted	The Board approved revised terms of reference issued to govern all activities of the Audit Committee for the financial year under review. The requirements referred in CA Sri Lanka 2017 Corporate Governance have also been incorporated to the revised Terms of Reference Board approved during FY 2017/18 and will be adhered to from the next financial year, and Audit Committee Charter will also be prepared during next financial year. Refer Audit Committee Report on pages 224 and 225.
Disclosures of the Audit Committee	Code – D. 3.3	Adopted	To obtain information regarding the composition, objectives and duties of the Audit Committee. Refer section 8.2 (a) to 8.2 (q) in part 2 of this supplement pages 181 to 184. The names of Directors forming the Audit Committee and their participation level at meetings are disclosed on page 146. Report of the Audit Committee is given on pages 224 and 225. The Report specifies the determination made by the Committee in relation to External Auditors independence.
D.4 Related Party Transaction Committee	Principle – D.4	Adopted	MI established a Related Party Transaction Review Committee in 2015 which reviews all the material related party transaction of the Company on periodic basis.
Definitions of Related party and Related party Transaction	D.4.1	Adopted	No favourable treatment has been extended to "related parties" of the Company. The parties who come under this definition with their transactions details are disclosed as follows; Related parties including KPMs refer pages 288, 289, 188 and 189. Directors Interest in Contract refer pages 217 to 218 As per LKAS 24, CBSL and CSE regulations.
Composition of Related Party Transaction Review Committee	D.4.2	Adopted	The composition and work of the Related Party Transactions Review Committee for 2017/18 set out in the Committee Report page 226.
Terms of reference of Related Party Transaction Review Committee	D.4.3	Adopted	The Related Party Transaction Committee operated under clear terms of reference for 2017/18.The updated terms of reference approved by the Board on 27th March 2018 govern all future activities of the Related Party Transaction Review Committee covering additional best practices recommended by CA Sri Lanka Corporate Governance Code.
D.5 Code of Business Conduct & ethics	Principle – D.5	Adopted	High standards in business conduct and ethics is an integral part of MI's culture. In keeping to MI's practiced value system, an organization wide human resource policy document is in place which defines clear HR policies and procedures to employees. The policy document upholds ethical procedures and expects employees to adhere to requirements for good conduct.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
Compliance to requirements on business conduct and ethics GRI Standards General Disclosures 102-16	Code – D. 5.1	Adopted	The "Human Resource Handbook" specified organization's expectations from all employees, in terms of abiding to HR policies including laid down rules on business conduct and values that are expected from employees. The Handbook is applicable to all employees regardless of the position. The Board approved "Customer Protection Policy" will be introduced from April 2018 and also specifies customer handling by employee and a clear code of conduct to protect customer rights. The Board made a declaration in this year's Director's Report on page 216 stating "All the members of Board of Directors and key management personnel have complied with code of business conduct and ethics introduced in the HR Handbook".
Process of reporting of material and price sensitive information to the regulators	Code – D. 5.2	Adopted	MI, as a listed entity in CSE, adheres to the requirement of the regulator and detect and report any price sensitive information promptly. Refer comments given on code C.2.7, C.3 and C.3.1 on pages 164 to 165.
Policy and process for monitoring , and disclosure of Directors and KMP's share purchases	Code – D. 5.3	Adopted	Company Secretary is responsible for reporting the dealings of the KMPs to the CSE as per the CSE listing rule 7.8.She monitored the changes in the share register and reported to the CSE promptly on share transactions keeping to this section.
Affirmation by Chairman that no individual has violated business conduct and ethical requirements of the company	Code – D. 5.4	Adopted	The Chairman's affirmation that the code of conduct and ethics has been introduced companywide and that he is not aware of any violations of requirements of the Company on specified business conduct and ethics is given in the "Chairman's Statement in Corporate Governance" on page 137.
D.6 Corporate Governance disclosure	Principle – D.6	Adopted	MI Board of Directors upholds adopting sound corporate governance practices, while enhancing the overall governance year on year.
Disclosure on Corporate Governance	Code – D. 6.1	Adopted	MI's Corporate Governance report of FY 2017/18 provides a comprehensive disclosure on the Company's corporate governance framework and practices indicating MI's level of compliance to the Central Bank directions and Code of Best Practices on Corporate Governance issued in 2017.
Section 2 –Shareholders:			
E. Institutional Investors			
E.1 Shareholder Voting	Principle – E.1	Adopted	MI shareholder base comprises small number of investors with institutional shareholding being the main component. The Company obtained listing status in Colombo Stock Exchange, Diri Savi Board in 2011.The company encourages all shareholders to participate at the Annual General Meeting (AGM) so that both The Board and the senior management are accessible by the investors.
Constructive dialogue between shareholders and the Company.	Code – E. 1.1	Adopted	MI has a history of active involvement of shareholders at general meetings. Shareholders have the liberty to express their views at AGMs, and to convey any matters even outside such meetings. Under the supervision of the Chairman, Company Secretary's division minutes discussions and views of all that is presented at AGMs. Shareholders views and other matters are taken up at Board and Sub Committee depending on materiality and urgency of matter at hand.
E.2 Evaluation of Governance Disclosure	Principle – E.2	Adopted	Corporate Governance related matters along with the adequate disclosures are communicated to all shareholders via the Annual Report and the AGM as mentioned.

MI's Compliance to Code of Best Practices on Corporate Governance 2017, Issued by CA Sri Lanka			
Corporate Governance Principles	**Reference to SEC & ICASL Code**	**Adoption Status**	**MI's Extent of Adoption(2017/18 Update)**
F. Other Investors			
F.1 Individual Shareholders	Principle – F.1	Adopted	Individual shareholders are encouraged to carry out their own analysis or seek independent advice on investing or divesting decisions. MI annual report contains sufficient information for prospective investors to carryout extensive analysis. Further MI publishes quarterly accounts in the CSE website so that retail investors could make judgment of the performance of the company on an ongoing basis.
F.2 Shareholder voting GRI Standards General Disclosures 102-18	Principle – F.2	Adopted	Shareholder base of MI comprises small number of investors, encompassing few large investors. As per MI practice, all investors are encouraged to actively participate at general meetings.
G. Internet of things and cybersecurity			
G.1 Process of identifying cybersecurity risk within the organizational network and from outside.	Principle – G.1	Adopted	Recent cyber-attack on global banks have emphasised the necessity of financial institution's to enhance the vigilance and remain agile to face the evolving cyber security risk. MI has identified significance of the cybersecurity as emerging risk category and therefore has considered its requirements as a core component of overall operational risk profile. The IT department has dedicated resources and devised strategies to cope with cybersecurity risks.
Appointment of a Chief Information Security Officer (CISO) and implementation of cybersecurity risk management policy and process.	Principle – G.2	Adopted	AGM-IT is the CISO of the Company who is a well-qualified fellow member of British Computer Society with over 15 years' experience in the related field. An IT Security Policy in place which covers cyber security aspects of the company and contingency plans well communicated to all relevant officers in charge.
Allocation of adequate time on Board agenda on cyber security	Principle – G.3	Adopted	IT Steering Committee established in 2016 met regularly to discuss IT related potential and emerging risks at local and global level within the FY 2017/18. The IT Steering Committee reports to the Board on any cybersecurity related threat or potential risk through IRMC.
Effectiveness of cyber security risk management process	Principle – G.4	Adopted	Annual internal audit plan has given prominence to IT audit of the Company which also covers the cyber security aspects as well. Furthermore, External Auditor also conducted an IT system review in FY 2017/18. Company plans to conduct a thorough IT internal audit using PricewaterhouseCoopers (Private) Ltd in next financial year which will encompass a cyber security review.
Annual report disclosure on process of cyber security risk identification.	Principle – G.5	Adopted	Refer Risk Management report on pages 195 to 208.
H .Environment, Society, and Governance (ESG)			
H .1 ESG Reporting	Principle – H.1	Adopted	MI is an early adopter of sustainability reporting locally which covers the ESG principles and won two awards last year for "Sustainability Reporting" (Refer pages 41 to 124). All ESG principles are implanted in our business operations and considered strategizing the business plans of the Company and integrated & holistically reported in the annual report. Required information of this code is given in the below section. Governance structure and reporting on pages 136 to 193
Relevance of ESG factors to Company's business model	Code – H. 1.1	Adopted	Refer MI Business Model on pages 6 and 7
Environmental Factors	Code – H. 1.2.1	Adopted	Refer Natural Capital on pages 112 to 120
Social Factors	Code – H. 1.3.1	Adopted	Refer Overview & stakeholder engagement (pages 3 to 40), Social and Relationship Capital (pages 82 to 97), Human Capital (pages 102 to 111)
Governance	Code – H. 1.4.1	Adopted	Refer Business model (pages 6 to 7), Overview, stakeholder engagement and material topics and its reference to approach and monitoring (page 3 to 4) and Corporate Governance Report (pages 136 to 193).
Board's role on ESG factors	Code – G. 1.5.1	Adopted	Please refer Management Discussion and Analysis strategy (pages 41 to 124) and overview (pages 3 to 40).

MERCANTILE INVESTMENTS AND FINANCE PLC'S COMPLIANCE WITH FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 3 OF 2008 AS AMENDED BY DIRECTIONS NO. 4 OF 2008 AND NO. 6 OF 2013 ISSUED BY THE CENTRAL BANK OF SRI LANKA ("CORPORATE GOVERNANCE DIRECTIONS")

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
2 The Responsibilities of the Board of Directors a) Approving, overseeing and communicating the finance company's strategic objectives and corporate values. GRI Standards General Disclosures 102-26	Complied	As part of the strategic planning process and taking change of the affairs of the Company, MI Board has approved strategic objectives for the next three years and for continuing to oversee the performance of the company against set corporate objectives. Refer strategy on pages 54 to 57 and corporate values on page 30. The strategic objectives and corporate values have been delegated and communicated to the divisional heads based on which each division sets their divisional operational targets. The performance of strategic plan applicable to each division is monitored by the Board through Board sub-committees and management committees.
b) Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the immediate three years to follow.	Complied	The applicable strategic plan which covered the current financial year was approved by the Board on 30th June 2015 and while the strategic plan covering the three-year period from FY 2018/19- 2020/21 was approved on 27th March 2018. Separate strategies were formulated for each core business area and support function for the attainment of corporate objectives with measurable goals and timelines. The company's overall Risk Management Strategy supports the business strategy by safeguarding and balancing the interests of all the stakeholders. Based on a structured risk framework which incorporates risk policy, procedures and mechanisms, MI Board is able to counter potential risks and work towards corporate goals. On 28th February 2018, a revised policy was approved by the Board. (Refer Risk Management Report on pages 195 to 208)
c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	Complied	On behalf of the Board, the Integrated Risk Management Committee (IRMC) oversees the effective implementation of procedures and mechanisms for risk management and reports to the Board on a quarterly basis. The committee reviews the management of all risk types applicable for the company and advises on deviations from tolerable risk levels based on the information provided by the Risk Unit and the corporate management. (The process or risks identification and measurement established to manage risk prudentially is explained on pages 195 to 208)
d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied	The communication policy was reviewed, updated with the changes in business environment and regulations and was approved by the Board in 27thMarch 2018. The policy identifies different stakeholders that the company needs to maintain communication with, including shareholders, customers, depositors, creditors, suppliers, borrowers, society and environment and specifies the communication approach, methods and channels to be adopted in communication.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
e) Reviewing the adequacy and the integrity of the finance company's internal control system. Reviewing the adequacy and the integrity of the finance company's management information systems.	Complied	MI has a well-established system of internal controls instilled across its total business operations to manage risks faced by the business. The Board exercises its authority over internal controls by delegating the oversight and exercising of controls over the Audit Committee. On behalf of the Board, the Audit Committee monitors the effectiveness of the internal control systems periodically on a continuous basis and reports to the Board. The Board approves procedures implemented under the internal control mechanism which are then applied in the business operations. External and internal audits are carried out periodically, testing the effectiveness and compliance of internal controls. Such audit findings are reported to the Board for which the management is given the opportunity to respond. There is a continuous review of the company's management information systems, with specific focus on the accuracy, timeliness and security of the systems.
f) Identifying and designating Key Management Personnel, who are in a position to: I. significantly influence Policy II. direct activities; III. exercise control over business activities, operations and risk management;	Complied	The Directors, General Managers, Deputy and Assistant General Managers, Compliance Officer, Head of Internal Audit, Divisional Heads and Company Secretary have been identified and designated as the Key Management Personnel of the Company. They possess the required qualifications and experience to hold such positions and have been given clear job roles to exercise effective control over their respective functions.
g) Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel;	Complied	Each Board member's roles/responsibilities are clearly laid out in the "Areas of Authority and Responsibilities of The Board Document" while Board approved Job description for each Executive Directors specifying clear responsibilities for achievement of Board goals.
h) Ensuring that there is appropriate oversight of the affairs of the finance company by Key Management Personnel, that is consistent with the finance company's policy;	Complied	The Board has delegated the authority of implementing the decisions of the Board to the Managing Director and the accountability for the same. The Managing Director also manages the performance and affairs of the company in accordance with his delegated limits of authority. Management of the key operational functions are then delegated to the senior heads at corporate management level who will manage and oversee their respective operations effectively. The Directors, either directly or through the Board subcommittees, initiate periodic meetings with the corporate management to maintain oversight over key areas of business. Department specific meetings are also held and include credit, marketing and recoveries meetings that enable the corporate management to keep a close watch on the operations, on an ongoing basis.
i) Periodically assessing the effectiveness of its governance practices, including: I. the selection, nomination and election of Directors and appointment of key management personnel; II. the management of conflict of interests; and III. the determination of weaknesses and implementation of changes where necessary;	Complied	The company has established an effective corporate governance framework which is assessed by the Board periodically. The existing framework is updated with new measures in bridging any gaps identified by the Board. The Board carried out a self-evaluation on the effectiveness of governance practices and the feedback was discussed at the Board meeting. All new appointments and re-elections to the Board are recommended by the Nominations Committee. New appointments are approved by the Board and re-elections will be approved by the shareholders at the Annual General Meeting. The Key Management Personnel have been duly recruited by the Executive Directors under the delegated Board authority and supervision of the Managing Director and involves a streamlined recruitment process. The management of conflicts of interest falls under the purview of the Related Party Transaction Review Committee. (Refer page 226)

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
j) Ensuring that the finance company has an appropriate succession plan for key management personnel;	Complied	The succession plan for identified key management personnel in various divisions was approved by the Board on 27th March 2018.
k) Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards the corporate objectives;	Complied	In addition to the Board Meetings, the Directors communicate with each other on an ongoing basis. Executive Directors meet corporate managers and key officers on a frequent basis, at least weekly, to measure the company's performance of each business area against corporate goals. The purpose of such Management Committee meetings also include benchmarking MI's performance against industry and monitoring and evaluation of the Assets and Liability Management actions and risk implications.
l) Understanding the regulatory environment;	Complied	All the new developments and changes in the regulatory environment are informed to the Board at Board meetings by fellow Board members and also via circulars, reports and presentations made by corporate management. All regulatory matters are considered in designing MI's various training programs, which are provided for Directors, corporate management and other key officers. The company's adherence to regulations is closely monitored by the Compliance Officer - Head of Compliance and Risk Management, who reports to the Board through the Finance Director on the compliance status of the company in relation to CBSL directions, rules and other regulations. The advice of the Legal Division is sought by divisions as and when required and also when new regulations are imposed or when changes to existing regulations occur. Divisions maintain close coordination and rapport with the respective regulatory bodies in seeking clarification and ensuring due compliance.
m) Exercising due diligence in the hiring and oversight of External Auditors.	Complied	On behalf of the Board, the Audit Committee manages hiring and oversight of External Auditors. Ernst and Young, Chartered Accountants were appointed by the Audit Committee as the External Auditor of the company for the financial year 2017/2018. The appointment was made in accordance with the CBSL regulations on selecting External Auditors for the sector. The work performed by External Auditors, with regards to the level of independence and quality is evaluated by the Audit Committee. In this context, as the new external auditors their Management letter, other opinions and reports will be reviewed in future for this purpose.
2.1 Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	Complied	The functions and the responsibilities of the Non-Executive Chairman and the Chief Executive Officer are defined and approved by the Board. Managing Director leads the Executive Management team of the company who performs the role of Chief Executive Officer overseeing the effective management of day to day operations. The Board is led by the Non-Executive Chairman ensuring the Board discharging its responsibilities effectively.
2.2 Availability of a procedure determined by the board to enable directors, to seek independent professional advice at the Company's expense.	Complied	The Board of Directors have the right to obtain external independent professional advice at the expense of the company in discharging the duties. A Board-approved formal procedure in seeking independent professional advice is in place since 2013 and was updated and approved on 28th December 2017. The procedure has been communicated to all the Directors.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
2.3 Avoidance of conflicts of interest.	Complied	In avoiding conflicts between the Board obligations to the company and personal interests, the Board took steps to ensure such instances are disclosed to the Board. In such instances, a Director is expected to refrain from voting or presenting their views on such matters. A separate "Related Party Transaction Review Committee" (RPTC) was formed in 2014/15 to monitor related party transactions and report to the Board. The related parties would be disclosed by Directors at the time of coming on board and at any time as such a conflict arises. These related parties will noted by the Company Secretary and informed to the finance department. The Compliance officer collect RPT details and submits a report to on quarterly basis, to RPTC, reviewing the objectivity maintained in conducting such transactions.
2.4 A formal schedule of matters specifically reserved for the Board, to ensure that the direction and control of the Finance Company is firmly under its authority. GRI General Disclosures 102-25	Complied	A formal process has been developed by the Board in order to effectively discharge Board functions. A formal schedule of matters has been approved, to ensure the direction and control of the Company is firmly under the Board's control and authority. The Board Secretary circulates the agenda together with relevant supporting information to the Board members seven days prior to the Board meeting. The agenda and documents circulated under the supervision of the Chairman, ensures critical matters and general performance updates are taken up in keeping with the Board's expectations.
2.5 Disclosure of insolvency to the director of the Department of Supervision of non-bank financial institutions.	Complied	The company ensures going concern as declared in the "Annual report of the Board of Directors" on page 215. During the year, the company successfully fulfilled its obligations to all its depositors and creditors and there were no instances which required reporting to the regulator. The company paid interest and made the requisite capital repayments as falling due to its depositors and also to the lenders of capital. The liquidity position of the Company is reported to the Director of the Department of Supervision of Non-Bank Financial Institutions on a weekly basis.
2.6 Inclusion of an annual corporate governance report on compliance with the corporate governance directions in the annual report.	Complied	The company's status of compliance with the direction issued by CBSL is comprehensively disclosed in the Corporate Governance Report from pages 136 to 193.
2.7 The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied	Each Director completed a self-assessment evaluating their performance as well as the Board's performance collectively for the financial period 2017/18. Evaluation criteria were further enhanced to ensure the evaluation process provides more comprehensive findings. The summary of findings together with areas for further improvements was tabled for the deliberation of the Board.
3) Meetings of the Board 3. 1 The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions /papers shall be avoided as far as possible.	Complied	Twelve (12) Board Meetings were held for the financial period 2017/18. Please refer section A.1.1 of the CA Sri Lanka code given on page 151 for full disclosure in this regard. Board papers are approved at monthly Board meetings. However, urgent matters needing the Directors review and approval between monthly Board meetings is obtained via circulation by the company secretary.

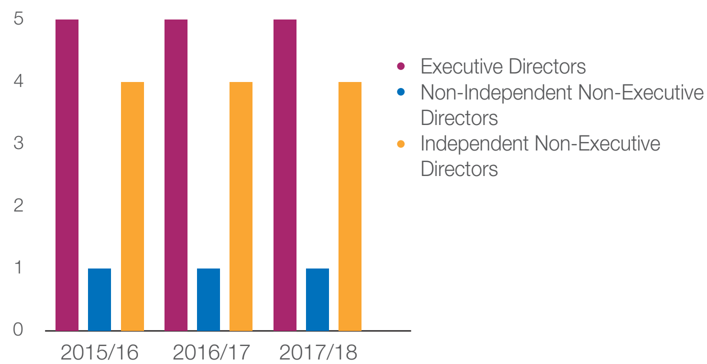
Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
3. 2 The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Finance Company.	Complied	Each Director is provided with equal, fair opportunity in providing proposals for the agenda with regard to the key areas of business headed by the Directors, new business development and risk management. The agenda is prepared by the Company Secretary, incorporating all such proposals under the guidance of the Chairman.
3.3 Notice of at least 7 days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Complied	A minimum notice of 7 days is provided to the Directors for the Board meetings. Board papers and other additional relevant information are also circulated. This allows Directors adequate time to review the circulated Board papers and take up concerns and raise other matters of importance at Board meetings.
3. 4 A Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the directors' meetings through an alternate Director shall, however, be acceptable as attendance.	Complied	All Directors have participated over the minimum participation requirement of at least attending two-thirds of the meetings held for the financial year 2017/18. No Directors have been absent from three consecutive Board meetings during financial year 2017/18. There were no instances where an alternate Director was required to be nominated during this financial year. Attendance status of each Director at Board meetings is given on page 151
3. 5 The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	Company Secretary's responsibilities and services extended to the Board are given on page 155 of section A.1.4 of the CA Sri Lanka code.
3.6 If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such functions	Complied	The Company Secretary is delegated with the responsibility of preparing the agenda for Board meetings. The preparation of the agenda was done under the supervision of the Chairman. She plays a coordinating role in dealing with the Directors and Corporate Management in incorporating key matters to be taken up at the Board meeting. Prior to circulation, she obtains Chairman's approval for the notice of meeting and agenda.
3. 7 All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied	Mrs. S. Pethiyagoda has over 20 years of experience in the Company Secretarial position and keeps herself updated on all current regulations applicable to Board procedures, corporate governance requirements and other requirements related to the Company secretarial responsibilities. She attended all Board meetings during the financial year 17/18 and is readily accessible to all Directors should they require her advice and services.
3. 8 The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied	Minutes are circulated by the Company Secretary upon approval of the Chairman. Minutes of all Board meetings were duly maintained and stored in safe custody by the Company Secretary. The Board of Directors have access to the minutes and can inspect Board minutes at any point in time.

<table>
<tr><th>Direction Requirement (With Section Number of the Direction)</th><th>Compliance Status</th><th>Extent of Adoption</th></tr>
<tr><td>3. 9 Minutes of Board meetings shall be recorded in sufficient detail.</td><td>Complied</td><td>Minutes of all Board meetings are recorded in a timely manner, in sufficient detail and retained by the Company Secretary under the supervision of the Chairman.</td></tr>
<tr><td>4) Composition of the Board

4. 1 Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than 5 and not more than 13.

GRI Standards General Disclosures 102-22</td><td>Complied</td><td>The Board comprised of 10 Directors in keeping to the provisions of this section and did not fall below 5 or exceed 10 Directors as there were no resignations or appointments during the year. The Board composition remained unchanged, reflecting the same composition that prevailed over the previous financial year.

Composition of MI Board Last 3 Years


</td></tr>
<tr><td>4. 2 Subject to the transitional provisions contained herein and subject to paragraph 5. (1) Of this Direction the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years.</td><td>Complied</td><td>In keeping with this section, All Non-Executive Director's period of service did not exceed nine years as given below:
<table>
<tr><th>Name of Director</th><th>Directorship Status</th><th>Number of years in position as at 31 March 2018</th></tr>
<tr><td>Mr S.H.J.Weerasuriya</td><td>Chairman (Independent Non-Executive Director)</td><td>7 years completed</td></tr>
<tr><td>Ms P.T.K. Navaratne</td><td>Independent Non–Executive Director</td><td>6 years completed</td></tr>
<tr><td>Mr N.H.V. Perera</td><td>Non–Executive Director</td><td>6 years completed</td></tr>
<tr><td>Mr S.M.S.S. Bandara</td><td>Independent Non–Executive Director</td><td>6 years completed</td></tr>
<tr><td>Mr P.C. Guhashanka</td><td>Independent Non–Executive Director</td><td>4 years completed</td></tr>
</table></td></tr>
<tr><td>4. 3 Subject to the transitional provisions contained herein, an employee of a Finance Company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the chief Executive Officer of the Company.</td><td>Complied</td><td>An equal 50% representation was maintained between Executive Directors (Five Directors) and Non-Executive Directors (Five Directors) and is within the provisions of this section.

Since the Board is equally balanced between the Executives and Non Executives, the Managing Director carries out the duties of the Chief Executive Officer at MI.</td></tr>
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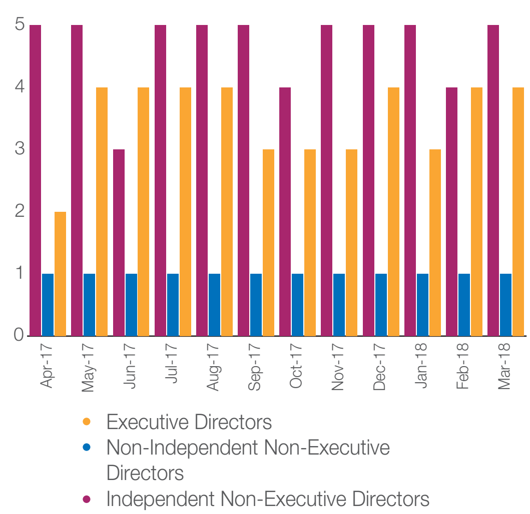
Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
4. 4 With effect from three years from the date of this Direction, the number of independent Non-Executive Directors of the Board shall be at least one-fourth of the total numbers of Directors.	Complied	The Board consists of 4 Independent Non-Executive Directors as against a total of 10 Directors (40%) and hence is within the requirement to have one-fourth (25%) of the total number of Directors as Independent Non-Executive Directors. Self-declarations were obtained from all Non-Executive Independent Directors confirming their suitability to be designated as "independent" in terms of the criteria in this rule. (Refer page 158 of section A.5.5 of the CA Sri Lanka code for information pertaining to Independent Non-Executive Directors.)
4. 5 In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	N/A	Not applicable since there were no Alternate Director appointments necessitated during this period.
4. 6 Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied	All Non-Executive Directors were selected objectively based on their qualification and experience in their respective fields. Pages 126 to 131 provides a brief on the profile of Non-Executive Directors outlining their qualifications and experience and the positions they hold in other institutions. Respective Directors hold senior positions in various organizations and attend Board meetings, Sub-committee meetings and other special meetings as and when necessary.
4. 7 With effect from three years from the date of this Direction, a meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	Complied	The number of Non-Executive Directors present In all Board meetings comprised more than a half of the number that constituted the quorum. Monthly Quorum Status of the Board Meetings 

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
4. 8 The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the Finance Company. The Finance Company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied	The Corporate Governance Report on pages 126 to 131 distinguishes the categories of Directors and discloses the names of Independent Non-Executive Directors outlining the profile of each Director. The following disclosures cover requirements of this section: - Composition of the Board given on page 176 - Category of Directors given on pages 126 to 131 All communications with the CSE, publications and corporate communications that disclose the names of Directors expressly identify the Executive Directors in compliance with this section. Further, the Corporate Governance Report that is contained in this report discloses the details of Directors, the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors as also required by this section.
4. 9 There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied	Please refer pages 158 to 160 of section A.7 of the CA Sri Lanka code for details on the Nominations Committee composition, duties, related matters and the procedure followed in making appointments to the Board. All new appointments and re-elections to the Board require the recommendation of the Nomination Committee. Upon the nominees being found to be "fit and proper" for appointment as Directors of the Company, approval of the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka is obtained in compliance to this section. The Board Nomination Committee Report is given on page 223
4. 10 All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	N/A	No Directors were appointed to fill casual vacancies during the financial year 2017/18.
4. 11 If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	Complied	No resignations of Directors took place during the financial year 2017/18 that warranted reporting to the CBSL. Resignations of Directors will be duly informed to the Department of Supervision of Non- Bank Financial Institutions and to the Colombo Stock Exchange by the Company Secretary in complying with this section and related provisions as per the Colombo Stock Exchange rules.
5) Criteria to assess the fitness and propriety of Directors 5.1 Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a Finance Company.	Complied	There were no Board members who exceed the age of 70 years. Page 142 provides the age profile of the Board of Directors.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
5.2 A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company.	Complied	No Director of The Board holds office in over 20 companies contravening the provisions of this section. Detailed Directorships held by each Director of Mercantile Investments in Board of other companies as at 31 March 2018 are disclosed in the Board of Directors on Page 126 to 131.
6) Delegation of functions 6.1 The Board shall not delegate any matters to a board committee, Chief Executive Officer, Executive Directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	The Board has delegated some of its duties to the Board Sub Committees and Corporate Management, but maintains close oversight to ensure the Board's ability to discharge its duties is not diluted. The Board evaluated the delegated authority limits, assessing particularly the credit authority limits and other limits applicable to the Board Sub-Committees this year. The Board has delegated its authority to Directors and specified authorised signatories to approve payments and sign key binding documents, whilst limiting delegation of certain key functions.
6.2 The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.	Complied	The Board reviewed the delegated powers vested with Directors, Corporate Management and other employees to ensure relevance to the needs of the Company. Please refer comments given on 6.(1)
7) The Chairman and the Chief Executive Officer 7.1 The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the one and the same person after 3 years commencing from 1 January 2009.	Complied	An Independent Non-Executive Director was appointed by the Board to act as the Chairman of the Company, while there is a Managing Director (MD) in an Executive Director capacity thus, the two roles are segregated. Please refer page 156 of section A.2 and A.3 of the CA Sri Lanka code for further details.
7.2 The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Finance Company's Annual Report.	Complied	Mr. Saro Weerasuriya, being an Independent Non-Executive Director, was appointed as the Chairman to the Board in January 2012 and continued to operate in this capacity during period under review.
7.3 The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	No material relationship including financial, business or family exists between the Chairman Mr. Saro Weerasuriya and the Managing Director / Chief Executive Officer Mr. Gerard Ondaatjie. A declaration was obtained to this effect from the Chairman and Directors during the financial year. However, Executive Directors, Mr. Gerard Ondaatjie, Ms. Angeline M. Ondaatjie and Mr. Travice J. Ondaatjie are members of the same family.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
7.4 The Chairman shall: a) Provide leadership to the Board b) Ensure that the Board works effectively and discharges its responsibilities c) Ensure that all key issues are discussed by the Board in a timely manner.	Complied	The Chairman of the company provided leadership to the Board in addressing all significant matters and obtained the best cooperation from fellow directors. The Chairman sought advice from the Company Secretary on Board procedures when deemed necessary. At monthly meetings, the Chairman ensured that focus and adequate attention was given for matters with strategic importance to the company. Please refer page 156 of section A.2 and A.3 of the CA Sri Lanka code for further details on the Chairman's role.
7.5 The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary	Complied	The Chairman of the company is responsible and provides supervision in the preparation of the formal agenda of Board meetings. The agenda captures all key matters to be discussed at the Board meetings and information on the performance of the company to ensure adequate information is provided to Board Directors to maximise their contribution at the Board meetings.
7.6 The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied	The agenda of the Board meetings and the notice are circulated to all the Directors as per stipulated timelines stated in section 3.3 of the code, providing sufficient time for the Directors to prepare themselves on the topics to be discussed at the meetings.
7.7 The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Finance Company.	Complied	The Chairman performs a leadership role in encouraging active Director participation in governing the affairs of the company to ensure that the Board's actions are in the best interest of the company.
7.8 The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors	Complied	All Non- Executive Directors including the Chairman contributed their knowledge and experience to the Board. All the Directors attended the majority of the Board meetings and contributed to the matters discussed individually as well as collectively. The meetings provided the Directors a platform to raise concerns, recommend suitable solutions and deliberate with each other to make effective decisions. This process is further strengthened through the self-evaluations of the Board where views of all Directors are canvassed in respect of the overall Board activities and its effectiveness.
7.9 Subject to the transitional provisions contained herein, the Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied	The Chairman, being an Independent Non- Executive Director, does not directly supervise key management personnel nor handle executive duties. The duties of the Chairman are clearly defined and approved by the Board and do not include any executive duties.
7.10 The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	The AGM is the primary platform for communication for the shareholders to express their views, raise their concerns and make recommendations for the Company. The shareholders may meet the Board members on one-to-one basis on obtaining formal appointment. The matters raised by shareholders are responded later in writing by the Company Secretary under the supervision of the Chairman of the Board, depending on its relevance and materiality.
7.11 The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Finance Company's operations and business.	Complied	The Managing Director/ Chief Executive Officer, Mr. Gerard Ondaatjie functions as the apex executive in charge of the day to day management of the company's business operations. He works closely with other Executive Directors and Corporate Management with regards to the daily operations of the Company. The role and responsibilities of the Managing Director/Chief Executive Officer are clearly defined and approved by the Board

<table>
<tr><th>Direction Requirement (With Section Number of the Direction)</th><th>Compliance Status</th><th>Extent of Adoption</th></tr>
<tr><td>8) Board appointed Committees
8.1 Every finance company shall have at least the two Board committees set out in paragraphs 8. (2) and 8. (3) Hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the Company.</td><td>Complied</td><td>The Board has appointed 06 Subcommittees to oversee various critical areas of business operations.
<table><tr><th>Subcommittee</th><th>Page(s)</th></tr><tr><td>Audit Committee</td><td>224 and 225</td></tr><tr><td>Integrated Risk Management Committee</td><td>221</td></tr><tr><td>Remuneration Committee</td><td>222</td></tr><tr><td>Nomination Committee</td><td>223</td></tr><tr><td>Related Party Transaction Review Committee</td><td>226</td></tr></table></td></tr>
<tr><td>8.2 Audit Committee
The following shall apply in relation to the Audit Committee:

8.2 (a) The Chairman of the Committee shall be an Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.</td><td>Complied</td><td>The Chairman of the Audit Committee is Mr. S. M. S.S. Bandara who is an Independent Non-Executive Director. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, and also a council Member of the Governing Council of the Institute of Chartered Accountants of Sri Lanka. While possessing two accounting qualifications and being a partner of B. R. De Silva and Company, Chartered Accountants, he has a wealth of experience in the field of Audit and financial reporting which enables him in overseeing the Committee's functions effectively.</td></tr>
<tr><td>8.2 (b) The Board members appointed to the committee shall be non-Executive Directors.</td><td>Complied</td><td>The Audit Committee is comprised of three Non-Executive Directors out of which two are Independent. The Audit Committee operates in an independent and objective manner to ensure impartiality of the Committee.
Please refer page 167 of section D.3 of the CA Sri Lanka code for details.</td></tr>
<tr><td>8.2 (c) The committee shall make recommendations on matters in connection with:

i.) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;

ii.) The implementation of the Central Bank guidelines issued to Auditors from time to time;

iii.) The application of the relevant accounting standards; and

iv.) The service period, Audit fee and any resignation or dismissal of the auditor, provided that the engagement of an Audit Partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</td><td>Complied</td><td>The Audit Committee made the following recommendations in relation to this section:

I) That Ernst and Young, Chartered Accountants was newly appointed as the external auditors of the Company for the financial year 2017/18 taking over Messrs. BDO Partners Chartered Accountants, previous external Auditors. The Committee made this recommendation on the basis that it is a new Audit engagement and making a role not to exceed the maximum term of 5 years. Ernst and Young, Chartered Accountants are approved by the regulator to provide external audit services.

II) That the Central Bank guidelines issued for auditors are implemented, as and when they are issued, on an ongoing basis.

III) In reviewing the application of the accounting standards in preparing the draft financial statements, it was recommended that both qualitative and quantitative disclosure for SLFRS 09 a new standard taking effect from 2018/19 to be included.

IV) The Audit committee decided on the Audit Fee for the financial year 2017/18. The committee noted that no resignation or dismissal of the auditor took place during the Financial Year under review.</td></tr>
</table>

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
8.2 (d) The Committee shall review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	The Audit Committee reviewed and monitored the aspects of independence, objectivity and effectiveness and the Audit process's adherence to applicable regulatory requirements and professional best practices. The External Auditors, Ernst and Young, Chartered Accountants submitted a declaration of Independence in the Audit process to the Audit Committee for the FY 2017/2018.
8.2 (e) The Committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.	Complied	The Audit Committee has developed a policy approved by the Board on the engagement of External Auditors to handle specific Non- Audit services permitted by regulation for FY 2017/18 following was handled.
8.2 (f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.	Complied	The Audit Committee met the External Auditor, Ernst and Young, Chartered Accountants 01 time during the FY 2017/2018. There were discussions between the Audit Committee and the External Auditors before the commencement of the Audit, during which the nature and scope of the Audit was discussed and finalised. These discussions included the areas requiring special attention and recommendations which were also included in the Audit Plan.
8.2 (g) The committee shall review the financial information of the finance company in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.	Complied	The Audit Committee monitored the integrity of the Annual Report, financial statements and other financial disclosures by reviewing the financial information of the Company periodically. Necessary changes were made thereafter by the Finance Department to the Financial Statements and other information contained in the Annual Report, before submitting to the Board for their approval. The Committee also reviewed the Company's quarterly financial statements in addition to the Annual Report before submitting to the Board of Directors.
8.2 (h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss, including those matters that may need to be discussed in the absence of key management personnel, if necessary.	Complied	During the financial year 2017/18, Committee met the External Auditors 03 times, of which two occasions were without the presence of the Executive Directors in order to discuss matters arising from the management letter issued for the past audit period and to discuss key audit observations and findings.
8.2 (i) The Committee shall review the External auditors' management letter and the management's response.	Complied	The Committee reviewed the management letter issued by the External Auditors for the financial year 2016/17. The review also covered management responses for material concerns requiring the immediate attention of the Audit Committee. This review process took place in the presence of the Finance Director. The committee took up key concerns with management who undertook to resolve the matters and issues brought to their attention.
8.2 (j) The Committee shall take the following steps on internal audit: i.) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work;	Complied	The Audit Committee reviewed and approved the two Internal Audit Plans for the financial year 2017/18 presented by the Internal Audit Department and PricewaterhouseCoopers (Private) Ltd, which was prepared on a risk based approach. The Internal Audit Plans were approved upon reviewing and assessing the overall risks of the company and the significant audit observations made during the previous year. The scope, functions and resources allocated for the Internal Audit department was assessed for its adequacy and sufficient authority by both the company's own Internal Audit Division as well as by PricewaterhouseCoopers (Private) Ltd in charge.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
ii.) Review the Internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;	Complied	The Audit Committee reviewed the findings of the internal audits carried out during the financial year 2017/18 and the evaluation made by the Internal Audit Department and PricewaterhouseCoopers (Private) Ltd on the adequacy of the Company's internal controls and compliances. The Audit Committee met 01 time with the Internal Auditors and reviewed the full audit/spot review reports. The Audit Committee ensured that necessary corrective actions were taken by the Company on internal audit findings and recommendations that were made during the year under review. The Committee reviewed the performance appraisal of the Head of the Internal Audit Department and overall performance of the Internal Audit Function.
iii.) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	Complied	The Audit Committee conducted performance appraisals for the Head of the Internal Audit department and the senior staff. Annual bonuses and increments of the department were purely based on their performance which considered the quality of Audit findings and timeliness of finalising audits. The performance of the PricewaterhouseCoopers (Private) Ltd was also reviewed by the Audit Committee for the FY 2017/18. The Committee concluded that all required audit deadlines were met and that the quality of reports was satisfactory.
iv.) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Complied	Subsequent to Ernst & Young Chartered Accountants taking over as external Auditors from 2017/18, the internal audit function was handed over to PricewaterhouseCoopers (Private) Ltd by the Audit Committee, in parallel with the company's own Audit team. This process ensured the head office and the entire branch network was reviewed on an annual basis. The level of resources allocated by PricewaterhouseCoopers (Private) Ltd was accepted by the Committee and no queries were raised.
v.) Ensure that the Committee is informed of resignations of senior staff members of the Internal Audit Department, including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied	Except for the changes in both external and internal audit function being entrusted to two independent Chartered Accountant Firms, none of the senior staff members of the Internal Audit Department or Senior officers from PricewaterhouseCoopers (Private) Ltd, handling the company's internal audit function, resigned during the year.
vi.) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied	The Company's Internal Audit Function is positioned independently, not conflicting with the activities it audits. To strengthen the independency of the Internal Audit department, the Departments submit their reports directly to the Audit Committee. PricewaterhouseCoopers (Private) Ltd is an independent institution handling internal audit services impartially with professionalism that reports directly to the Audit committee and have access to the Board in the event of any matters that need to be brought to the attention of the Board.
8.2 (k) The Committee shall consider the major findings of internal investigations and management's responses thereto;	Complied	The audit findings of the Internal Audit department are reported to the Audit Committee who reviews and considers audit findings on internal investigations and the management's responses thereto. However, there were no material audit findings reported during the year 2017/18.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
8.2 (l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied	The Finance Director/CFO attended Audit committee meetings on invitation, in addition to the Head of Internal Audit of PricewaterhouseCoopers (Private) Ltd as well as the company's own Internal Audit Officers being present to discuss the Audit findings. The committee also met with the external Auditors 02 time this year without the presence of the Executive Directors in keeping to this section.
8.2 (m) The Committee shall have: i.) Explicit authority to investigate into any matter within its terms of reference; ii.) The resources which it needs to do so; iii.) Full access to information; and iv.) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	Terms of Reference of the Audit Committee The Board approved Terms of Reference of the Audit Committee which was updated on 28/12/2017 mandates explicit authority to investigate any matter within its purview and take necessary action. Refer Board Audit Committee Report on pages 224 to 225 for a summary of Terms of Reference of the Board Audit Committee.
8.2 (n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	The Board Audit Committee met six (06) times during the financial year under review. The report of the "Audit Committee" given on pages 224 to 225 provides details on how the Committee records its decisions.
8.2 (o) The Board shall, in the Annual Report, disclose in an informative way, i.) Details of Audit Committee activities; ii.) The number of Audit Committee meetings held in the year; and iii.) Details of attendance of each individual member at such meetings	Complied	The activities of the Audit Committee and meetings held during this period with participation status have been disclosed on pages 146 to 147 in the Board committee table. Further information is disclosed in Section D.3 of the CA Sri Lanka code on the Committee's scope of activities. The Audit Committee Report for financial year 2017/18 is given on pages 224 to 225
8.2 (p) The secretary to the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the Committee meetings.	Complied	The company secretary, Mrs S. Pethiyagoda, functions as the Secretary to the Board Audit Committee. She records and maintains minutes of all Committee meetings in sufficient detail.
8.2 (q) The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor. GRI Standards General Disclosures 102-17	Complied	The Whistle-Blowing and Corporate Fraud Policy was revised by the Internal Audit Department and was approved by the Board on 27/03/2018. The policy enables a formal mechanism for the Company's staff to report violations of laws, rules, regulations or unethical conduct routed through the whistle-blower channels, so that necessary actions can be taken by the Committee. The policy lays down the investigation process to be carried out on such reported incidents ensuring that they are handled strictly protecting the confidentiality of those who are reporting and will not subject to any discriminatory action. During the financial year 2017/18, no material matters were reported to the Human Resource Division necessitating investigation by Audit or any other assigned party.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
8.3 Integrated Risk Management Committee (IRMC) The following shall apply in relation to the Integrated Risk Management Committee: 8.3 (a) The Committee shall consist of at least one Non-Executive director, CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	The Integrated Risk Management Committee (IRMC) comprises of one Non-Executive Director (1) acting as the chairman, while three Executive Directors (3) including the Managing Director comprise the full committee. The Committee's main duties are supervising broad risk categories such as credit, market, liquidity, operational and strategic risk. Refer the Board Committee overview on Pages 146 to 147. The Corporate Governance Report provides additional information pertaining to the IRMC on above pages. The members of IRMC work closely with Key Management Personnel of the company to assess risk situations which arise on a day-to-day business, and make sound decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.
8.3 (b) The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information.	Complied	The IRMC assesses all risks, i.e., credit, market, liquidity, operational and strategic risk, based on the information provided to the Committee by the Head of Compliance and Risk Management. He compiles all management information from different departments and prepares risk reports which evaluate the Company's risk levels evaluating risk indicators. The concerns/ risks identified through such reports are addressed, to bring down the risks within tolerance levels. Please refer section 8.3 (a) above on scope and tasks handled by the Committee. Refer the Board Committee overview on pages 146 to 147 and the Risk management Report on pages 195 to 208 with regard to disclosure on company risk management approach
8.3 (c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	Complied	The IRMC reviewed the effectiveness of management committee, Assets and Liability Committee (ALCO) and the Credit Committee. These management level committees discussed, evaluated and recommended action plans to address the risks faced by the Company and the effectiveness of each committee in managing the risks under their purview within specified limits is reviewed by the IRMC. Refer IRMC Report, on page 221 for the scope of the Committee and its activities during the year 2017/18 and the Risk management Report on Pages 195 to 208 on wider explanation on the company risk management approach.
8.3 (d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance Company's policies and regulatory and supervisory requirements.	Complied	In reviewing specified risk appetite limits set for credit and liquidity risk, actual risk levels were compared against such limits and reported to Committee by Head of Compliance and Risk Management. Each risk category of the Company has been reviewed against the risk tolerance levels by the Committee and recommendations have been made to the Board when specific risks exceeded risk appetite limits. Information was passed down to the management level through appropriate communication channels. Summary of variances between actual risk levels and risk appetite limits are disclosed on page 199

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
8.3 (e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied	The Integrated Risk Management Committee met four times at quarterly intervals during FY 2017/18 on a quarterly basis. Page 146 provides information on meetings held along with attendance records of the Directors.
8.3 (f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/ or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	N/A	There were no material violations reported during the year under review, in relation to complying with internal controls and risk management procedures. There were no incidents where the staff/management failed to take action to avoid material risks.
8.3 (g) The Committee shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.	Complied	The IRMC submitted risk reports to the Board within 7 days of having conducted their meetings, detailing a summary of key risks identified for the period and specifying risk mitigating actions proposed by the Committee for the Board's approval. Accordingly, four (4) activity reports have been submitted to the Board for the financial year 2017/18 under review.
8.3 (h) The Committee shall establish a compliance function to assess the finance company's compliance with the laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.	Complied	The company has established a compliance function to assess, monitor and report the Company's compliance with laws, regulations and regulatory guidelines. The compliance function is headed by a qualified Accountant in the senior managerial cadre who directly reports to the Integrated Risk Management Committee on the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and internal controls. A compliance status report was prepared and tabled monthly through the Finance Director for the Committee's information purposes, and a total of Twelve (12) status reports were submitted during the financial year 2017/18 under review. Please refer Compliance Management, on pages 96 to 140 for the framework and activities of the compliance function.
9) Related Party Transactions GRI Standards General Disclosures 102-25		During FY 2017/18, no lending was extended to Directors of the Company as per the above Direction. The Related Party Transactions Review Committee (RPTC) was formed during the FY 2014/15 under the chairmanship of Mr. S. M. S.S. Bandara, which reviews all related party transactions including accommodations to related parties. (Refer page 226 about RPTC)
9. 2 The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with those who shall be considered as 'related parties' for the purposes of this Direction.	Complied	In accordance with the provisions of this Section and the Sri Lanka Accounting Standard (LKAS - 24) on - "Related Party Transactions", for purpose of internal and external reporting, a streamlined process is adopted to capture related party transactions and to report to the RPTC being a Board Sub committee. Company is planning to strengthen and streamline related party transactions identification and reporting process in next financial year. The Related Party Transaction Committee met on a quarterly basis to review any conflicts of interest. This is the main mechanism that enables the Board to review and oversee the related party transactions of the Company. Refer Related Party Transactions Review Committee Report on page 226.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
9. 3 The transactions with a related party that are covered in this Direction shall be the following: (a) Granting accommodation, (b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, (c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company, (d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	Complied	The Terms of Reference of Related Party Transaction ensures that the procedures are established to identify related party transactions and to ensure that such transactions are carried out on an arm's length basis and not with "more favourable treatment". The Committee reviewed related party transactions carried out during this year to ensure they were at "an arm's length". As planned, the Committee carried out these reviews on a quarterly basis. Required disclosures on related party transactions have been disclosed in the Notes to the Financial Statements, while, Pages 217 to 218 disclose information relating to Directors' Interests in Contracts.
9. 4 The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company.	Complied	The Company has not facilitated any transactions that would grant the related party "more favourable treatment" compared to the transactions dealt with unrelated party. The company will initiate actions to further strengthen this process in next financial year. Refer section 9.2 above that refers to the "Related Party transactions" and "Directors' Interests in Contracts" disclosures.
10) Disclosures 10. 1 The Board shall ensure that: a) Annual Audited Financial Statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	The Company complied with applicable LKAS/SLFRS and other regulatory formats prior to publishing its annual audited financial statements and interim financials. The Financial Statements are also aligned with other regulatory requirements including the Finance Business Act, the Companies Act and the rules specified by the Colombo Stock Exchange. The Board ensured that the annual audited financial statements and interim financial statements were prepared in accordance with all applicable regulatory requirements. Necessary corrective actions were taken by MI on the internal audit findings and recommendations that were made during the year under review. Financial statements of the Company for the year 2017/18 were prepared and published in accordance with the reporting requirements prescribed by the regulatory and supervisory authorities and applicable accounting standards. The Board ensured that the financial statements were published in all three languages to conform to the regulatory requirement of the interim publication format and the applicable accounting standards.
10. 2 The Board shall ensure that at least the following disclosures are made in the Annual Report: 10.2 (a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	The Statement on Directors' Responsibility given on page 219 provides an affirmation that the annual audited financial statements have been prepared in accordance with the applicable accounting standards and applicable regulatory requirements.

<table>
<tr><th>Direction Requirement (With Section Number of the Direction)</th><th>Compliance Status</th><th>Extent of Adoption</th></tr>
<tr><td>10.2 (b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</td><td>Complied</td><td>The "Report by the Board on Internal Controls" stating the effectiveness of the Company's internal controls mechanism over financial reporting, given on page 227 in the Annual Report provides the required disclosure to comply with this section.</td></tr>
<tr><td>10.2 (c) The External Auditors' certification on the effectiveness of the internal control mechanism referred to in subparagraph (2) (b) above, in respect of any statements prepared or published from the date of this Direction.</td><td>Complied</td><td>The External Auditors' of the Company certified that the internal control mechanism over financial reporting was effective and obtained certification on the same for the financial period 2017/18. No significant matters needing attention was highlighted as per the report.

The External Auditors' Assurance Report on the effectiveness of the internal controls over financial reporting has been disclosed on page 228 in the Annual Report.</td></tr>
<tr><td>10.2 (d) Details of Directors, including names, transactions, with the finance company</td><td>Complied</td><td>Director's Information including their names and other details are provided on pages 126 to 131 while the details of the transactions entered by the Directors are disclosed under the "Directors Interest In Contracts" on pages 217 to 218 and in the "related party disclosures" in the Notes to the Financial Statements on pages 288 to 289.</td></tr>
<tr><td>10.2 (e) Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after 1st January 2010.</td><td>Complied</td><td>The fees and remuneration paid to Directors on an aggregate basis is disclosed on pages 254 to 255 in the Notes to the financials.</td></tr>
<tr><td>10.2 (f) Total net accommodation as defined in paragraph 9 (3) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.</td><td>Complied</td><td>The net accommodation granted to each category of related party is given below as a percentage of the Company's capital funds:
<table>
<tr><th>Category of Related Party</th><th>Amount (Rs. '000)</th><th>Percentage Against Company Capital Funds (%)</th></tr>
<tr><td>Key Management Personnel*</td><td>23,787</td><td>0.27</td></tr>
<tr><td>Associates Companies</td><td>-</td><td>-</td></tr>
<tr><td>Other</td><td>5,657</td><td>0.07</td></tr>
<tr><td colspan="3">* Key Management Personnel accommodation do not include their dependents accommodation provided by the Company.</td></tr>
</table>
There have not been related party transactions exceeding 10% of the equity during the financial year 2017/18.</td></tr>
</table>

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
10.2 (g) The aggregate values of remuneration paid by the finance company to its Key Management Personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied	The aggregate value of remuneration paid and transactions carried out by Key Management Personnel during financial year 2017/18 are disclosed below.
10.2 (h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied	"The Annual Report of the Board of Directors" signed by the Directors given on pages 211 to 2216 includes collective confirmation on the company's compliance with applicable laws and regulations. In addition, the Statement of 'The Directors Responsibility for Financial Reporting' given on page 219 confirms the company's compliance with regulations on financial reporting.
10.2 (i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non- compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public with the measures.	Complied	There were no other matters brought to the attention of the company to be disclosed.
10.2 (j) The external auditors' certification of the compliance with the Corporate Governance Directions in the annual corporate governance reports published from the date of this Direction.	Complied	External Auditors Ernst and Young Chartered Accounts, reviewed the company's compliance status to CBSL Corporate Governance Direction. Accordingly, they have issued a factual finding report in this regard for the financial year 2017/18.

	KMPs including Executive Directors (Rs. '000)
Accommodations	27,572
Deposits	641,489
Remuneration	121,205

MI COMPLIANCE STATUS TO THE LISTING RULES OF SECTION 7.6 AND 7.10 OF THE COLOMBO STOCK EXCHANGE

Listing Rule No. 7.6 – Contents of the Annual Report at a Glance

Rule No	Disclosure Requirement	Section Reference	Status of Compliance	Page Reference
7.6 (i)	Names of persons who held the positions of Directors during the financial year	Annual Report to the Board of Directors on the Affairs of the company.	Complied	211 to 216
7.6 (ii)	Principal activities of the Entity during the year and any changes therein	Significant Accounting Policies	Complied	238 to 247
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Investor Relations	Complied	311
7.6 (iv)	The Public Holding percentage	Investor Relations	Partially Complied	310
7.6 (v)	The statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of financial year	Annual Report to the Board of Directors on the Affairs of the company.	Complied	214 and 215
7.6 (vi)	Information pertaining to material foreseeable risk factors	Risk Management	Complied	198
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Human Capital	Complied	102 to 111
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties as at end of the year.	Notes to the financial statements	Complied	272 to 279
7.6 (ix)	Number of shares representing the Entity's stated capital	Notes to the financial statements (Note 39) Investor Relations	Complied	286
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Investor Relations	Complied	310
7.6 (xi)	Equity Ratios Market Value	Investor Relations Investor Relations	Complied	77 and 311
7.6 (xii)	Significant changes in the equity's fixed assets and the market value of land, if the value differs substantially from the book value	Notes to the financial statements	Complied	238 to 247
7.6 (xiii)	Details of funds raised through Public issues, Rights issues and Private Placements during the year	Investor Relations	Complied	311
7.6 (xiv)	Information in respect of Employee Share Option Plan and Employee Share Ownership Plan	Notes to the financial statements	Complied	215
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of section 7 of the Rules	Corporate Governance Report	Complied	191 and 192
7.6 (xvi)	Disclosure on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	Investor Relations	Complied	311

Listing Rule No. 7.10 – Contents of the Annual Report at a Glance

CSE Rule No.	Requirement	Compliance Status	Extent of adoption (FY 2017/18 update)
7.10	Overall compliance position in relation to CSE 7.10 (Corporate Governance)	Complied	a) MI is in compliance with corporate governance rules specified by CSE for all listed companies. b) Complied with section 7.10 requirements specified under this section. c) MI has duly adhered to CBSL issued Corporate Governance Direction. Compliance status is given on page 171 to 189.
7.10.1	Non- Executive Directors of a Listed Company	Complied	5 out of 10 Directors of MI function as Non- Executive Directors. Maintained 50% composition of Non-Executive Directors in the Board, throughout this period, complying with this requirement.
7.10.2	Independent Directors (a) Two or one third of the Non- Executive Directors of the Board whichever is higher should be independent.	Complied	Four out of five Non-Executive Directors are Independent hence complies with requirements of this section.
	(b) Submission of a declaration of independence by Independent Non- Executive directors as per prescribed format		Declarations have been submitted by all Non-Executive Directors as per the format provided in the CSE Code on corporate governance for 2017/18 financial year.
7.10.3	Disclosures Related to Directors	Complied	
	(a) Disclosure of the names of Independent Non-Executive Directors		As per section 7.10.4, names of all four Independent Non-Executive Directors are mentioned on page 158 of the Corporate Governance Section A5.5 of the SEC and CBSL Code.
	(b) In the event a director does not qualify as 'independent' against any of the criteria set out by section 7.10.4 of the Rule but if the Board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the board shall specify the criteria not met and the basis for its determination in the annual report.		No such a circumstance has occurred during financial year 2017/18.
	(c) Disclosure of a brief resume of Directors in Annual Report		Brief resume of each Director is provided on pages 126 to 131 covering requirements of this section.
	(d) Upon appointment of a new director to its Board, the Entity shall forthwith provide to the Colombo Stock Exchange a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.		As a practice of MI, an announcement will be made to CSE upon appointment of a new Director.
7.10.4	Criteria for Defining "Independence"	Complied	All the Independent Non-Executive Directors have fulfilled eight criteria of independence stipulated in this section.
7.10.5	Remuneration Committee A listed entity should have a Remuneration Committee.	Complied	MI's Remuneration Committee information is provided on pages 146 to 147 and 222.

Listing Rule No. 7.10 – Contents of the Annual Report at a Glance

CSE Rule No.	Requirement	Compliance Status	Extent of adoption (FY 2017/18 update)
	(a) Composition of the Remuneration Committee		Two out of three members in Remuneration Committee are Independent Non-Executive Directors. Board Chairman who is Independent Non-Executive Director holds the Chairmanship of Remuneration Committee.
	(b) The Remuneration Committee shall recommend the remuneration of the Managing Director of the Company.		Page 162, section B.2.1 of the ICASL Code provides necessary information.
	(c) Disclosure of the Remuneration Committee in the Annual report ➲ Name of the Directors serving in the Committee		Names of Directors in the Remuneration Committee are provided on page 146
	➲ Statement of Remuneration Policy		Please refer page 222 for the Remuneration Committee Report.
	➲ Aggregate Remuneration paid to Executive Directors and Non- Executive Directors		Aggregate remuneration paid to Executive and Non-Executive Directors is provided on pages 254 to 255
7.10.6	Audit Committee A listed entity should have an Audit Committee.	Complied	
	(a) Composition of the Audit Committee		Particulars relating to MI's Audit Committee is provided on pages 224 to 225
	➲ Audit Committee shall comprise of Non – Executive Directors, a majority of whom shall be independent		All three members of the Audit Committee are Non-Executive Directors, two of whom are independent.
	➲ One Non-Executive Director shall be appointed as Chairman of the Committee		Chairman of the Audit Committee is Mr. S.M.S.S. Bandara, who is an independent Non-Executive Director.
	➲ The Chief Executive Officer and the Chief Financial Officer of the listed Company shall attend Audit Committee meetings.		During financial year 2017/18, Finance Director (CFO) attended Audit Committee meetings by invitation. Calling of Managing Director was not necessitated this period.
	➲ The Chairman or one member of the Committee should be a Member of a recognized professional accounting body.		The Chairman of the Audit Committee is a Chartered Accountant, with years of experience behind him in Financial and Auditing field, and a partner of B. R. De Silva Company, Chartered Accountants.
	(b) Functions of the Audit Committee		Functions of the Audit Committee are disclosed in page 168 in section D.3.3 of the ICASL Code details.
	(c) Disclosures in Annual Report		
	➲ The Name of the Directors comprising the Audit Committee		Composition of the Audit Committee is provided on pages 146, 224 and 225
	➲ The Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination		Please refer page 168, section D.3.2 of the ICASL Code for disclosure in this regard.
	➲ Annual Report shall contain a report by the Audit Committee, setting out the manner of compliance by the Entity in relation to the Section 7.10 of CSE Listing Rules		The Audit Committee report is disclosed on pages 224 to 225 in the Annual Report.

MI's Compliance Status with CBSL Rules, Directions, Determinations, Notices and Guidelines

The Company's compliance with laws and regulations with specific focus on CBSL Directions is reported by the Head of Compliance and Risk Management to the Board. The information table which provides a status update on compliance with the regulations as at 31st March 2018 is uploaded on the official web site, www.mi.com.lk

Submission of CBSL Web Returns

All required CBSL web returns were submitted by the Company on or before the due dates for submission. The information table is uploaded on the web site of the Company on www.mi.com.lk

Returns Submitted as per Prevailing Regulations for LFC Sector

The information table is uploaded in the MI website (www.mi.com.lk)

External Auditors' Certification

The services of the External Auditors were obtained to certify the contents stated in the Corporate Governance Report in relation to the Finance Companies (Corporate Governance) Direction No.03 of 2008 and related amendments. External Auditors confirmed that the disclosures given are in order according to their report prepared upon on agreed procedures dated 17th May 2018

S. Pethiyagoda
Company Secretary

Ramidu Costa
Head of Compliance and Risk Management

Saro Weerasuriya
Chairman

Colombo
17th May 2018

Submission of CBSL web returns and Rules/ Directions/ Guidelines - Visit MI Website

http://mi.com.lk/value-creation/governance-risk-management/

How Risk was tackled

Risk Management

Risk Management Report of The Company

RISK MANAGEMENT HIGHLIGHTS FOR FY 2017/18

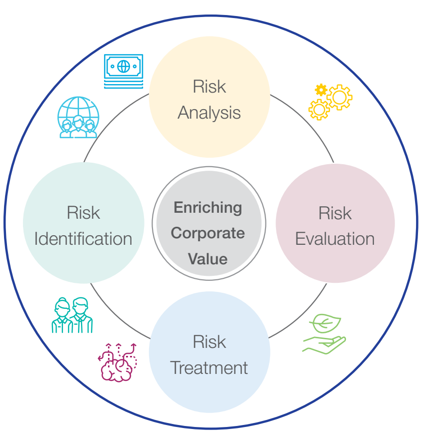
- Revised policy documents to ensure the operations are consistent with the changes in business and regulatory environment.
- Customer protection framework was developed during the year.
- MI changed its External Auditors - Ernst and Young was appointed as the External Auditors for the FY 2017/2018.
- Recruitment of new staff including two Senior Managers to strengthen the Risk functions of the company.
- Authorization limits for transactions of high value/ high risk were reviewed during the year.

Integrated Risk Management Framework

GRI Standards General Disclosures
102-30

MI travelled a journey of responsible growth for over 50 years, backed by its effective integrated risk management framework. While risk management is necessary for any organization, we recognize that sound risk management is central to everything we do as a non-banking financial services provider.

MI's integrated risk management framework ensures that we create sustainable value and address the interests of our six capitals in a more responsible manner. By incorporating risk management in every aspect of our business, today, we are well-equipped to grab emerging opportunities, to broaden our market share and to create long term value for our investors, while complying with regulations, protecting interests of our customers, employees, communities and environment.



The Primary objectives of the Risk Framework are;

- Safeguarding financial and non-financial capital value
- Ensuring earnings stability and consistency
- Protecting MI against possible losses in monetary and intangible terms
- Integrating risk management at all levels of decision-making;
- Anticipating and mitigating risk events before they become a reality;
- Taking a proactive stance to tackle future developments / changes

These goals are cascaded down into the framework, policies, methodologies, allocation of responsibilities, governance and reporting structures that have been developed in line with all applicable regulatory requirements and international best practices. We adopt a four-step approach to address all the key risks associated with our business - identifying, analysing, evaluating and finally taking action (risk treatment) promptly to eliminate, mitigate or to avoid the risks. The Head of Compliance and Risk Management, who is the Risk Officer of the company, is responsible for driving the framework across the entire company.

Risk Strategy

GRI Standards General Disclosures
102-31

MI's risk strategy is designed to maintain a healthy balance between risks and returns. As a company in the LFC sector, MI's businesses are exposed to number of risks for which we have developed a structured approach to manage risks within the risk appetite levels, and to monitor and report continuously as per MI's Risk Management framework. In support of the Risk management strategy, the company has devoted significant resources, formed number of committees to ensure governance, promoted a strong risk culture and also integrated the risk management into decision-making and strategy-setting. MI's risk management process encapsulates a stream of Board-approved policies and procedures, laid forth for officers to follow as a means of eliminating or mitigating risks at various levels. By doing this, we have become successful in managing the risks attached to our profitable business operations, ensuring that the desired value creation happens in an economically, socially and environmentally sustainable manner.

Risk Appetite

The risk appetite defined by MI's Risk management Framework provides measurable targets and thresholds which define the maximum level of risks that MI is willing to take in the process of achieving the firm's business plans. The main aim of setting a Risk Appetite is to ensure that risks are proactively managed as per the Board approved tolerance limits for each material risk category. While having zero appetite for regulatory non-compliance, MI has set reasonable tolerance levels for other risks, in order to ensure the company's responsibilities regarding economic, social and environmental sustainability are fulfilled. The company's risk appetite is reviewed annually and amendments to risk appetite levels are made through discussions between Business Line Heads, the relevant Board Sub Committees and the Risk officer and thereafter subjected to Board approval. (Refer risk appetite versus and actual risk levels under each key risk)

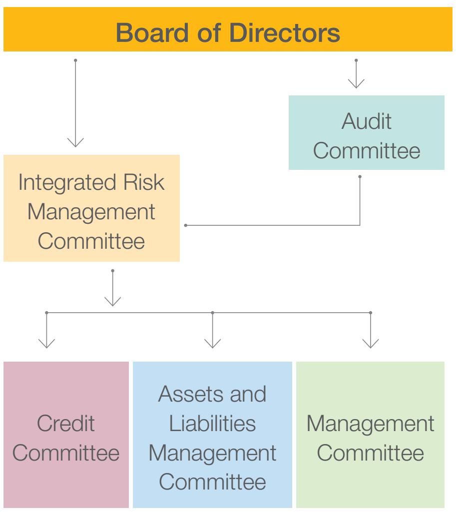
Risk Policies and Guidelines

Our Risk policy is comprehensive and was further strengthened during this year in the light of evolving sophistications in the risk levels. It addresses the key risks faced by the company and is compliant with all regulatory requirements including the Finance Business Act No. 42 of 2011 and related acts, policies and guidelines issued by the regulators.

The Risk Management policy of MI clearly defines the objectives, outlines priorities and processes and roles of the Board and Management in managing risk and shaping the risk culture of MI. The risk policy and guidelines are regularly reviewed by the IRMC not only to fulfill regulatory requirements but also to respond the changes in our business needs. Guidelines facilitate the implementation of policies with operational detail including specification of types of facilities, such as processes, terms and conditions under which the company will conduct business, providing employees with the required clarity in their day-to-day work.

Risk Governance

The ultimate responsibility of MI's risk management activities lies with the Board of Directors, while the Board Audit Committee, under delegated Board power, reviews the entire risk management process from an independent perspective and reports to the Board. The Board's authority in risk management is delegated to several Board appointed sub committees. The key oversight role over the risks is entailed with the integrated Risk Management Committee (IRMC), which stands above the various management committees set up to review key risk areas.



The Board's Role in Governing an Effective Risk Management Framework

GRI Standards General Disclosures
102-29, 102-30, 102-31

As the Board remains with the ultimate responsibility of risk management, the Board reviews the effectiveness of the Risk Management Framework in order to ensure it is upto-date and responding well to economic, social and environmental changes in the business environment. The Board is also responsible for setting the Risk Appetite limits for the business and the implementation thereon comes under the purview of the corporate management. The Board has established necessary Board Sub-Committees to which, part of the responsibilities are delegated. Board appointed subcommittees report to the Board on MI's current risk status of the material risks versus the relevant risk appetite limits which require Board's attention. In monitoring and managing these risks, the Board is advised and assisted by the Integrated Risk Management Committee (IRMC).

Role Played by the Committees in Risk Management

Integrated Risk Management Committee

IRMC assists the board in fulfilling its role in risk management. In doing this, the IRMC determines the risk appetite, monitors and manages key risks, and reviews MI's approach to risk management periodically. Management concerns over key risks are communicated to IRMC by the Credit Committee, ALCO and management committee, through quarterly and ad-hoc risk reports prepared by MI's risk management function.

Audit Committee

Reviews companywide risks from an independent position and is a part of MI's third line of defense against the risks. The audit committee evaluates the adequacy of internal controls and their effectiveness and reviews the management's compliance to internal and external regulations.

Credit Committee

Reviews transactions with high credit risks, monitors material value overdue accounts and propose recovery actions. The committee reviews MI's credit policy with the aim of managing the credit risk attached to the lending business.

Assets and Liabilities Committee

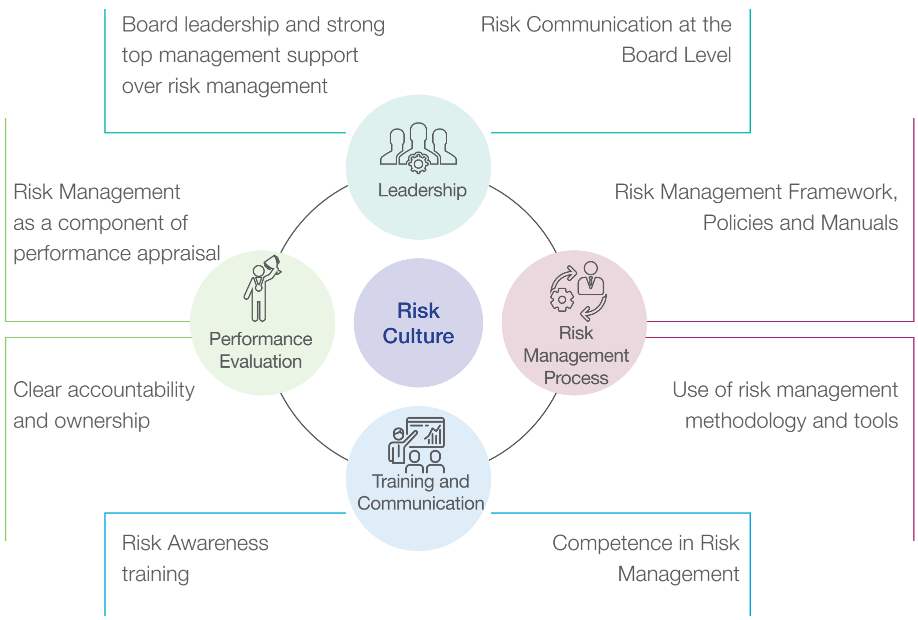
The committee holds the responsibility of overseeing MI's liquidity position and related risks including interest rate risk. The committee is entrusted to review pricing and margins and asses the sensitivity of MI's profits to market variables.

Management Committee

The committee reviews the gaps between performance against strategic targets and competitor analysis reports. The committee actively evaluates and implements action plans to tackle the risks primarily associated with MI's profitability, core business operations, and asset quality and core margins.

Risk Culture

We believe that our risk culture is fully dependent on the risk awareness, experience, curiosity and ability of sound judgment of every employee. The integrated risk management framework is built around a strong risk culture practiced at every level of the organization. Therefore, with the aim of embedding the risk culture across the company, we conducted various training courses, awareness programmes and incorporated risk management responsibilities in the company rules and regulations and performance appraisal mechanism.



Three Lines of Risk Defense

MI's Risk management Framework is executed through our unique Three Lines of Defense strategy. This contributes to stand as a safety mechanism against unexpected risks and losses, protecting the organisation's assets and stakeholder interests. Every employee is accountable for proactively managing the risk within their capacities as illustrated, which in turn promotes a strong risk culture among our employees across different business functions.

The first line of defense represents the frontline of our business. Identification, management and reporting of both current and potential risks factors associated with MI's business are managed effectively as close as possible to the source of risk at operational level. The core of defense system coordinates with centralized risk management function which is the 2nd line of defense in identifying potential risks and implementing both proactive and reactive risk controls.

This line of defense stems from the Centralized supervision initiated by the Risk and Compliance function to ensure the implementation of governance standards, frameworks and policies for each type of risk that the Company is exposed to, while ensuring consistency in Risk Management exercised across all areas.

This last level cements MI's risk defenses over potential risks and it involves an independent review and objective assurance on the Risk Management /Compliance processes and practices of the company. It empowers the Audit Committee and the Internal Audit to communicate with the External Auditors, IRMC and finally The Board.

Risk Prioritization Process

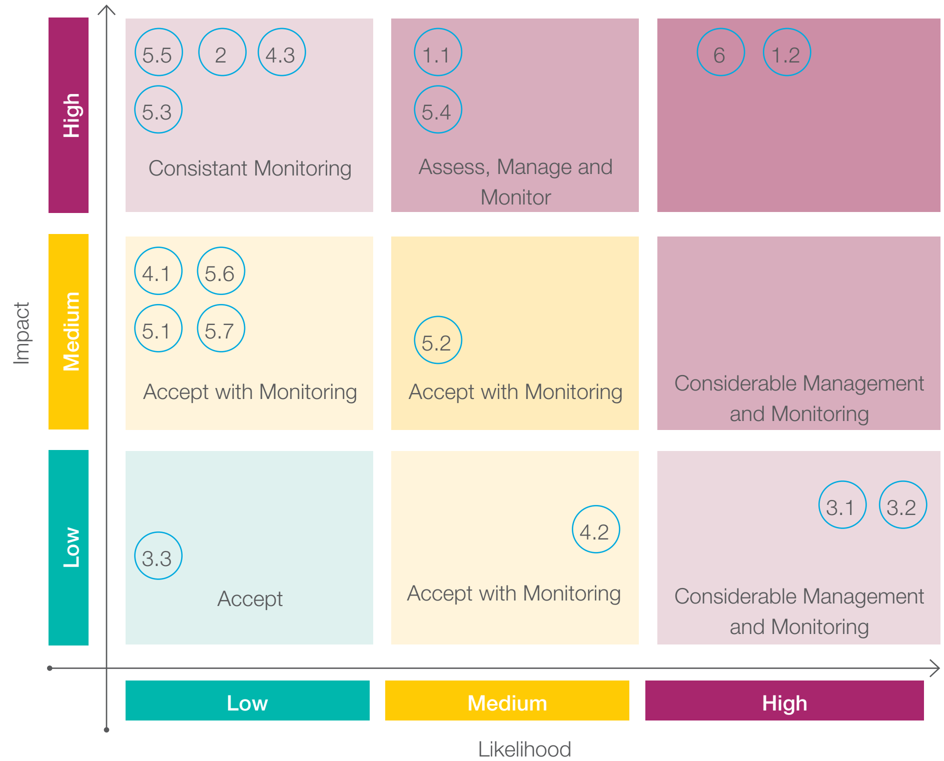
As an established broader risk review process, the IRMC, with the assistance of the Head of Compliance and Risk Management, carried out risk assessments covering a broad range of financial and operational risks to prioritize risk treatment actions. Financial risks were assessed every quarter and reported to the IRMC and operational risks assessment exercise took place annually and was reviewed quarterly to ensure MI's risks were assessed upto-date. The below Risk Heat Map reflects this risk assessment for the current year which evaluates various risk's likelihood of occurrence and their level of impact. Both the financial and non-financial impact of each risk is considered for the risk assessment. Risks, where the likelihood and impact were high, were deemed material and analysed for extensive management and monitoring (Red Zone). Accordingly, as the impact and the likelihood decreased, a strategy of continuous monitoring was pursued.

Credit Risk

Credit risk is the risk of financial loss arising due to the failure of a customer or counterparty meeting its obligation to settle outstanding amounts. Credit risk may result in the loss of the principal amount and interest with adverse implications on profits due to the impairment charges or write-offs of non-performing facilities.

MI's lending product mix is primarily on balance sheet assets that include leases, hire purchases, property mortgage, vehicle loans, microfinance and other loan receivables. Based on the different characteristics associated with each type of product, the level of risk varies and need to be tackled appropriately.

Risk Heat Map



ASSOCIATED RISKS

1. Credit Risk
1.1 Default Risk
1.2 Credit Concentration Risk
2. Liquidity Risk
3. Market Risk
3.1 Interest rate Risk
3.2 Equity Risk
3.3 Foreign Currency Risk
4. Operational Risk
4.1 Internal Control Risk
4.2 Operating Environment Risk
4.3 Unforeseen Natural Disaster
5. Legal Risk
5.1 Regulator Risk
5.2 Insurers Risk
5.3 Unknown Risk
5.4 Suppliers Risk
5.5 Competitors Risk
5.6 Borrowers Risk
5.7 Stakeholders Risk
6. Technology Risk
7. Reputational Risk
8. Competitor Risk
9. Human resource related Risk
10. Compliance Risk
11. Strategic Risk

Key Highlights of the Year

- The Credit Policy was revised during the year with improved controls for risk management.
- Recruitment of a Senior Manager who is fully in charge of Credit Risk Management.

Credit Risk Management Process

Key Credit Risk Indicators (KRI)

The Credit risk management function of MI ensures that credit risk is within the risk appetite set by the Board of Directors.

Key Risk Indicators	Policy Range	Actual
Gross NPA%	Below 3.5%	7.58%
Provision Cover	Above 45%	48%
Credit Concentration-Sector-wise		
➲ Agriculture	Below 5%	3.87%
➲ Consumption	Below 4%	3.45%
➲ Services	Below 50%	47.83%
Single Borrower Limit (Individual)	As per Central Bank of Sri Lanka	2.50%

Credit Policy and Procedures

MI's credit policy is the governing document for credit risk management and provides guidance for all the stages of the credit cycle. In parallel,the Internal Audit department ensures that credit policies and procedures are kept effective and relevant internal controls are sufficient to face risks and comply with industry regulations. The Director (Non-Board) - Credit and Marketing and respective cluster AGMs – Credit took the necessary follow-up actions on all significant concerns highlighted in audit reports, under the supervision of the Audit Committee. Further, the Audit Committee and Risk department appraised all material credit concerns and reported the findings to the Board. Credit review is part of the Audit team's full and spot audit process and this is an ongoing exercise.

While the credit policy oversees the overall risks attached to the credit cycle, the company has developed a well-structured mechanism documented in the credit risk manual which includes stringent credit procedures through which the credit policy is executed. The Credit manual is reviewed periodically and necessary updates are made according to the changes in the economy, products and internal processes.

MI's Credit Approval Process

Our lending products, such as leases and loans are originated at Head office as well as at branch level. In managing associated risks, the policies and procedures cover all stages of the credit cycle from applying for a lending facility until the full recovery of dues. However, the methodology applied for assessing, approving and monitoring credit risk varies between customer, product types and segments as risk levels differ.

Inquiry

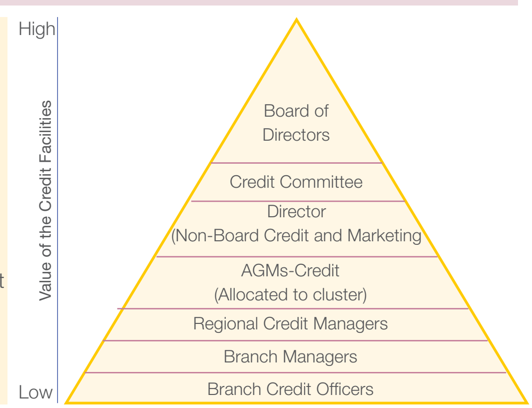
- Recording and follow up
- Customer meetings-Communicate the requirements in obtaining credit facility. The requirements that customer must fulfill are decided for each type of lending by considering the risk factors and regulatory environment.

Application and Assessment

- Operational evaluation of the credit request
- Highlight key business risks-evaluate the exposure by assessing the valuation reports
- Assess the client background-information of references,credit reports, assess past payment history
- Financials and repayment analysis-sources of income and repayment capacity, verification of movable and immovable assets, bank statements
- Know Your Customer review and documentation
- The Credit & Marketing Officer/ Credit Manager together with the respective AGMs are required to identify and evaluate the risk exposure connected to the credit proposal.
- Request for additional security, if risks exceed standard levels.

Credit Approval

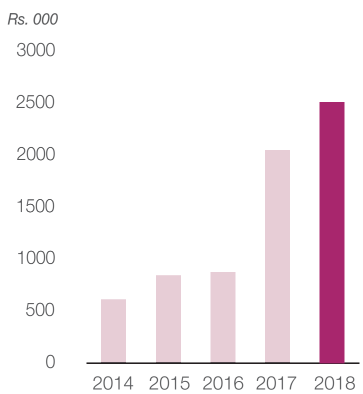
- Approval for credit is granted only after thorough assessment of the risks.
- Credit facilities are approved at different authority levels based on the value of the credit facility.
- The Board of Directors is the highest authority to approve credit facilities, followed by the Credit Committee for higher value exposure. The Managing Director (MD), Director (Non-Board) Credit and Marketing, Assistant General Managers (AGMs), and Senior Managers at the head office have been delegated with authority to approve credit facilities.
- At branch level, the Branch Manager is the highest authority level to approve credit facilities subject to the prescribed credit limits.



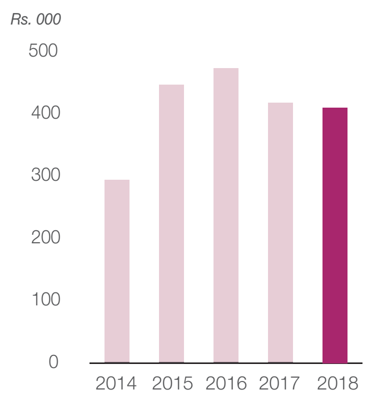
Credit Monitoring

MI is well equipped with a competent pool of talent and IT systems in order to monitor and oversee more than 20,000 lending customers. Apart from the information monitored in the credit approval process, both system reports and CRIB reports were obtained for borrowers and field visits were carried out to assess the creditworthiness of potential borrowers. The credit department of MI measures and tracks the risk level of credit portfolio on an ongoing basis. This enables MI to detect early warning signals and to minimize and manage possible deterioration of credit quality. Credit quality is reviewed on a monthly basis through management information reports submitted to senior management and quarterly risk reports submitted to IRMC. The IRMC assesses the credit portfolio performance against risk tolerance levels to maintain the credit risk indicators within the stipulated tolerance levels. Mainly, non performing credit and credit concentration are considered as measuring indicators in monitoring the credit risk.

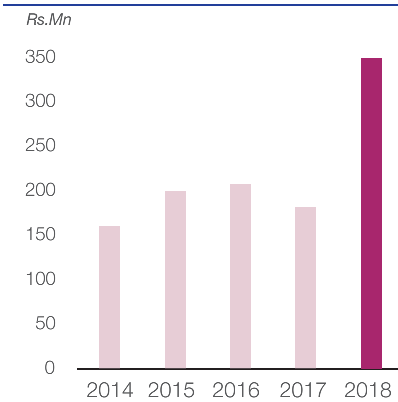
Non performing Advances-Overall



Non Performing Advances- HP

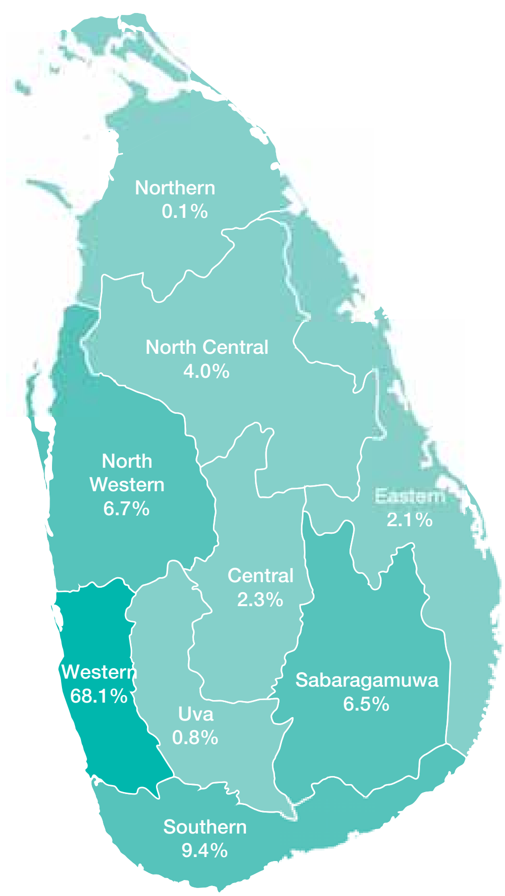


Non Performing Advances- Lease



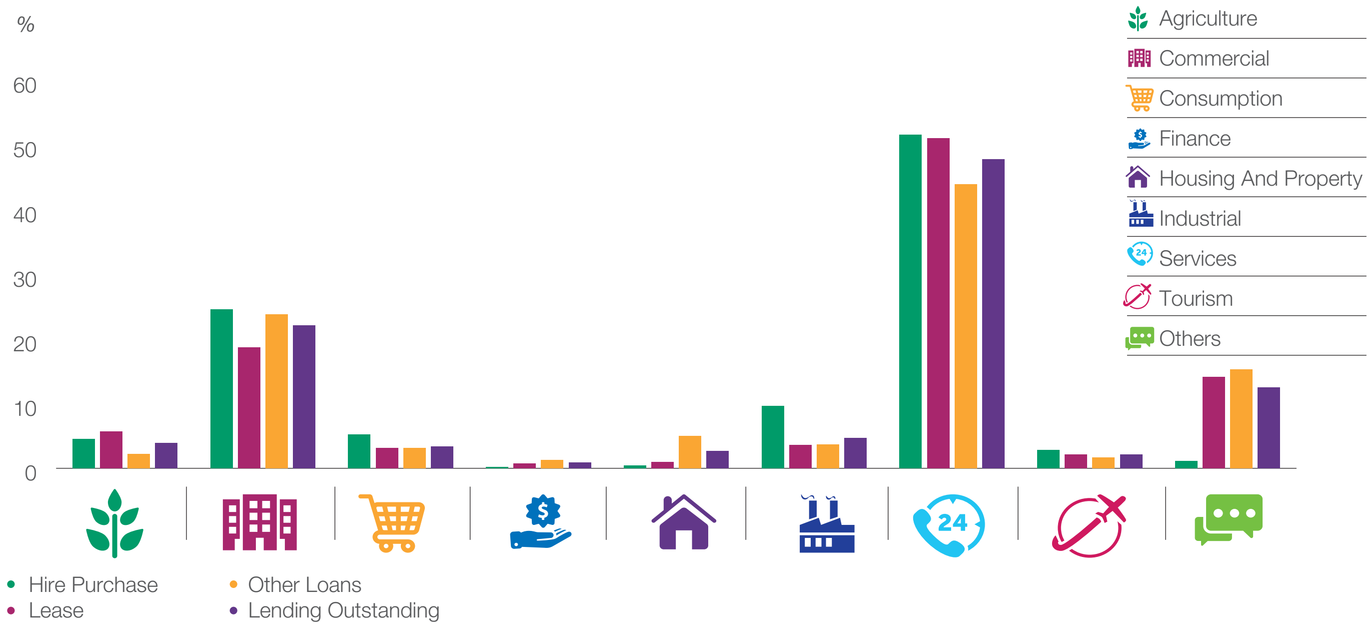
Credit concentration risk depends on the level of distribution of credit among different geographical regions, economic sectors or the distribution of credit among individuals and companies. Credit concentration is analysed to ensure the risk is managed within the risk appetite levels. We also monitor the single name concentration and compliance to the prescribed single and group borrower limits by the regulator.

Geographical Concentration of Credit

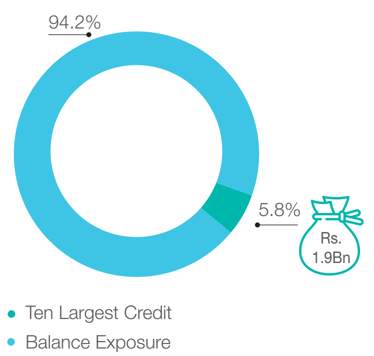


Sector Concentration

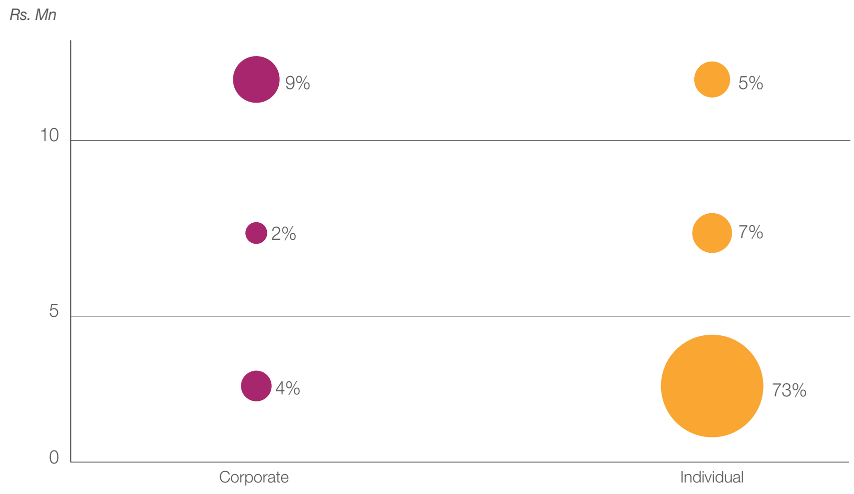
Concentration of Credit Sector Wise in 2017/18



Exposure of 10 Largest Customers



Credit Exposure by Counterparty 2017/18



Credit Recovery

Credit recovery division of MI plays a key role in managing credit risk by monitoring the collection process closely and taking necessary actions to ensure due arrears are recovered. Borrowers with arrears are promptly informed via reminders to regularize any collection delays. A special recovery task force is in place to speed up the recovery process for overdue problematic accounts. Tougher recovery action is pursued in coordination with the legal department for problematic default accounts.

The credit recovery statistics are reviewed by the Credit and Recovery teams based on daily, weekly and monthly performance reports, which are taken up at weekly management meetings.

Liquidity Risk

Liquidity risk is the risk of being unable to meet the company's financial obligations in a timely manner. The level of liquidity risk faced by MI is dependent on factors such as maturity profile, composition of funding sources and size of the liquidity portfolio. Financial institutions are generally vulnerable to liquidity risk based on the business dynamics which result in mismatches in the company's assets and liabilities, especially in the short run.

Key Highlights of the Year

- Liquidity policy was revised with more effective tools to monitor and manage the liquidity risk. Separate policies for borrowings and investments were also approved during the year.
- New funding lines were identified.
- Treasury function was strengthened through the implementation of newly approved policies.

Sources of Liquidity and Funding Risk

- Customer Deposits: Maturity profile and the size of the deposits base is a key factor deciding MI's liquidity position. Customer deposit behaviour also contributes in deciding the level of liquidity risk caused by customer deposits.
- Short Term and Long Term Institutional Borrowings/Debentures/other debt securities: Different funding instruments are used to support the growth of MI's core business and as a part of management of liquidity risk.

Liquidity Risk Performance Indicators

The Board Approved Liquidity Gap Limits and other key risk indicators are also used to ensure that the liquidity levels are sound and in compliance with Central Bank regulatory requirements.

Key Risk Indicators	Policy Range	Actual
Net Advances to Deposit	Below 140%	159%
Liquidity Gap (Cumulative)		
Within 12 Month Bucket	(6,000 Million)	(4,705)

Liquidity Policy

Policies for Investment and Borrowings, which falls under the liquidity policy and investments policy, are in place providing a framework for managing MI's overall liquidity position. The liquidity policy is executed through different committees and functions. The Assets and Liability committee is primarily in charge of overseeing the company's liquidity position and to ensure it is in line with the risk appetite set by the Board of Directors and regulatory limits. The impact arising from all strategic and medium term decisions taken by the Board and the corporate management on liquidity is also ascertained by this high level committee comprising key divisional heads. Treasury division monitors the liquidity position and all related transactions on a daily basis where risk triggering items are escalated and managed promptly.

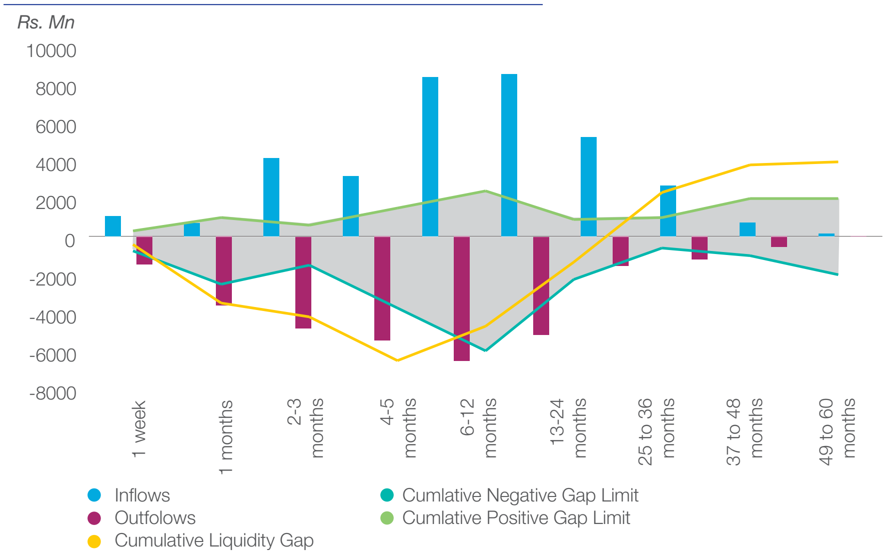
The liquidity policy ensures the below controls are in place to mitigate and manage the credit risks faced by MI.

- Risk appetite limits
- Liquidity Risk Monitoring
- Liquidity Risk Reporting Mechanism
- Clear duties for Treasury division, Committees and Senior Manager
- Contingent Funding Lines

Liquidity Risk Monitoring

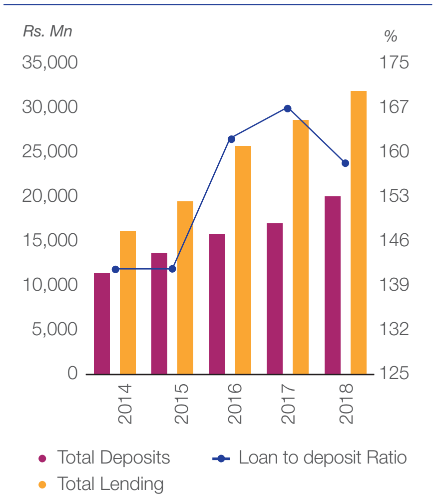
The Treasury division monitors the Liquidity risk on a daily basis. Different tools are being used to monitor the maturity profile, quality of the deposit base and funding portfolio. MI's maturity Gap Analysis reflects the expected contractual maturity of balance sheet assets and liabilities. The division, under the supervision of the CFO, monitors and takes action to manage the liquidity gap within the tolerance levels set by liquidity risk appetite. Moreover, to minimize the concentration risk, plans are underway to further diversify the deposit base.

Liquidity Gap Analysis



While the maturity of the customer deposits is reflected at contractual maturity in the above maturity gap analysis, MI also evaluates the behavioural aspect of the withdrawal of deposits. In practice, the behavioural maturity profile of the customer deposits exhibits longer maturity than the contractual maturity. Deposit base is analysed closely in order to minimize the deposit concentration risk. MI is in continuous effort with innovation to grow our deposit base which will in turn support the healthy growth of business. Moreover, to minimize concentration risk, plans were underway to further diversify the base.

Advances to Deposits



Contingent Funding Lines

Contingent funding plan primarily provides direction in managing temporary liquidity shortfall situations under company specific or market specific stress scenarios. Contingent funding lines are planned by forecasting the funding needs and sources under different market scenarios such as aggressive asset growth, loan roll over, rapid liability erosion or a sharp decline in deposits. MI maintained a portfolio of adequate unutilized facilities as a tool to manage any form of liquidity risk. This ensured the availability of liquidity to meet our obligations and also to act as a buffer to support any temporary short falls in liquidity.

Market Risk

Market risk is the risk of losses or reduced earnings due to fluctuations in the values of trading and non-trading portfolios such as investments. These market variables include the fluctuations in interest rates, equity prices, bond prices and foreign currency rates. The process of managing Market Risk is underpinned by the Asset and Liability Management approach and other policies governing Treasury and Finance activities of the enterprise.

Sources of Market Risk

The majority of MI's market risk exposure arises through interest bearing financial assets and liabilities which include MI's lending products, deposit products, investment in government bills and bonds and institutional borrowings. MI is also exposed to the changes in equity prices on account of its equity portfolio.

Market Risk

Interest Rate Risk	Equity Risk	Foreign Currency Rate Risk
Moderate to High Risk	Moderate to High Risk	MI currently does not hold any assets or liabilities denominated in foreign currency

Interest Rate Risk

Interest rate risk is the risk of facing reduced earnings or declined value of assets resulting from the volatility in interest rates that impact rate sensitive financial assets and liabilities. Both trading and non-trading portfolios of MI are exposed to the changes in interest rates. MI's core business product portfolio comprise of various credit and funding portfolios with different interest rate characteristics resulting in varying degrees of sensitivity to changes in market interest rates. Mismatches in these characteristics lead to volatility in net interest income as interest rates vary. Volatility of the interest rates also impacts the interest yield and the fair value of MI's investment in government bills and bonds.

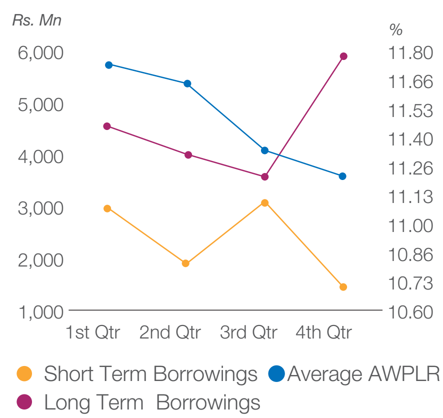
Key Highlights of the Year

- MI obtained Rs 4.8 Billion of fixed rate long term loans to fund matching fixed rate lending to mitigate the interest rate risk

Key Risk Indicators

Key Risk Indicators	Policy Range	Actual
Interest Rate 1%=(1%) Impact on Profitability (Rs Million)	<50	(39)
Net Interest Margin	>8%	8.76%

Interest Rate's Influence on Borrowing Decisions



The borrowing decisions were made with the aim of maximising the benefit from market interest rate fluctuations. Therefore in keeping line with downward movements of AWPLR, MI's borrowings composition reflected a higher reliance on long term borrowings over short term borrowings.

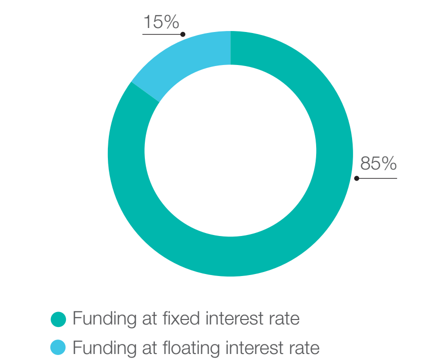
Monitoring of Interest Rate Risk

While core responsibility of monitoring day-to-day Interest rate risk lies with the treasury division from a broader review perspective, the Risk management Unit, ALCO, and the IRMC are responsible to monitor and report to the Board on prevailing interest rate risks using different risk indicators.

Interest rate sensitivity is monitored by using the maturity gap of interest-bearing financial assets and liabilities on a monthly basis and necessary actions are suggested and executed accordingly. With regards to the basis risk, movements in interest rate indices such as AWPLR is been proactively monitored and the observations are used in deciding competitive lending rates and deposit rates.

ALCO is the principal Management Committee responsible for overseeing Interest Rate risk exposure and initiating appropriate action plans to optimize overall market risk exposures within the defined Risk Appetite. The treasury department is responsible for managing funding and optimizing pricing who independently monitor, measure and analyse the exposures as per the risk appetite criteria set forth for treasury transactions.

Funding Mix: Floating and Fixed Interest Rates



Equity Risk

Equity risk is the risk of decreasing fair value of the equity portfolio that may arise as a result of adverse movements in equity prices. As per the company's accounting policies, any realized losses resulting from disposal of share investment will be recognized through Income Statement while unrealized losses will impact the other comprehensive income statement as a direct impact to equity. Any prolonged drops of material value are considered as impairment in the income statement.

Key Highlights of the Year

- Several share disposals were exercised during the financial year which also resulted in reducing MI's exposure towards the banking sector by 99%.

Mitigation of Equity Risk

Equity risk faced by MI is managed through the company's investment policy which provides comprehensive guidelines for the management of equity risks within the risk appetite levels.

Equity risk is monitored by analysing the fluctuations in market prices, counterparty exposure and sector exposure. The treasury department is responsible for monitoring market behavior of share transactions. Having an equity portfolio amounting to Rs. 1.27 Bn MI's exposure to equity risk remained vulnerable with the volatile market conditions. MI disposed its share investment in Commercial Bank PLC, reducing the exposure to equity investments.

Operational Risk

Operational risk is the risk of losses resulting from failed internal processes, people, systems and external events which arises from day-to-day operations. The losses resulting from operational risk can be monetary or non-monetary and may affect every aspect of business including customers and MI's reputation.

Sources of Risk

Operational risk may arise in different forms such as human error, inability to deliver change, non-availability of technology services, fraud and theft, loss of customer data, natural and manmade disasters. Operational risk can also arise from a failure to adhere the changes in regulatory environment.

Key Operational Risk Indicators

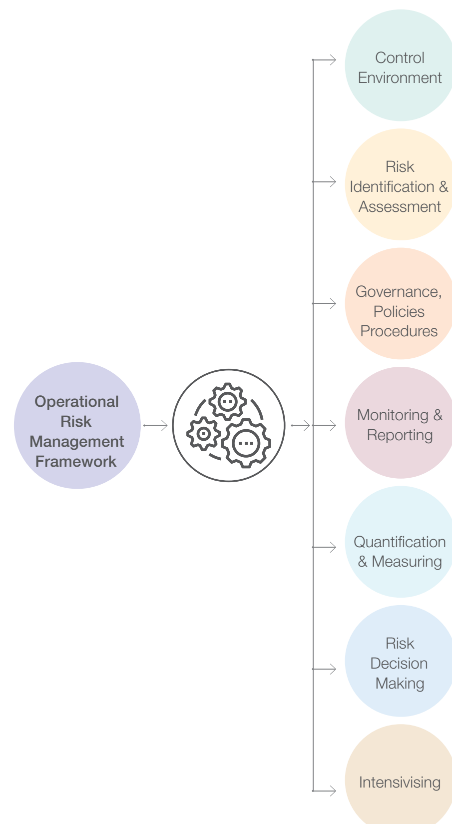
Key Risk Indicators	Policy Range	Actual
Internal Frauds	Below 3 incidents	02
External Frauds/ Theft	Below 2 incidents	Nil
Physical Assets Damages	Below 2 incidents	01
Business Disruptions due to System Failure	Below 2 incidents	Nil

Management of Operational Risk

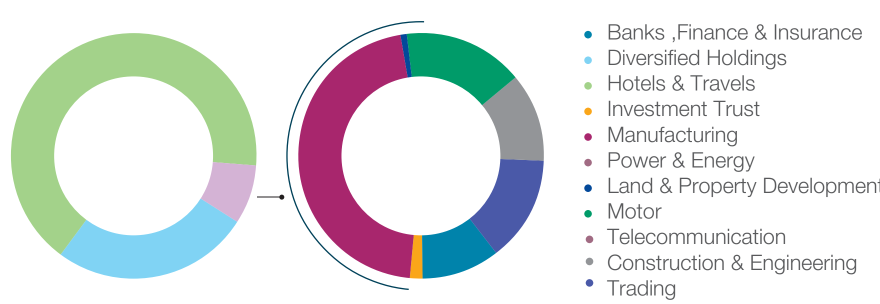
Operational risks of MI are managed according to the Operational Risk Management process adopted which revolves around clear policy, procedures and control checks and feedback mechanisms. MI's risk management division ensures that the operational risk is managed within the company's risk appetite. For this, all the strategic business units/branches report their operational risk concerns along with the status of compliance to established procedures and controls on a monthly basis. MI believes that maintenance of a strong risk culture is the key to manage operational risks faced by the company.

By following a structured framework, MI has adopted necessary controls to mitigate possible losses from all operational risks. MI's operational risk management framework is in accordance with MI's risk management policy and other policies approved by the board. In order to manage these risks effectively, MI has identified main categories of operational risks, namely, Legal Risk, Compliance Risk, Technology Risk and Human Resources Risk.

Operational Risk Management Framework



MI Equity Portfolio 2017/18 Rs. (Mn.)



Legal and Compliance Risk

Legal risk is the risk of possible losses in the form of penalties, fines, claims or outside parties filing law suits against the company. Legal risk arises due to defective transactions, claims, failure to take measures to protect assets such as intellectual property. Compliance risk arises where the company fails to adopt and comply with changes in laws and regulations. Failure to address legal and compliance risks may increase MI's exposure for reputation risks and also financial risks such as credit risk and liquidity risk that may lead to losses.

MI has adopted a sound regulatory monitoring mechanism to manage potential regulatory risks. All staff at MI is required to understand and abide by the prevailing laws and regulations applicable to their duties and the staff is continuously trained to update their knowledge on changes in statutes, regulations and also on changes in interpretation of statutes and regulations.

MI maintains zero tolerance for compliance risk. Periodical reviews are carried out in order to assess the extent of compliance with the regulations applicable to the company. The compliance division monitors the timely submission of reports to the Central Bank of Sri Lanka and other regulatory bodies. The compliance division also monitors the extent of compliance with other regulatory requirements, while Auditors independently provide feedback on MI's regulatory compliance status to the Audit Committee and the Board.

Technology Risk

This is the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an organization. System failures, use of obsolete systems and other faults IT used by a company adversely affect the services delivered to customers while disrupting the smooth operations of the company.

IT risk include risk events such as system interruptions, fraud through system manipulation, cyber-attacks, loss of data, data protection issues and use of obsolete system causing inefficiencies. IT risk also include the lack of ability of adopting latest innovations in the technological environment which results in an erosion of competitiveness and issues in safe guarding the company's market position.

At MI, a dedicated in-house IT department is responsible for the implementation of the IT Risk management Framework. A comprehensive disaster recovery plan is in place in preparation of facing contingent risk incidents.

Main Components of MI's IT Risk Management Framework

MI's IT Risk Management

Security: Ensures the systems and data are secured from internal and external threats

- Systems providing security from external threats
- Access Controls
- System Activity Monitoring

Availability: Adequate risk mitigation tools

- Data Backup
- IT Disaster Recovery Planning
- In House IT Team

Performance: Optimized performance to ensure efficiency in both internal processes and customer service

- IT Systems Review to identify gaps between current and required efficiency, leading to future migration

Compliance: Ensures the controls are in place to be in line with regulatory requirements.

- IT procedure was strengthened and approved by the Board in December 2017

Human Resources Risk

Human resources risk is the company's inability to meet its talent requirement on a timely manner. Lack of right talent or delay in meeting talent requirement may disrupt the operations, customer service and also restricts the growth of a company. Hiring policy, staff training, employee motivation, performance appraisal, rewards and incentives and succession planning are contributing factors to human resources risk.

MI's HR Process Proactively Reducing Human Resources Risk

HR Risk Management

Hiring & Selection

- Specifically designed interviews testing different technical and soft skills
- Employee background checks

Employee Retention

- Training opportunities
- Fair performance evaluation and performance linked incentives
- Promoting work-life balance

Succession Planning

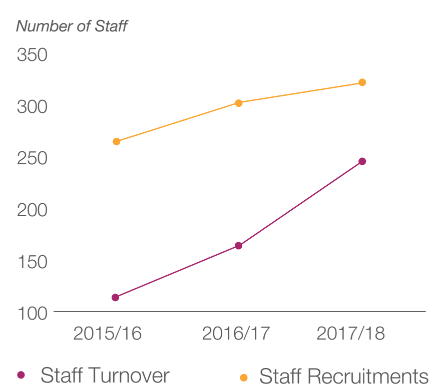
- Board approved succession plan for key management personal
- Back up created for all key elements of business processes

Exit Management

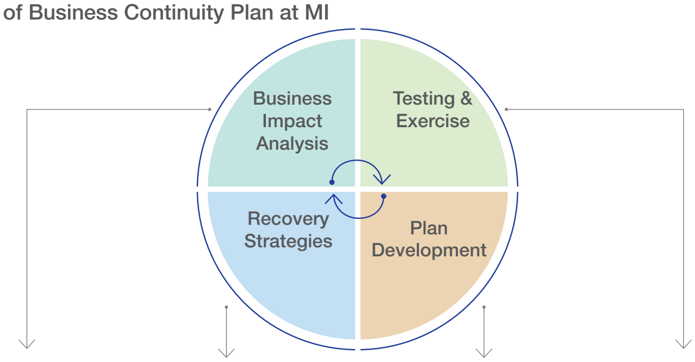
- Information gathered at employee resignation used for continuous improvement of the HR Risk Management process

In mitigating the human resources risk, we categorized these contributing factors into three main elements, namely, hiring and selection, employee retention and succession planning. MI's hiring and selection process not only considers the candidate's academic professional background, but also considers the behavioural aspects such as employee background, culture and connectivity. With regards to retention of acquired talent, MI's human resource department is well-equipped with a mechanism that improve employee motivation through recognizing employee efforts with competitive remuneration packages, performance-linked pay and bonuses, providing ample learning opportunities and creating a favourable work culture which is open and transparent, while ensuring health and safety of the employees. The Company has established required safety measures to minimise work-related injuries and conducts a health and safety awareness programme periodically. MI's management is in the continuous process of identifying employees with leadership and managerial capabilities and support assistance in their career development which is a part of the company's succession planning. Staff turnover is also analysed, where the identified reasons for attrition are considered as input for further improving the HR process. We are in the process of finalizing a comprehensive HR policy to be issued early next FY which will also incorporate HR risk management.

Staff Turnover Vs Staff Recruitments



Life Cycle of Business Continuity Plan at MI



- Critical functions and the impacts are identified by gathering data from different departments and branches
- Relevant data are gathered through questionnaires, and meetings

- Gaps between current capabilities recovery requirements are identified
- Resource requirement for implementing recovery strategies are identified
- Recovery strategies are selected and management approval is obtained

- Comprehensive recovery plan
- Responsibilities for recovery teams are allocated.
- The plan is documented and reviewed periodically.

- Develop testing exercises
- Conduct BCP tests and documentation of the results
- Conduct training

Managing Operational Risks: Business Continuity Planning (BCP)

The objective of the MI's Business Continuity Plan is to coordinate recovery of critical business functions in managing and supporting the business recovery in the event of a facilities (office building) disruption or disaster. This can include short or long-term disasters or other disruptions, such as fires, floods, earthquakes, explosions, terrorism, tornadoes, extended power interruptions and other natural or man-made disasters.

Possible threats causing business discontinuity have been identified and a business continuity plan has been prepared by each department with prioritized critical functions. All employees are required to be aware of the course of actions to be taken during a business contingency situation. MI's business contingency readiness is also tested periodically through BCP reviews and BCP tests.

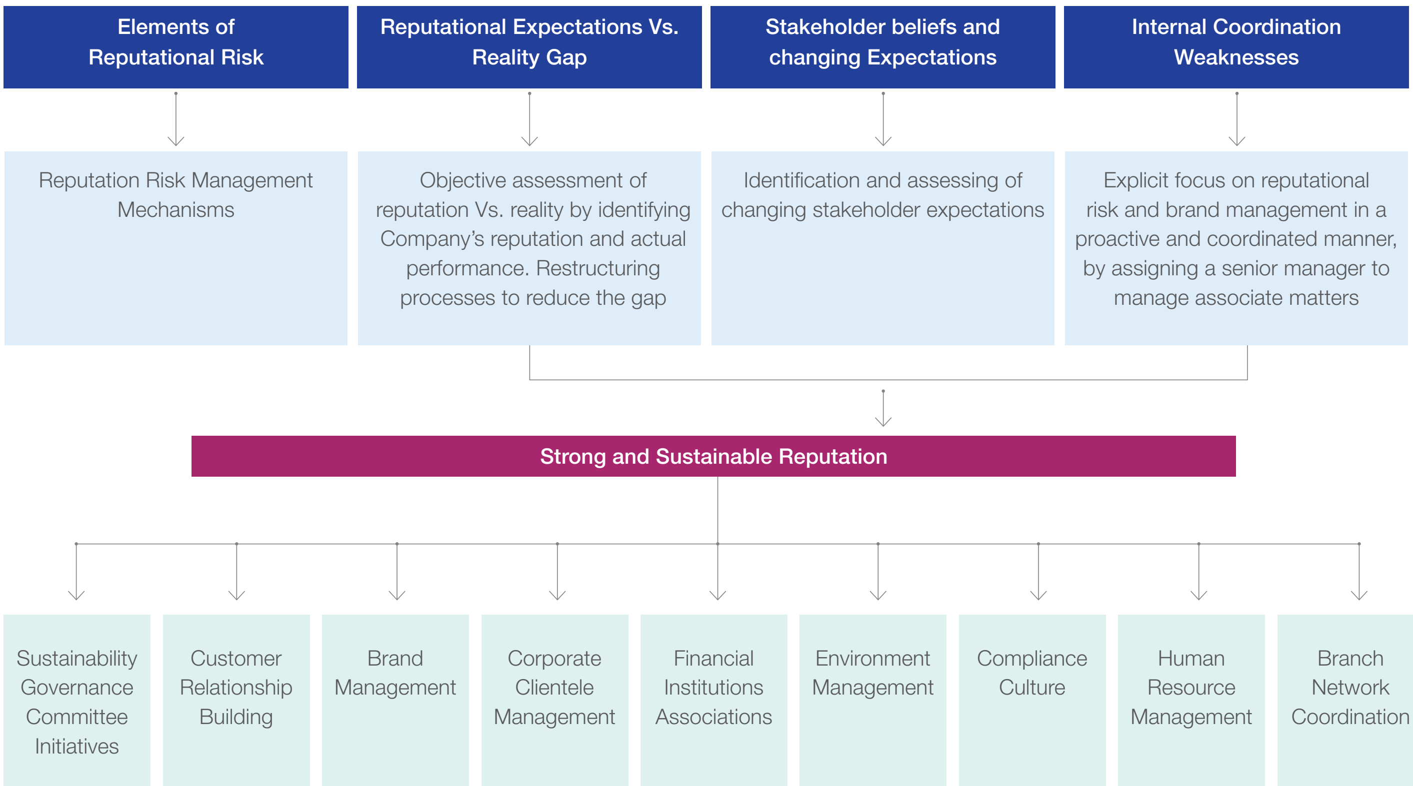
Reputational Risk

Reputational risk arises when the stakeholders lose the favorable perception of a company. Reputation of a company depends on its ability in meeting stakeholder expectations. The amount of expectations not met through company performance results in poor perception thus creating reputational risk. Reputational risk is highly dynamic, as the stakeholder's expectations are not constant, and hence the company is required to be continuously vigilant about the factors causing reputational risk.

Further, effective management of other risks coupled with MI's communication policy play a major role in managing Reputational Risk. Formal communication channels are in place to receive customer feedback and grievances which have been resolved in a timely manner. MI's whistle-blower policy encourages employees to report any malpractices. The implementation of an "External Grievance Handling Process" under customer protection framework set up this year will broaden the path for free communication and resolution of grievances.

As a result of continuous efforts of all staff at MI, we have built and sustained a strong reputation and brand image for many years. With the risk management strategies we have implemented for all types of risks, we are looking forward to further improve MI's reputation.

Reputational Risk Management Framework



Strategic Risk

Strategic risk results from incorrect assumptions about external or internal factors, inappropriate business plans, ineffective business strategy execution, or failure to respond in a timely manner to changes in the regulatory, macroeconomic or competitive environments, in the geographic locations in which we operate, such as competitor actions, changing customer preferences, product obsolescence and technology developments. They could materialize due to internal or external factors and can cause reduction in shareholder value, loss of earnings, etc.

The Board reviews and approves both the strategic plan and the company's risk appetite to ensure the strategic plan is consistent with the risk appetite. The Boards approved the strategic plan for the next three financial years until FY 2020/2021. With oversight by the Board, corporate management and divisional heads execute the strategic plan and inform the Board of the status of the achievement of strategic milestones and related risk concerns. The divisional heads identify the gaps in meeting risk appetite limits and report on the alternative or additional actions to be implemented.

MI has formal processes in place to ensure significant strategic actions such as capital actions, and the strategic risk implications of new, expanded or modified businesses, products or services and other strategic initiatives are reviewed by the Board. Further, the service of external consultants was obtained where necessary.

Risk Measurement through Stress Testing

Stress testing provides an understanding of the potential impacts from our risk profile on the balance sheet, earnings and capital and serves as a key component of our capital and risk management practices.

Stress testing is conducted regularly for all major risk categories, while portfolio-specific stress testing is conducted quarterly for highly sensitive portfolios; mainly, lending, interest sensitive asset/liability and liquidity, where for all other areas, stress tests are conducted as and when it is deemed necessary. Development, approval and review of stress tests are the responsibility of the IRMC. During FY 2017/2018, MI analyzed the possible impact from Credit, Interest Rate, Liquidity and Equity risk factors on the Capital, Earnings and Liquidity position.

Base Data (All figures are in Rs 000 and as 31st March 2018)	
Capital Adequacy Ratio (CAR)	17.36%
Capital Base	6,440,556
Risk Weighted Assets	37,105,832
Total gross NPA	2,506,105
Equity Market Value	1,265,633
Deposit Liability	20,073,010
Liquid Assets	2,311,208
Liquid Assets Ratio	11.40%
Gross Loans	36,912,882
NPL Ratio	7.58%

Scenario based Stress Testing

Stress Tests	Original Position 31st March 2018	Magnitude of shock		
		5%	10%	15%
	CAR %	Revised CAR %		
A. Credit Risk				
Negative shift in Non Performing Advances *	17.36%	17.04%	16.71%	16.39%
B. Equity Price Risk				
Fall in stock market prices	17.36%	17.26%	17.16%	17.06%

Conclusion: No significant impact to capital adequacy due to shocks from credit risk or equity risk.

Stress Tests	Original Position 31st March 2018	Magnitude of shock		
		5%	10%	15%
	Statutory Liquid assets ratio %	Revised Statutory Liquid assets ratio %		
Liquidity Risk				
A. Fall in statutory liquid Assets	11.40%	10.94%	10.36%	9.79%

Conclusion: Even after worse case scenario the liquid assed ratio would remain marginally below regulatory requirements.

Stress Tests	Original Position 31st March 2018	Magnitude of shock		
		5%	10%	15%
	NPL %	Revised NPL %		
A. Credit Risk				
Negative shift in Non Performing Loans *	7.58%	8.24%	8.63%	9.02%

Conclusion: Eventhough the Non-performing lending ratio (NPL) will move up by approximately 1%, but the exposure will be significantly collateral backed.

* Composition of NPA Categories

How have we performed

Financial Reports

Financial Calender

	2017/18	2018/19 (Proposed)
First interim dividend	29th September 2017	September 2018
Second interim dividend	13th February 2018	January 2019
Annual Report and Accounts for the year signed/to be signed	17th May 2018	May 2019
Annual General Meeting to be held	28th June 2018	June 2019

Submission of the Interim Financial Statements in Terms of the Rule 7.4 of the Colombo Stock Exchange and as per the Requirements of the Central Bank of Sri Lanka	2017/18 Submitted on	2018/19 to be submitted on or before
For the 3 months ended 30th June – (unaudited)	15th August 2017	15th August 2018
For the 3 and 6 months ended 30th September – (unaudited)	15th November 2017	15th November 2018
For the 3 and 9 months ended 31st December – (unaudited)	30th January 2018	15th February 2019
For the 3 months and year ended 31st March – (audited)	31st May 2018	31st May 2019

Annual Report of the Board of Directors

Annual Report of the Board of Directors on the affairs of the company and statement of Compliance of the contents of the Annual Report.

The details set out herein provide the information required by the section 168 of the Companies Act No 7 of 2007 and recommended best accounting practices.

1. GENERAL

The Directors of Mercantile Investments and Finance PLC have pleasure in presenting to the shareholders this report together with the Audited Financial Statements for the year ended March 31, 2018 and the Auditors' Report on those Financial Statements, conforming to the requirement of the Companies Act No 07 of 2007, Finance Business Act 42 of 2011 and the Directions issued thereunder.

Mercantile Investments and Finance PLC is a public limited liability company incorporated in Sri Lanka on 15 June 1964 under the Companies Ordinance No 51 of 1938 and re registered under the Company Act No 07 of 2007 and a licensed Finance Company under the, Finance Business Act 42 of 2011.

The ordinary shares of the company are quoted on the Diri Savi board of the Colombo Stock Exchange since June 2011. The senior unsecured redeemable debentures issued by the company are also listed on the Colombo Stock Exchange. Fitch Ratings Lanka Ltd has assigned BBB- long term financial institution ratings respectively to the Company.

The registered office of the Company is situated at No 236, Galle Road, Colombo 03, which is also its Head Office.

This Report provides the information as required by the Companies Act No 07 of 2007, Finance Companies (Corporate Governance) Direction No 03 of 2008 and subsequent amendments thereto, Listing Rules of the Colombo Stock Exchange and recommended best practices on Corporate Governance. This Report was approved by the Board of Directors on May 17, 2018.

Section 168 of the Companies Act No 07 of the 2007, requires the following information to be published in the Annual Report, Prepared for the year under review (i.e., for the year ended March 31, 2018)

2. REVIEW OF BUSINESS

2.1 Vision, Mission and Corporate Conduct

The company's Vision and Mission are given on page 30 of this Report. The business activities of the company are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission, which reflects our commitment to high standards of business conduct and ethics.

2.2 Reviews on Operations of the Company

The company has established delivery points across all key regional hubs of the country. During the year, there were no new delivery points added (5 in 2017), the total number of delivery points in country was 36 at the end of 2018 (36 at the end of 2017)

A review of operations of the company during the financial year and results of those operations are contained in the Chairman's Review, Managing Director's Review on pages 18 to 29 and Management Discussion & Analysis on pages 41 to 124 of this Annual Report.

Segment wise contribution to revenue, results, assets and liabilities is disclosed in Note 51 to the Financial Statements on page 291 to 293.

Information required to be disclosed	Reference to the Companies Act	Extent of compliance by the Company
I) The nature of the business of the Company., together with any change thereof during the accounting period	Section 168 (1) (a)	Refer page 238
II) Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 (1) (b)	Refer pages 234
III) Auditor's Report on Financial Statements of the Company and the Group.	Section 168 (1) (c)	Refer page 229 to 231
IV) Any changes made to the Accounting policies during the year under review.	Section 168 (1) (d)	Refer page 238 to 247
V) Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 (1) (e)	Refer page 215
VI) Remuneration and other benefits paid to Directors of the Company during the period.	Section 168 (1) (f)	Refer page 254
VII) Total amount of donations made by the Company during the period.	Section 168 (1) (g)	Refer page 254
VIII) Information on Directorate of the Company during and at the end of the accounting period.	Section 168 (1) (h)	Refer pages 214 to 215
IX) Separate disclosure on amounts payable by the Company to the Auditor as Audit Fees and fees for other services rendered during the accounting period.	Section 168 (1) (i)	Refer page 254
X) Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Refer page 215
XI) Acknowledgment of the contents of this report/signatures on behalf of the Board by two Directors and the Secretary of the Company.	Section168 (1) (k)	Refer page 216

2.2.1 Principle Activities of the Company

The principle business activities of the company consist of finance leasing, hire purchase financing, term loan financing, fleet management, micro financing, share trading and mobilisation of deposits. There have been no significant changes in the nature of the principal activities of the company during the financial year under review.

2.2.2 Associate Company

Company has a 26.12% (2017 – 26.12%) holding in The Nuwara Eliya Hotels Company PLC which is a quoted public company and involving in the business of the hotelliering. Details of the investments in associate is given in note 29 to Financial Statement on page 271 to 272 of this Annual Report

2.3 Financial Statements of the Company

The Financial Statements of the company duly certified by the Chief Financial Officer and approved by two Directors in compliance with the requirements of sections 151, and 168(1) (b) of the Companies Act No 07 of 2007 are given on pages 234 of the Annual Report.

2.4 Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the company to reflect a true & fair view of the state of its affairs. The Directors are of the view that Statement of Comprehensive income, Statement of Financial Position, Statement of Changes in Equity ,Cash Flow Statement, Significant Accounting Policies & Notes thereto appearing on page 233 to 308 have been prepared in accordance with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No 15 of 1995 and the Companies Act No 07 of 2007.Further,these Financial Statements also comply with the requirements of the Finance Business Act 42 of 2011 and the listing rules of the Colombo Stock Exchange. The statement of 'Directors Responsibilities' appearing on page 219 of this Annual Report forms an integral part of this report.

2.5 Directors Statement on Internal control over Financial Reporting

The Board has issued a statement on the internal control mechanism of the company as per Section 10(2)(b) of Finance Companies (Corporate Governance) Direction No 03 of 2008. The said statement which forms an integral part of the Annual Report of the Board of Directors on the affairs of the company is given on pages 211 to 216.

The Board has obtained an Assurance report from the External Auditors on the Directors' Statement on internal control over Financial Reporting which is given on page 227

2.6 Auditors' Report

Company's Auditors, Messrs Ernst & Young Partners performed the audit on the Financial Statements for the year ended March 31, 2018 and the Auditor's Report on the Financial Statements is given on pages 229 to 231 of this Annual Report as required by section 168(1)(c) of the companies Act No 07 of 2007.

2.7 Accounting Policies & Changes during the year

The Company prepared its Financial Statements for all periods up to and including the year ended March 31, 2018, in accordance with Sri Lanka Accounting Standards (LKAS/ SLFRS) which were in effect up to that date. The Significant Accounting Policies adopted in the preparation of Financial Statements of the company are given on pages 238 to 247 of the Annual Report as required by Section 168 (1) (d) of the Companies Act No 07 of 2007. The Board of Directors wish to confirm that there were no changes to the Accounting Policies used by the company during the year.

2.8 Interest Register

The Interests Register is maintained by the Company, as per the Section 168(1) (e) of the Companies Act No 7 of 2007.All Directors have made declarations as provided for in section 192(1) & (2) of the Companies Act aforesaid. The related entries were made in the Interest Register during the year under review. The share ownership of Directors is disclosed on page 215 of this report, Entries were made in the Interests Register on share transaction, Directors' interest in contracts, and remuneration paid to the Directors Etc. The Interest Register is available for inspection by shareholders or their authorised representatives as required by the section 119 (1) (d) of the Companies Act No 07 of 2007.

2.9 Corporate Donations

During the year company made donations amounting to Rs. 0.923Mn (2017-Rs. 1.031 Mn).The donations made to the Government approved charities from the above amounted is Rs Nil (2017 –Nil).The information given above on donations forms integral part of the Report of the Board of Directors as required by section 168(1) (g) of the Companies Act No 07 of 2007.

2.10 Future Developments

Future developments activities of the company is discussed under the Managing Director's report on page 24 to 29 of this Annual Report.

3 GROSS INCOMES

The income of the company for the year ended March 31, 2018 was Rs. 6,984 million (year ended March 31, 2017- Rs. 5,645 million). An analysis of income is given in Notes 06 & 07 to the Financial Statements on page 248 to 249 of this Annual Report

As at March 31	2018	2017
Profit before Tax	878,955	313,679
Taxation	364,890	111,665
Profit after Tax	514,065	202,014
Other Comprehensive Income	9,817	(4,011)
Balance brought forward	1,291,730	1,123,726
Available for Appropriation	1,815,612	1,321,730
Transfer to Statutory Reserve	(50,000)	(30,000)
Interim Dividend Paid	(45,090)	-
Balance carried forward	1,720,522	1,291,730

4 DIVIDEND AND RESERVES

4.1 Profit and Appropriations

The profit before income tax of the company for the year ended 2018 was Rs. 879 million (Rs. 313 million in 2017) and the profit after tax for the year ended 2018 was Rs 514 million (Rs 202 million in 2017)

The details of profit relating to the company are tabled below.

4.2 Dividend on Ordinary Shares

Details of information on dividends are given in Note 17 to the Financial Statements on page 257.

4.3 Provision for Taxation

Income tax for 2018 has been provided at 28% (28% - 2017) on the taxable income arising from the operations of the company and has been disclosed in accordance with Sri Lanka Accounting Standards. Profits of the company are also liable for Value Added Tax on Financial Services at the rate of 15% (15% -2017), Crop Insurance Levy of 01% Which was introduced from January 2014.

The company has also provided deferred tax on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 on "Income Taxes"

Information on Income Tax Expenses & Differed Taxes is given in Notes 15 & 37 to the Financial Statements on pages 255 & 283 respectively, of this Annual Report.

4.4 Reserves

A summary of reserves of the company as at year ended 31st March 2018 is as follows

	2018	2017
Statutory Reserve Fund	711,400	661,400
Revaluation Reserve	1,527,486	1,084,346
Associate Company-reserve	400,764	450,087
General Reserve	4,086,430	4,086,430
Available for sale Reserve	200,486	256,644
Retain Earnings	1,720,521	1,291,730

The company's total Reserves as at March 31, 2018 amounted to Rs. 8,683 million (2017–Rs. 7,867 million). The movement of the reserves are given on page 235 under Statement of Changes in Equity & Note 39 - 44 to the Financial Statements of this Annual Report.

5. PROPERTY, PLANT & EQUIPMENT & LEASEHOLD PROPERTY & INTANGIBLE ASSETS

Capital expenditure incurred on Property Plant & Equipment, Intangible assets,Leasehold Property are as follows.

Year	2018	2017
Property, Plant & Equipment	88 Million	85 Million
Leasehold Property	Nil	Nil
Intangible Assets	52 Million	2.9 Million

Details of which are given in Note 31 to 33 on page 274 to 280 in the Financial Statements. Capital expenditure approved and contracted for is given in Note 45 to the Financial Statements on page 287 of this Annual Report.

6. MARKET VALUE OF FREEHOLD PROPERTIES

All freehold land and buildings of the company were revalued by a professionally qualified independent valuer as at March 31, 2018, and brought into the Financial Statements. The Directors' are of the opinion that the revalued amounts are not in excess of the current market values of such properties. The details of freehold properties owned by the company are given in Notes 31.3 to the Financial Statements on page 276.

7 STATED CAPITAL AND DEBENTURES

The stated capital of the company as at March 31, 2018 was Rs. 36 million comprising 3,006,000 ordinary shares.(2017- Rs.36 Million).The details of the stated capital are given in Note 39 to the Financial Statements on page 286 of this Annual Report.

The company had issued 2,000,000 unsecured,subordinated, redeemable debentures of Rs.100/- each to the value of Rs 200 Mn as at year ended March 31,2018.

The Company did not issue any debenture during the financial year ended March 31, 2018.

8 SHARE INFORMATION

8.1 Information on Earnings, Dividend, Net Assets and Market Value

Information relating to earnings, dividends, net assets per share and market value per share is given in the Financial Highlights on page 12 Information on trading of the shares and movement in the number of shares represented by the Stated Capital of the company is given in the section on 'Investor Relation on page 310 to 313.

8.2 Distribution Schedule of Shareholdings

Information on distribution of shareholding and the respective percentages are given in the Section on 'Investor Relation' on page 310 to 313

8.3 Issue of shares

The company did not make any share issues during the year under review.

Class of Shares		
	Voting Ordinary shares	
	2018	2017
Number of share issued	Nil	Nil

9 SUBSTANTIAL SHAREHOLDINGS

The list of 20 Largest Shareholders as at 31 March 2018 are as follows.

Nilaveli Beach Hotels(Pvt) Ltd	629,580
Mr. G.G Ondaatjie(MD)	477,213
Ms. A.M Ondaatjie	477,213
Mr. T.J Ondaatjie	477,213
Mercantile Fortunes (Pvt) Ltd	414,160
Mr. G.L.A.Ondaatjie	268,535
Tangerine Tours (Pvt) Ltd	203,809
Mrs. P.R. Divitotawela /R.D.Madugalla	12,525
Mrs. P.R. Divitotawela /A.D.Galagoda	12,525
Mr. N.H.V.Perera	10,020
Mr. R.M.D.Abeygunewardena	10,020
Mr. J.A.S.S.Adhihetty	10,020
Mr. C.A.Ondaatjie	2,004
Mr. A.D.Rajapaksha	501
Mr. A.M.Rajapaksha	501
Mr. A.M.Dominic & J S Dominic	151
Mrs. C.A.D.S.Woodward	10

Float adjusted market capitalization was Rs 817,522,641/-

Company is Compliant with the 10% minimum public holding percentage for "Diri Savi" Board and not compliant with the requirement of minimum number of public shareholders of 200.

Names of the top twenty shareholders shares, percentages of their respective holdings and percentage holdings of the public ,etc are given in the Section on 'Investor Relations' on page 310 to 313.

9.1 Equitable Treatment to all Stakeholders

While valuing the patronage of all our stakeholders, the company has made all endeavours to ensure equitable treatment to all our shareholders

10 BOARD OF DIRECTORS

10.1 Information on Directors of the Company

10.1.1 List of Directors

The Board of Directors of the Company as at March 31 2018 comprised of Ten Directors (Ten Directors as at March 31, 2017) with extensive financial & commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors – Profile' on pages 126 to 131 of this Annual Report.

Names of the persons holding office as Directors of the company as at the end of the year and the names of persons , who ceased to hold office as Directors of the company any time during the year 2018,as required by section 168(1) (h) of the Companies Act No 07 of 2007 are given below.

10.1.2 New Appointments & Resignations

The information on new appointments and registration to and from the Board of Directors of the Company are given below.

New Appointments

There were no new appointments during the financial year.

Resignation/Cessations

There were no resignations/cessations during the financial year.

10.1.3 Recommendation for Re-election

In terms of Article 23(7) of the articles of association,Mr. S. M. S. S. Bandara, Ms. P. T. K. Navaratne and Mr. N. H. V. Perera retire by rotation and being eligible offer themselves for re-election.

10.1.4 Directors' Meetings

Details of the meetings of the Board of Directors are presented on page 151.

10.1.5 Board Sub-Committees

Information with regard to Board subcommittees is given under Corporate Governance on pages 146 to 147 of this Annual Report.

Board Audit Committee

All members of the Audit committee are Non-Executive Directors. The MD/CEO, Senior Management Committee members, Internal and External auditors attend the meetings by invitation. The Board Audit Committee report is given on page 224 to 225 of this Annual Report.

Integrated Risk Management Committee

The Board of Directors has established a comprehensive risk management system in the Company to identify, evaluate and manage the risks associated with the operations of the company. A detailed overview of the process is set out in the Integrated Risk Management Committee Report on page 221 of this Annual Report.

Remuneration & Nomination Committee

The Report of the Remuneration & Nomination Committee is given on pages 222 to 223 of this Annual Report.

Related Party Transaction Review Committee

The report of the Related Party Transaction Review Committee is given on page 226 of this Annual Report.

10.1.6 Directors' Remuneration & Other Benefits

Directors' remuneration & other benefits , in respect of the company for the financial year ended 31st March 2018 is given in Note 13.1 to the Financial Statements on page 254 of this Annual Report as required by section 168(1)(f) of the Companies Act No 07 of 2007.

11 DISCLOSURES OF DIRECTORS DEALING IN SHARES

11.1 Directors' interest in ordinary shares of the Company

11.1.1. Mr. G.G. Ondaatjie serves as the Managing Director as well as Chief Executive Officer of the Company.

Name of the Director	Executive/Non Executive	Independence/Non Independency
Mr.S.H.J.Weerasuriya	Non Exective	Independent
Mr.G.G.Ondaatjie	Exective	Non Independent
Mr.P.M.Amarasekara	Exective	Non Independent
Ms.A.M.Ondaatjie	Exective	Non Independent
Mr.T.J.Ondaatjie	Exective	Non Independent
Mr.S.H.Jayasuriya	Exective	Non Independent
Ms.P.T.K.Navaratne	Non Exective	Independent
Mr.N.H.V.Perera	Non Exective	Non Independent
Mr.S.M.S.S.Bandara	Non Exective	Independent
Mr.P.C.Guhashanka	Non Exective	Independent

	2018	%	2017	%
Mr. G.G Ondaatjie (Managing Director/CEO)	477,213	15.87	477,213	15.87
Ms. A.M. Ondaatjie	477,213	15.87	477,213	15.87
Mr. T.J. Ondaatjie	477,213	15.87	477,213	15.87
Mr.S.H.Jayasuriya	Nil		Nil	
Mr.P.M.Amarasekera	Nil		Nil	
Mr.S.H.J.Weerasuriya	Nil		Nil	
Ms.P.T.K.Navaratne	Nil		Nil	
Mr.N.H.V.Perera	10,020	0.33	10,020	0.33
Mr.S.M.S.S.Bandara	Nil		Nil	
Mr.P.C.Guhashanka	Nil		Nil	

11.1.2 The number of ordinary shares held by the public as at March 31, 2018 was 316,792 shares (2017- 316,792) which amounted to 10.54% (2017- 10.54%) of the stated capital of the company.

11.1.3 Directors Interest in Debentures

There were no debentures registered in the name of any Director as at the beginning and at the end of the year.

12 DIRECTORS INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS AND RELATED PARTY TRANSACTION.

Directors have no direct or indirect interest in any contract or proposed contract with the company for the year ended March 31, 2018. Further Information is given on page 217 to 218 of this Annual Report. The Directors have also disclosed transactions if any that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosures' .Please refer note 48 to the Financial Statements on pages 288 to 289 for those transactions disclosed by the Directors. These interests have been declared at Related Party Transaction Review Committee Meetings.

There are no related party transactions which exceed 10 percent of the total Equity or 5 percent of the total assets whichever is lower and the company has complied with the requirements of the listing rules of the Colombo Stock Exchange on Related Party Transactions.

The Directors have disclosed their interest in other companies so as to ensure that they refrain from voting on a matter in which they have an interest.

13 EMPLOYEE SHARE OPTION PLANS AND PROFIT SHARING PLANS

The Company do not have any employee profit sharing plan or employee share option plans.

14 ENVIRONMENTAL PROTECTION

The Directors, to the best of their knowledge and belief, are satisfied that the company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

15 STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and employees have been paid up to date.

16 EVENTS AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the balance sheet date that would require adjustments to or disclosure in the financial statements as disclosed in Note 50 to the Financial Statements on page 291 of this Annual Report.

17 GOING CONCERN

The Board of Directors had reviewed the company's business plans and is satisfied that the company has adequate resources to continue its operation in the foreseeable future. Accordingly, the Financial Statements of the Company prepared based on the going concern concept.

18 APPOINTMENT OF EXTERNAL AUDITORS

According to the guideline issued by the monetary board of the Central Bank of Sri Lanka under Sec 30(2) of the Finance Business Act, No 42 of 2011, Company required to appoint an external auditor from the panel of external auditors listed in the said guideline. Messrs Ernst & Young, Chartered Accountants served as the Auditors during the year under review and also provided audit related services and permitted non-audit/consultancy service.

A resolution to authorise the Directors to determine the Auditors' remuneration will be proposed at the forthcoming Annual General Meeting.

19 AUDITORS' REMUNERATION AND INTEREST IN CONTRACTS WITH THE COMPANY

A Total amount of Rs 3,295,000/- is payable by the company to the Auditors for the year under review comprising Rs 1,300,000/- as Audit fees,Rs 720,000/- as audit related fees and expenses Rs 1,275,000/- for non-audit services.

As far as the Directors are aware, the auditors do not have any other relationship or interest in contracts with the company.

Auditors too have provided a declaration confirming that they are not aware of any relationship with or interest in the company or , in their professional judgment, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Conduct and Ethics of The Institute of Chartered Accountants of Sri Lanka applicable as at the date of their declaration

20 RISK MANAGEMENT & SYSTEM OF INTERNAL CONTROLS

20.1 Risk Management

Specific steps that have been taken by the company in place to identify, evaluate and manage both business risk & financial risk are detailed on pages 295 to 308 of this Annual Report

20.2 System of Internal Controls

The Board of Directors has established an effective and comprehensive system of Internal Controls to ensure that proper controls are in place to safeguard the assets of the company, to detect & prevent fraud & irregularities, to ensure that proper records are maintained and Financial Statements presented are reliable. Monthly Management Accounts are prepared, giving management with relevant, reliable and up to date Financial Statements and key performance indicators.

The Audit Committee reviews on regular basis, the reports, policies and procedures to ensure a comprehensive Internal Control framework is in place. More details in this regard can be seen in the 'Audit Committee Report' on pages 224 to 225 of this Annual Report.

20.3 Appraisal of Board Performance

A Scheme self-assessment is undertaken annually by each Director in conformity with the Section 2(8) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 by answering a self-assessment questionnaire. The responses are collected by the Company Secretary, which are submitted to the Board and discussed at the Board Meeting.

The Board also carried out and an annual self-evaluation of its own performance and that of the subcommittees to ensure that they discharge their duties and responsibilities satisfactorily, in terms of the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008, Listing Rules of the Colombo Stock Exchange and the Best Practices of Corporate Governance.

Board evaluation for the year under review was discussed at the Board Meeting held in the month of April 2018.

20.4 Audit Committee

The composition of the Audit Committee and their report is given on page 224 to 225 of this Annual report.

21 CORPORATE GOVERNANCE

Directors Declarations

The Directors' Declare that –

- The company has not engaged in any activity which contravenes laws and regulations.
- The company has made all endeavours to ensure the equitable treatment of shareholders.
- The business is going concern.
- Effectiveness and successful adherence of internal controls and risk management is practiced by the company.
- The measures taken in this regard are set out in the corporate governance report on page 136 to 193 this annual report.
- To the best of their knowledge there has not been any violation of the code of business conduct and ethics of the company.

The measures taken and the extent to which the company has complied with the Code of best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka, the CSE and the Central Bank of Sri Lanka are given in the section on 'corporate governance' on page 136 to 193.

22 HUMAN RESOURCES

The company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance. Specific measures taken in this regard are detailed in the Human Capital Report on page 102 to 111 of this Annual Report. Further The Board made a declaration in this year's Director's Report stating "All the members of Board of Directors and key management personnel have complied with code of business conduct and ethics introduced in the HR Handbook".

23 COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

To the best of our knowledge there has been no violation or possible violation of laws or regulations in any jurisdiction whose effect should be disclosed. There have been no irregularities involving management or employees that could have material financial effect or otherwise.

24 FOCUS ON NEW REGULATIONS

The Directors have taken necessary steps to assess the implications of the new Inland Revenue Act which will become effective from April 1,2018.

The Directors Evaluated the implications on adoption of the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" effective from January 1, 2018 and developed the required financial models to assess the impairment on financial assets under the new framework.

25 CONTINGENT LIABILITIES

Except as disclosed in note 46.1 to the Financial Statements, there were no material contingent liabilities as at the reporting date.

26 OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company Lawyers, litigation currently pending against the company will not have material impact on the reported financial results or future operations of the Company.

27 NOTICE OF MEETING

The details of the Annual General Meeting are given in the notice of meeting on page 322 of this Annual Report.

28 ACKNOWLEDGMENT OF THE CONTENTS OF THE REPORT

As required by section 168(1)(k) of the Companies Act No 07 of 2007 the Board of Directors hereby acknowledge the contents of this report.

G.G.Ondaatjie
Managing Director

Travice J. Ondaatjie
Director

Ms.Sonali Pethiyagoda
Company Secretary

Colombo
17 May 2018

Directors' Interests in Contracts with the Company

	Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2018 Rs. '000	As at 31.03.2017 Rs. '000
(a)	**Mr. G. G. Ondaatjie**				
	Mercantile Fortunes (Pvt) Limited	Deputy Chairman	Motor vehicle hire, repairs and others	2,956	1,522
	Tangerine Beach Hotels PLC	Director	Deposits	341,690	227,551
			Loan	1,075	5,377
			Motor vehicle hire, repairs and others	28	(111)
	Royal Palms Beach Hotels PLC	Director	Deposits	187,467	165,144
			Loan	466	2,378
			Motor vehicle hire, repairs and others	222	185
	The Nuwara Eliya Hotels Company PLC	Managing Director	Deposits	674,339	590,264
			Motor vehicle hire, repairs and others	252	4
	Tangerine Tours (Pvt) Limited	Director	Deposits	152,718	114,480
			Motor vehicle hire, repairs and others	574	283
	Nilaveli Beach Hotels (Pvt) Limited	Deputy Chairman	Deposits	143,402	135,351
			Motor vehicle hire, repairs and others	3	44
	Security Ceylon (Pvt) Limited	Director	Deposits	1,343	3,158
			Motor vehicle hire, repairs and others	81	(4)
			Security expenses	2,498	2,572
	Mercantile Orient (Pvt) Limited	Deputy Chairman	Deposits	5,421	5,249
	Global Films Limited	Director	Deposits	1,348	1,264
	Fair View Hotel (Pvt) Limited	Chairman	Deposits	80,330	42,898
(b)	**Ms. A.M. Ondaatjie**				
	Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	2,956	1,522
	Tangerine Beach Hotels PLC	Joint Managing Director	Deposits	341,690	227,551
			Loan	1,075	5,377
			Motor vehicle hire, repairs and others	28	(111)
	Royal Palms Beach Hotels PLC	Joint Managing Director	Deposits	187,467	165,144
			Loan	466	2,378
			Motor vehicle hire, repairs and others	222	185
	The Nuwara Eliya Hotels Company PLC	Director	Deposits	674,339	590,264
			Motor vehicle hire, repairs and others	252	4
	Tangerine Tours (Pvt) Limited	Managing Director	Deposits	152,718	114,480
			Motor vehicle hire, repairs and others	574	283
	Nilaveli Beach Hotels (Pvt) Limited	Director	Deposits	143,402	135,351
			Motor vehicle hire, repairs and others	3	44
	Security Ceylon (Pvt) Limited	Director	Deposits	1,343	3,158
			Motor vehicle hire, repairs and others	81	(4)
			Security expenses	2,498	2,572
	Mercantile Orient (Pvt) Limited	Director	Deposits	5,421	5,249
	Global Films Limited	Director	Deposits	1,348	1,264
	Fair View Hotel (Pvt) Limited	Director	Deposits	80,330	42,898

	Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2018 Rs. '000	As at 31.03.2017 Rs. '000
(c)	**Mr. T.J. Ondaatjie**				
	Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	2,956	1,522
	Tangerine Beach Hotels PLC	Director	Deposits	341,690	227,551
			Loan	1,075	5,377
			Motor vehicle hire, repairs and others	28	(111)
	Royal Palms Beach Hotels PLC	Director	Deposits	187,467	165,144
			Loan	466	2,378
			Motor vehicle hire, repairs and others	222	185
	The Nuwara Eliya Hotels Company PLC	Director	Deposits	674,339	590,264
			Motor vehicle hire, repairs and others	252	4
	Tangerine Tours (Pvt) Limited	Director	Deposits	152,718	114,480
			Motor vehicle hire, repairs and others	574	283
	Nilaveli Beach Hotels (Pvt) Limited	Managing Director	Deposits	143,402	135,531
			Motor vehicle hire, repairs and others	3	44
	Security Ceylon (Pvt) Limited	Director	Deposits	1,343	3,158
			Security expenses	2,498	2,572
			Motor vehicle hire, repairs and others	81	(4)
	Mercantile Orient (Pvt) Limited	Director	Deposits	5,421	5,249
	Global Films Limited	Director	Deposits	1,348	1,264
	Fair View Hotel (Pvt) Limited	Director	Deposits	80,330	42,898
(d)	**Mr. S.H. Jayasuriya**				
	Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	2,956	1,522
	Security Ceylon (Pvt) Limited	Director	Deposits	1,343	3,158
			Security expenses	2,498	2,572
			Motor vehicle hire, repairs and others	81	(4)
(e)	**Mr. P.M. Amarasekara**				
	Security Ceylon (Pvt) Limited	Director	Deposits	1,343	3,158
			Security expenses	2,498	2,572
			Motor vehicle hire, repairs and others	81	(4)
	Fair View Hotel (Pvt) Limited	Director	Deposits	80,330	42,898
(f)	**Mr. N.H.V. Perera**				
	Tangerine Beach Hotels PLC	Director	Deposits	341,690	227,551
			Loan	1,075	5,377
			Motor vehicle hire, repairs and others	28	(111)
	Royal Palms Beach Hotels PLC	Director	Deposits	187,467	165,144
			Loan	466	2,378
			Motor vehicle hire, repairs and others	222	185

Directors' Responsibility for Financial Reporting

The following statement sets out the responsibilities of the Directors in relation to the preparation and presentation of the Financial Statements of the Company

As per Section 148 (1), 150 (1) and 151 of the Companies Act No. 07 of 2007, Directors of the Company have the responsibility for ensuring that the Company keeps proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the state of affairs and of the profits/ losses for the year.

Accordingly, the Directors have caused the Company to maintain proper books of account and reviewed the financial reporting system at their regular meetings and through the Audit Committee. The Audit Committee Report is given on page 224 of this Annual Report. The Financial Statements consist of the Statement of Financial Position as at 31st March 2018 and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto, prepared and presented in this Annual Report are consistent with the underlying books of account and are in conformity with the requirements of the Companies Act, Sri Lanka Accounting Standards, the Finance Business Act No. 42 of 2011.

Further, the Directors have responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company. The Directors consider that, in preparing the Financial Statements exhibited from page 233 to 237 inclusive, they have adopted appropriate accounting policies and standards on a consistent basis and supported by reasonable and prudent judgments and estimates.

As required by Section 56 (2) of the Companies Act No. 07 of 2007, the Board authorized the distribution of dividends paid and proposed upon being satisfied that the Company would satisfy the solvency test after such distributions are made in accordance with Section 57 of the Companies Act No. 07 of 2007 and have obtained the necessary certificate of solvency from the External Auditors.

The Directors ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

The Directors also have the responsibility to ensure that the Company maintains adequate general supervision, control and administration of the affairs and business of the Company.

The Directors are of the opinion that the Internal Control System, in place, is capable of safeguarding the assets, preventing and detecting fraud and errors, ensures accuracy and completeness of the accounting records and timely preparation of reliable financial information during financial year under review which is mainly executed through the Audit Committee. Also Directors' instituted comprehensive and effective risk management mechanism to identify, record, appraise and manage the potential and material risk faced by the Company, which was mainly executed through Integrated Risk Management Committee (IRMC report given on page 221).

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

The Directors confirm that to the best of their knowledge all taxes, statutory dues and levies payable by the Company as at the reporting date have been paid or where relevant, provided for.

The Company's Auditors, Messrs. Ernst & Young, Chartered Accountants, carry out reviews and sample checks on the system of internal controls as they consider appropriate and necessary for expressing their opinion on the Financial Statements.

The Directors also confirm that as per the Section 166(1) and 167(1) of the Companies Act No. 07 of 2007, Directors of the Company prepared the annual report on time and ensured that copies were sent to the shareholders within specified period of time required by Rule No. 7.5 (a) & (b) of listing rules CSE. Furthermore Directors confirmed that after considering the financial position, performance, operating condition, regulatory and other aspects such as in the "Code of Best Practice on Corporate Governance" issued by the CA Sri Lanka, the Board of Directors are reasonably satisfied that the Company possesses adequate resources to continue in operation for the foreseeable future.

Messrs Ernst & Young, Chartered Accountants, the Auditors of the Company have examined the Financial Statements made available by the Board of Directors together with all financial records, related data and minutes of Shareholders and Directors' meetings and express their opinion which appears as reported by them on pages 229 to 231 of this Annual Report.

Compliance Report

Accordingly, the Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board,

Mercantile Investments & Finance PLC

Ms. Sonali Pethiyagoda

Company Secretary

17th May 2018

Managing Director's and Chief Financial Officer's Statement of Responsibility

The Financial Statements of Mercantile Investments and Finance PLC are prepared and presented in accordance with the following requirements:

- Sri Lankan Financial Reporting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka.
- The Companies Act No. 07 of 2007
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Directions, Circulars and guidelines issued to Finance Companies by the Central Bank of Sri Lanka (CBSL) under the Finance Business Act No. 42 of 2011.
- Listing Rules of the Colombo Stock Exchange; and
- The Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka.

The Accounting Policies adopted in the preparation of the Financial Statements are appropriate and have been consistently applied during the financial year under review. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been re-classified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. Significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with External Auditors and the Board Audit Committee.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements to the best of our knowledge. Material estimates and judgment relating to the Financial Statements were made on a prudent and reasonable basis, in order to ensure that the Financial Statements are reflected in a true and fair manner. The form and substance of transactions reasonably represent MI's state of affairs. To ensure this, the Company has taken sufficient care in installing a system of Internal Control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis.

The Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further, the Board assessed the effectiveness of the Company's internal controls over financial reporting during the year ended 31 March 2018, as required by the Finance Companies (Corporate Governance) Direction on No. 3 of 2008, result of which is given on page 227 of this Annual Report, The Report by the Board on Internal Control'.

The Audit Committee met periodically with the Internal and External Auditors to review the manner in which the auditors carry out their responsibilities in performing their duties and to discuss audit findings, and any deficiencies in internal controls that may impact the accuracy and completeness of the financial reporting process.

The Financial Statements of the Company were audited by Messrs, Ernst & Young, Chartered Accountants and their Audit Report is given on pages 229 to 231 of this Annual Report

The Audit Committee has reviewed and recommended the scope and fees of audit and non-audit services, provided by the External Auditors for approval of the Board of Directors to ensure that the provision of such services does not impair the Auditor's independence and objectivity. Both Internal and External Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

We confirm that the Company has complied with all applicable laws, regulations and prudential requirements and there are no material non-compliances and litigations pending against MI other than those disclosed in Note 46 of the Financial Statements in this Annual Report. All taxes, duties and statutory payments by the Company and in respect of the employees of MI as at 31 March 2018 have been paid or where relevant accrued.

Gerard Ondaatjie
Managing Director

Shermal Jayasuriya
Finance Director/Chief Financial Officer

17th May 2018

Integrated Risk Management Committee Report

Committee Composition

The Committee consists of the following members:

Name	Non Exective Membership Status	Directorship Status/ Position held in the company
Mr. N.H.V. Perera	Chairman	Non-Executive Director
Mr. Gerard G. Ondaatjie	Member	Executive Director
Mr. P.M. Amarasekara	Member	Executive Director
Mr. S.H. Jayasuriya	Member	Executive Director
Mr. Ramidu Costa	Secretary	Head of Compliance & Risk Management

Integrated Risk Management Committee (IRMC)

The IRMC was established and operated in accordance with the sections 8.1 and 8.3 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Monetary Board under the Finance Companies Act No. 78 of 1988.

The Committee held four meetings for the year under review. The Committee met its key objectives and carried out its responsibilities effectively. Details of Committee membership and meeting attendance information are given on Page 146.

Duties and Responsibilities of the Committee

The Terms of Reference of the Committee was revised and approved by the Board within this period, responding to the sophisticated dynamic business environment. Based on the Board approved 'Terms of Reference' and 'Risk Policy' of the Company, following are the key responsibilities of the Integrated Risk Management Committee.

a. Set the right tone at the top and encourage a strong risk culture within the Company.

This includes:

- Communicating MI's approach to risk company wide.
- Promote ethical conduct and integrity among the staff by setting right expectations.

b. Assessing all risks including credit, liquidity, operational and strategic risks periodically, through appropriate risk indicators and ensuring suitable risk mitigation strategies are in place for current and emerging risks which exceed the tolerance levels.

c. Evaluate the adequacy and effectiveness of the risk management mechanism and exercise oversight over the overall risk management process.

d. Approve major decisions affecting MI's risk profile or risk exposure and ensure the risks are addressed with mitigation strategies within the framework of the authority and scope assigned to the Committee.

e. Determine the appropriate risk appetite limits in addition to limits imposed by regulations.

f. Identify and monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises.

g. Review MI's approach for Risk Management periodically and introduce changes to bridge any gaps.

Key Actions during 2017/18

Over the course of the year the Committee considered a wide range of risks faced by the Company, both standing and emerging, across all key areas of risk management. The Committee took following actions during the year in fulfilling its responsibilities effectively.

- Based on the policy and risk approach, reviewed and approved risk parameters and risk appetite limits for various risk categories which were considered benchmarks in periodically conducted risk assessments.
- The Committee submitted an 'Activity Report' on a quarterly basis updating the Board on key risks and recommended risk treatments.

  During FY 2017/18, the Committee continued to utilize established Corporate Management Committees to provide additional focus on credit risk, liquidity risk, IT resilience and Cyber Security, operational risk concerns, business continuity planning and sustainability risks. The key actions of these Committees and benefits are briefed below.

Action	Benefit to MI
Assets and Liabilities Management Committee (ALCO)- Advised the management on strengthening the treasury function reviewed and revised Liquidity Risk Management Policy, Borrowings Policy and Investment Policy.	Enhanced treasury management function with stronger risk controls. Improved the maturity profile of the Company's Assets and Liabilities.
Management Committee- Reviewed the ongoing performance to provide early warning signals and a platform for decision-making.	Supported smooth flow of operations by overseeing the risks attached to operations and the workforce.
IT Steering Committee- Implemented necessary steps proactively to ensure safety from cyber threats and improve system capabilities.	Facilitated MI's operations without technological disruptions. Oversight of ongoing external system evaluations and associated risk.
Sustainability Governance Committee – Initiated a number of sustainability projects and reviewed MI's adherence to sustainable business practices.	Ensured that the Company's obligations towards society and environment are fulfilled and the associated risks were managed.

N.H.V. Perera
Chairman
Integrated Risk Management Committee
17th May 2018

Remuneration Committee Report

Committee Composition

The Committee comprises of three Non-Executive Directors and is chaired by Mr. S.H.J Weerasuriya who is an Independent Non-Executive Director of the Company.

Name	Membership Status	Directorship Status/ Position held in the company
Mr. S.H.J.Weerasuriya	Chairman	Independent Non- Executive Director
Mr. N.H.V.Perera	Member	Non- Executive Director
Ms. P.T.K.Navaratne	Member	Non- Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

Terms of Reference

The Terms of Reference was updated again during the period and was Board approved on 27th March 2018 covering requirements of the Corporate Governance Best Practices issued by CA Sri Lanka. The terms govern the Committee on;

- Recommending and approving total remuneration package and incentivization packages of the Executive Directors.
- Considering and recommending to the Board, the Board policy for the remuneration and incentivization package.
- Reviewing Company's remuneration practices and policies to ensure fairness in Directors' Remuneration.
- Determining the policy for the terms of employment of the Executive Directors.
- Monitoring the performance conditions subject to which any long term incentive awards may be granted under the schemes adopted by the Company and approving grant of long term incentive awards, such as share appreciation rights and performance shares.
- Reviewing the design of all share incentive schemes.
- Bearing the responsibility for selecting and appointing any remuneration consultants who advises the Committee.

Committee's Role

The Committee as part of its responsibilities set up the remuneration policy and make recommendations to the Board on the following matters:

- Set guidelines and policies to formulate compensation packages, which attract and motivate qualified and experienced personnel to the Board of the Company.
- A competitive and fair remuneration package payable to the Executive Directors of the Company, which is satisfactory to both the interests of the shareholders and the member in concern.
- Evaluating prevailing market remuneration levels when making remuneration policy amendments.

Guiding Remuneration Principles Followed

In order to remunerate individuals in an effective manner, MI Board has set forth guiding principles which encompass alignment of policy to following broader corporate objectives;

- Deciding on standard pay that will enable the company to attract and retain high caliber personalities.
- Remuneration should be aligned in a way that it satisfies both shareholder and members interest.
- The Committee to meet periodically to identify performance and recommend suitable remuneration changes.
- Evaluating the prevailing remuneration levels in the market in general when deciding on salary revisions.

Key Activities during FY 2017/18

- Based on the Board approved Terms of Reference of the Remuneration Committee made revisions to remuneration levels of Executive Directors.
- Human Resource Remuneration Policies were revisited and required changes to carried out in the next financial year.

Meeting Information

Number of Committee meetings held during 2017/18 with attendance status of members is given on page 146 in the annual report.

Saro Weerasuriya

Chairman

Remuneration Committee

17th May 2018

Nomination Committee Report

Committee Composition

The Nomination Committee comprise of the following Directors and the Company Secretary.

Name	Membership Status	Directorship Status
Mr. S.H.J Weerasuriya	Chairman	Independent Non – Executive Director
Mr. Gerard G.Ondaatjie	Member	Managing Director
Mr. N.H.V. Perera	Member	Non-Executive Director
Mr. S.M.S.S. Bandara	Member	Independent Non – Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

Objectives of the Committee

The Nomination Committee was established by the Mercantile Investments & Finance PLC Board of Directors in order to strengthen the Director appointment process specifically focusing on:

- Identifying individuals qualified to serve as Board members, consistent with criteria approved by the Board.
- Recommending to the Board, the Director nominees for election or appointment after ascertaining the necessity of additional Directors.
- Conducting a rigorous and transparent process when making or renewing appointments of Directors to the Board.
- A Committee that can advise the Board on issues of Directors' independence.

Committee Duties, Responsibilities and Process;

- Conduct continuing study of the size, structure and composition of the Board and make appointment of new Directors or re-elect current Directors to the Board.
- Seek out possible candidates to fill Board positions, advice and recommend to the Board on any such appointment
- Evaluate nominees based on criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Director or key management submitted by any shareholder of the company.
- Recommend to the Board, prior to the solicitation of proxies, an account of qualified candidates for election to the Board at each meeting of shareholders of the company at which Directors are to be elected and, in the case of a vacancy on the Board, a candidate to fill that vacancy.
- Evaluate the performance of incumbent Directors upon the expiration of their terms.
- Ensure balance of skill, knowledge and experience of members forming part of the Board and also ensure that the members are fit and proper persons to hold the position as required by statutes.
- Prepare evaluation forms for all Board members and all members of Board Committees and, at least annually, receive comments from all members of the Board and report to the Board with an assessment of the Board's performance.
- Oversee the orientation and training of new Directors.
- Recommend ways in which the Board could improve its performance.

Key Activities during the FY 2017/18

- Through the Nomination Committee's guidance, Human Resource Management Department was able to revise the succession plan and obtain Board Approval.
- The Committee revised and obtained the Board approval for the Terms of Reference of Nomination Committee drawing due reference to the "Code of Best Practices on Terms of Reference for Nomination Committees (Schedule A)" issued by Chartered Accountants of Sri Lanka.
- During the year, Committee recommended the re-election of Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board's responsibilities.

Meeting Information

Number of Committee meetings held during the financial year 2017/18 with attendance status of members is given on page 146 in the annual report.

Saro Weerasuriya

Chairman

Nomination Committee

17th May 2018

Audit Committee Report

The Board of Directors has established the Audit Committee in-line with the Central Bank Direction No. 03 of 2008 on requirements on an Audit Committee. The Audit Committee comprises of two independent Non-Executive Directors, a Non-Executive Director and a Secretary for the Committee. The Committee is chaired by an Independent Non-Executive Director while the Company Secretary functions as the Secretary to the Committee.

Name	Membership Status	Directorship Status/ Position held in company
Mr. S. M. S. S. Bandara	Chairman	Independent Non-Executive Director
Mr. S. H. J. Weerasuriya	Member	Independent Non-Executive Director
Mr. N. H. V. Perera	Member	Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

Terms of Reference

Terms of Reference of the Audit Committee stems from the scope of the Board Audit Committee. Terms of References are established for the purpose of assisting the Board in fulfilling their responsibilities, including risk management, integrity of financial statements, internal control, compliance etc.

During the period, the Finance Director and representatives from Internal Auditors and External Auditors were present at meetings by invitation.

The Board of Directors have empowered amongst other things, to examine any matter in connection with financial and other related affairs of the Company, to review internal audit programs, internal control system and procedures ,accounting policies and the compliance with statutory and regulatory requirements etc., thus ensuring that a sound financial reporting framework is in place, which is well-monitored to provide accurate, appropriate and timely information to the Board of Directors, Management, Regulatory Authorities and Shareholders.

The Audit Committee assures that the Company's policies and activities comply with rules and regulations and accepted ethical guidelines. Establishing an effective risk management process that enable the proper identification and mitigation of risk is one of the key objectives of the Audit Committee. Assisting the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process and auditing financial statements by monitoring the integrity and reliability of the financial statements is another key function of the Audit Committee.

The Committee held 06 meetings during the financial year 2017/18 and performed the under mentioned tasks:

1. Reviewed Internal Audit Reports on Head Office and Branch activities and discussed measures to be taken on deficiencies and shortcomings that have been pointed out.

2. Regularly monitored the effectiveness of the internal controls and the procedures established by the management to safeguard the assets of the Company.

3. Met with the External Auditors at the conclusion of annual audit and reviewed the Auditors' Management Letter together with the management's response thereto.

4. Ensured the integrity of financial reporting and compliance with financial reporting requirements and other related regulations.

5. Reviewed the financial statements in order to ensure consistency of the accounting policies, methods and compliance with Sri Lanka Accounting Standards. The Annual Financial Statements were also reviewed with the External Auditors.

6. Reviewed periodically the Company's compliance with regulatory requirements and other statutory requirements.

7. Ensured that sound corporate governance practices exist within the Company.

The Audit Committee submitted 07 reports to the Board of Directors during the year under review highlighting the key matters taken up. The effectiveness of the Committee was evaluated by the Board of Directors at the end of the financial year.

Internal Audit

The Committee ensured that the Internal Audit Division of MI is independent of the operational activities of the company and internal audit performed its activities impartiality, diligently and professionally.

The internal audit programs were structured to ensure there is adequate audit cover both at Head Office and branch level. The Audit Committee regularly reviewed audit reports and follow-up with management on material audit observation with recommendations.

Independence of External Auditors

The Audit Committee reviewed audit and non-audit functions of External Auditors which are segregated as those require independent view and other advisory services. Messrs. Ernst and Young, Chartered Accountants External Auditors does not handle substantial volume of non-audit services of the Company, in keeping to terms of reference of engagement of external audit partners to provide non-audit services.

The Audit Committee ensured that the provision of such limited services does not impair independence and objectivity of External Auditors and that work is assigned in such manner as to prevent any conflict of interest.

The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Company's assets are safeguarded and that the financial position of the Company is well monitored.

Audit Committee has recommended to the Board of Directors that Messrs. Ernst and Young, Chartered Accountants be reappointed as the External Auditor of the company for the year ending 31st March 2019, subject to the approval of shareholders at the Annual General Meeting, in accordance with CBSL Regulations on selecting regulatory approved External Auditors for the sector. Audit Committee's selection and review of External Auditors was based on capability, resource availability of the firm and their level of independence from MI and Board of Directors. The Audit Committee recommended the fees payable to the Auditors in 2017/18 financial year and approved by the Board.

Key Activities during FY 2017/18

- The Committee revised and obtained the Board approval for the Terms of Reference of Audit Committee drawing due reference to the "Code of Best Practices on Terms of Reference for Audit Committees" issued by the Institute of Chartered Accountants of Sri Lanka.
- Appointment of Messrs. Ernst and Young, Chartered Accountants as the External Auditor of the Company.
- Appointment of Messrs PricewaterhouseCoopers (Private) Ltd as the Internal Auditors of the company.
- Committee continuously monitored the progression of implementation of SLFRS 9 on "Financial instrument" and its impact to the financial statements and reporting.
- Committee also reviewed the effectiveness of the adoption of risk based audit approach and internal controls of the company.
- Committee revised the "Whistle Blowing Policy" during financial year and continuously emphasized on upholding ethical values of employees drawing attention to the code of conduct of staff.
- Committee also reviewed the revised policy decisions relating to adoption of new/revised accounting standard applicable to the Company and made recommendation to the Board.
- Committee also scrutinized best practices adopted by the industry and regulatory requirements and system in place to adhere to same.

S. Bandara

S.M.S.S. Bandara

Chairman

Audit Committee

17th May 2018

Board Related Party Transactions Review Committee Report

Composition of the Committee

The Board-Related Party Transaction Review Committee (BRPTRC) was established during the financial year 2014/15 to review all the related party transactions carried out by the Company by early adopting the code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC) in December 2013. BRPTRC comprises of the following;

Name	Membership Status	Directorship Status/ Position held in the company
Mr. S.M.S.S Bandara	Chairman	Independent Non-Executive Director
Mr. S.H.J. Weerasuriya	Member	Independent Non-Executive Director
Mr. S. H. Jayasuriya	Member	Executive Director
Mr. N.H.V. Perera	Member	Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

Objective

To protect the interest of MI investors as a whole, by introducing a mechanism to identify related party transactions and comply with requirements of the Code of Best Practice on Related Party issued by the Securities and Exchange Committee of Sri Lanka. Specify a process to capture related party transactions and to report to the Board as per the code of best practice.

Scope of the Committee

Identify all related parties of the Company and review all related party transactions to ensure that they are carried out on an arm's length basis. At each subsequent scheduled meeting of the Committee, the management shall update the Committee as to changes in any previously identified related parties.

Mandate of the Committee

- Developing terms of reference of the BRPTRC for adoption by the Board of Directors of the Company.
- Adopting policies and procedures to identify related parties and review of related party transactions of the Company and reviewing and overseeing existing policies and procedures.
- Establishing guidelines to be followed by the Senior Management in respect of ongoing related party transactions.
- Updating the Board of Directors on the related party transactions of the Company on a quarterly basis.
- Making immediate market disclosures on applicable related party transactions as required by Colombo Stock Exchange (CSE).
- Making appropriate disclosure on related party transactions in the Annual Report as required by CSE.
- Determine whether Related Party Transactions require the approval of the Board of Directors.
- Draw the attention of the Board on concerning transactions, if any.

Key Activities during 2017/18

- The Committee revised and obtained the Board approval on 27th March 2018 for the Terms of Reference of Related Party Review Committee drawing due reference to the Code of best practices on related party transaction reporting and reviewing issued by the Institute of Chartered Accountants of Sri Lanka.
- Four Committee meetings were held during the year under review. Finance Division submitted comprehensive reports on related party transactions to the Committee. Attendance of the members of the Committee is provided on page 146. Any concerns of the Committee continued to be reported to the Board of Directors on an ongoing basis.
- The Committee reviewed and monitored related party transactions that the company has entered into and requested for additional information to draw conclusion which was submitted through the financial department.
- Formulated, revised and approved policies on related party transactions.
- Advised management on the reporting format to the Committee.

S. Bandara

S. M. S. S. Bandara

Chairman

Related Party Transactions Review Committee

17th May 2018

Report by the Board on Internal Control

BOARD'S RESPONSIBILITY

This Report on internal control has been presented in accordance with Section 10.2 (b) of the Finance Companies (Corporate Governance) Direction, No. 03 of 2008 and Corporate Governance – Amendment Direction No. 06 of 2013.

The Board of Directors are responsible for the adequacy and effectiveness of the Company's system of internal controls. The system of internal controls have been however, designed to manage the Company's key risk areas within an acceptable risk profile, rather than to eliminate the risk of failure to achieve Company's policies and objectives. Hence, MI's internal control system can only provide reasonable but not absolute assurance against material misstatements of management and financial information and records or against financial losses.

The Board has established a mechanism for identifying, evaluating and managing material risks. This process includes enhancing the system of internal controls when needed in-line with changes in the business environment or regulation. The management of MI assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks faced and also assists in the designing, implementing and monitoring of suitable internal controls to control risks.

BROAD PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL MECHANISM ON FINANCIAL REPORTING

The salient processes that have been established in reviewing the adequacy and integrity of the system of internal controls pertaining to financial reporting are as follows:

- Relevant Heads of Divisions have been delegated the task of applying controls to capture their related transactions on to a defined and structured recording information system that supports in financial reporting. The Finance Department headed by the Finance Director has been delegated the task of preparing the Annual Financial Statements and other periodic financials reports online with Sri Lanka Accounting Standards and other applicable regulations.
- MI's own Internal Audit Division and PricewaterhouseCoopers (Private) Ltd have been jointly entrusted with the task of carrying out the Company's internal audit function on a periodic basis to verify the compliance with policies and procedures and the effectiveness of the internal control systems and providing feedback of such reviews to the Audit Committee on any non-compliance.
- The Audit Committee of the Company meets to review Internal Auditors observations periodically on internal controls, External Auditors' queries arising from the statutory review and other matters impacting financial reporting. The Committee evaluates the adequacy and effectiveness of Company's risk management process and internal control systems. The Committee further reviews work of Internal Auditors on their scope and quality of audits. The Committee follows up concerns with the corporate management and in turn provides feedback to the Board on any material matters and unresolved issues and makes recommendations.
- Other Sub-Committees appointed by the Board also assist the Board in reviewing and providing feedback to the Board on the effectiveness of areas specifically entrusted upon to such Committees through periodic supervision. This includes reviewing related operations to ensure they are online with corporate objectives, policies and established procedures.
- Policies/ Procedures developed/ updated covering all functional areas of the company, are approved by the Board or Board approved Sub-Committees. Such policies and procedures are reviewed and approved annually.
- To strengthen reporting, additional IT controls were established and wider spectrum of management information reports were generated during FY 2017/18.
- Head of Compliance and Risk Management submitted periodic compliance status reports covering all applicable Central Bank rules and regulations to the Board. A branch compliance checklist, covering key rules and regulations and internal controls is signed off by branch managers on a bi-monthly basis to ensure higher level of compliance remains within MI branch network.
- The Board identified requirements of Sri Lanka Financial Reporting Standard-SLFRS 9 on "Financial Instruments" which is effective from 01 January 2018 which is expected to have significant impact on calculation of impairment based on "Expected Credit Loss Model". Company carried out a "Gap Analysis" assignment with the assistance of External Consultant to identify the potential impact.

CONFIRMATION BY THE BOARD

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting. Based on the established internal control mechanism explained above, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes is done in line with Sri Lanka Accounting Standards and requirements of the regulator.

EXTERNAL AUDITORS REVIEW OF THE STATEMENT

The External Auditors have reviewed the above 'Report of the Board on Internal Control' for the year ended 31 March 2018 included in the Annual Report of the Company. They reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control System of the Company over financial reporting.

By order of the Board,

S. Bandara

S.M.S.S. Bandara
Chairman
Audit Committee

Saro Weerasuriya
Chairman

Gerard Ondaatjie
Managing Director

17th May 2018

Independent Assurance Report on the Directors' Statement on Internal Control

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BW/UM/TW

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF MERCANTILE INVESTMENTS & FINANCE PLC

Introduction

We were engaged by the Board of Directors of Mercantile Investments & Finance PLC ("Company") to provide assurance on the Directors' Responsibility Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2018.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement.

Our responsibilities and compliance with SLSAE 3000

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000.

Summary of work performed

We conducted our engagement to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control over financial reporting for the Company.

The procedures performed are limited primarily to inquiries of company personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

SLSAE 3000 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3000 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

Ernst & Young

17 May 2018
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Independent Auditors' Report

EY
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BW/UM/MFI

TO THE SHAREHOLDERS OF MERCANTILE INVESTMENTS & FINANCE PLC

Report on the audit of the Financial Statements

We have audited the financial statements of Mercantile Investments & Finance PLC ("The Company"), which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and statement of comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters specific to Company

Key Audit Matter	How our audit addressed the matter
Impairment of loans and advances	
As at 31 March 2018, loans & advances (net of impairment) amounted to Rs.31.9 Bn. These collectively contributed 79% to the Company's total assets. The allowance for impairment (both specific and collective) of these financial assets is estimated by management. The estimation involves a complex calculation. Assumptions used by management in this calculation are inherently judgmental. Note 10 to the financial statements more fully describes the assumptions to which this estimate is most sensitive. We considered the estimation of allowance for impairment as a Key Audit Matter due to sensitivity of reported results (on financial performance) to this allowance and the inherent uncertainty involved in its estimation.	**To assess the reasonableness of the allowance for impairment, our audit procedures (among others) included the following:** • We understood & evaluated the key internal controls over estimation of the allowance for impairment including those over identifying occurrence of loss events and non – performing loans; • We test – checked the underlying calculation [and data used in such calculations] on a sample basis; • In addition to the above, focused procedures were performed as follows: - **Specific allowance for impairment:** For a sample on non – performing loans & leases, management's forecasts of cash flows were test – checked to historical patterns of customer repayment. Among other procedures, forecast cash flows arising from collateral (or other source(s) of expected recovery) were verified to source documents; - **Collective allowance for impairment:** For loss rates used by the management, we assessed the appropriateness of the loss emergence period including consistency with historical loss experience; assumptions on effects arising from macro – economic factors were compared to published data. • We assessed the adequacy of the related financial statement disclosures as set out in note(s) 23-25

Key Audit Matter	How our audit addressed the matter
Revaluation of freehold land and buildings	
As of 31 March 2018, the Company carried freehold land and buildings at fair value amounting to Rs.1.6 billion and Rs 661 million respectively, of which Rs.890 million has been recognized through OCI. Fair value was determined by an external valuer engaged by the Company. The valuation was significant to our audit due to the use of estimates in the valuation techniques, and valuation is judgmental and is based on certain key assumptions. Given the significance of assumptions associated with the valuation of these assets we have considered the valuation of freehold land and building as a key audit matter. Refer note 31.4 to the financial statements for significant accounting judgements, estimates and assumptions related to valuation of freehold land and buildings.	Among other audit procedures over revaluation of freehold land and buildings we performed following specific procedures : • We have assessed the objectivity, competence and capabilities of the external valuer appointed by the management. • We checked the valuation report to obtain an understanding of the work done by the valuer and evaluated the appropriateness as audit evidence for the recorded valuation of freehold land and buildings in the financial statements. • We engaged internal specialists to evaluate the appropriateness of the valuation method and price range per perch with market data and other key assumptions applied by the external valuer in appraising the value. • In addition, we evaluated the overall appropriateness of the related financial statement disclosures in note 31.4.

Other Matter

The financial statements of Mercantile Investments & Finance PLC for the year ended 31 March 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 12 September 2017.

Other information included in the 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs 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 SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 controls of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2,440.

Ernst & Young

17 May 2018
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

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Financial Information - Index

Statement of Comprehensive Income

Year ended 31 March 2018	Note	2018 Rs.'000	2017 Rs.'000
Gross income	6	6,984,093	5,645,533
Interest income	7.1	6,564,038	5,286,060
Interest expenses	7.2	(3,703,776)	(3,136,218)
Net interest income		2,860,263	2,149,842
Fee and commission income	8	89,797	83,622
Net fee and commission income		89,797	83,622
Other operating income	9	330,258	275,851
Total operating income		3,280,318	2,509,315
Impairment charge/(reversal) for loans and receivables and equity investments	10	(426,353)	(625,066)
Net operating income		2,853,965	1,884,249
Less: Operating expenses			
Personnel expenses	11	(844,689)	(678,232)
Depreciation and amortization	12	(93,746)	(69,186)
Other operating expenses	13	(847,904)	(814,508)
Total operating expenses		(1,786,340)	(1,561,926)
Operating profit before value added tax and NBT on financial services		1,067,625	322,323
Value added tax & NBT on financial services		(283,667)	(112,838)
Operating profit after value added tax and NBT on financial services		783,959	209,485
Add: Share of associate company's profit before taxation	14	94,996	104,194
Profit before taxation from operations		878,955	313,679
Less: Income tax expenses	15	(364,890)	(111,665)
Profit for the year		514,065	202,014
Other comprehensive income/(expenses)			
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods			
Changes in fair value of available for sale financial assets		(56,158)	19,584
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods		(56,158)	19,584
Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods			
Net change in revaluation surplus		890,093	-
Deferred tax effect on revaluations surplus on Land & building		(447,581)	629
Share of other comprehensive income of associates		(49,323)	(5,183)
Acturial gain/(loss) on retirement benefit obligation (Note 38)		14,095	(1,185)
Deferred tax effect on acturial gain		(4,278)	(2,826)
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		403,006	(8,565)
Other comprehensive income/(expenses) for the year (net of tax)		346,847	11,019
Total comprehensive income/(expenses) for the year net of tax		860,912	213,033
Earnings per share			
Basic earnings per share (Rs.)	16	171.01	67.20
Diluted earnings per share (Rs.)	16	171.01	67.20
Dividend per ordinary share (Rs.)	17	15.00	-

Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 238 to 308 form an integral part of these financial statements.

Statement of Financial Position

As at 31 March 2018	Note	2018 Rs.'000	2017 Rs.'000
Assets			
Cash and cash equivalents	20	763,819	1,244,554
Placement with banks	21	218,102	53,501
Financial investments - available for sale (quoted)	22	2,768,053	3,823,125
Loans and receivables	23	14,549,748	11,366,577
Finance leases receivables	24	12,016,981	11,093,954
Hire purchase receivables	25	5,368,388	6,184,745
Financial investments - available for sale (unquoted)	22	70,427	70,427
Other financial assets	26	506,326	445,786
Inventories	27	6,762	7,882
Other assets	28	104,102	81,732
Current tax refunds		21,676	121,051
Investment in associates	29	1,006,506	995,977
Investment property	30	172,795	158,340
Property, plant and equipment	31	2,691,612	1,790,296
Leasehold property	32	41,672	42,140
Intangible assets	33	48,979	12,577
Total assets		40,355,948	37,492,664
Liabilities			
Bank overdraft		254,238	1,092,434
Deposits due to customers	34	20,073,010	17,017,674
Debt instruments issued and other borrowings	35	9,327,958	10,165,837
Other financial liabilities	36	814,105	776,819
Deferred tax liabilities	37	980,970	361,223
Other liabilities		39,104	39,640
Retirement benefit obligations	38	183,477	171,772
Total liabilities		31,672,862	29,625,399
Shareholders' funds			
Stated capital	39	36,000	36,000
Revaluation reserve	40	1,928,250	1,535,061
Statutory reserve fund	41	711,400	661,400
General reserves	42	4,086,430	4,086,430
Retained earnings	43	1,720,521	1,291,730
Available for sale reserve	44	200,485	256,644
Total shareholders' funds		8,683,086	7,867,265
Total liabilities and shareholders' funds		40,355,948	37,492,664
Net assets per share (Rs.)		2,888	2,617
Capital commitments and contingencies	45 & 46		

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

Shermal H. Jayasuriya
Finance Director

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by;

Gerard G. Ondaatjie
Managing Director

Travice J. Ondaatjie
Director

The significant accounting policies and the notes from pages 238 to 308 form an integral part of these financial statements.

17 May 2018
Colombo

Statement of Changes in Equity

Year ended 31 March 2018	Stated Capital Rs.'000	Revaluation Reserves Land and Buildings Rs.'000	Associate Company Reserve Rs.'000	Statutory Reserves Rs.'000	General Reserves Rs.'000	Available For Sale Reserve Rs.'000	Retained Earnings Rs.'000	Total Rs.'000
As At 01st April, 2016	36,000	1,084,345	455,270	631,400	4,086,430	237,060	1,123,727	7,654,232
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	202,014	202,014
Other comprehensive income	-	629	(5,183)	-	-	19,584	(4,011)	11,019
Total comprehensive income	-	629	(5,183)	-	-	19,584	198,003	213,033
Dividends paid to equity shareholders	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	30,000	-	-	(30,000)	-
As At 31st March, 2017	36,000	1,084,974	450,087	661,400	4,086,430	256,644	1,291,730	7,867,265
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	514,065	514,065
Other comprehensive income/(expenses)	-	442,512	(49,323)	-	-	(56,158)	9,817	346,846
Total comprehensive income/(expenses)	-	442,512	(49,323)	-	-	(56,158)	523,881	860,911
Dividends paid to equity shareholders	-	-	-	-	-	-	(45,090)	(45,090)
Transfer to statutory reserve	-	-	-	50,000	-	-	(50,000)	-
As At 31st March, 2018	36,000	1,527,486	400,764	711,400	4,086,430	200,485	1,720,521	8,683,086

The significant accounting policies and the notes from pages 238 to 308 form an integral part of these financial statements.

Statement of Cash Flow

Accounting policy

The statement of cash flow has been prepared by using the “Direct Method”, in accordance with Sri Lanka Accounting Standard – LKAS 7 on “Statement of Cash Flow” whereby gross cash receipts and gross cash payments of operating activities, finance activities, and investing activities have been recognized. Cash and cash equivalents include cash in hand, balances with banks and highly liquid investment instruments with an original maturity of three months or less as given in the note 20.

For the year ended 31st March	Note	2018 Rs.’000	2017 Rs.’000
Cash flow from operating activities			
Interest and commission receipts		6,653,836	5,369,681
Interest payments		(3,703,776)	(3,136,218)
Cash receipts from customers		(335,978)	(145,788)
Cash payments to employees, suppliers and tax authority		(1,573,046)	(1,399,200)
Operating profit before changes in operating assets and liabilities (Note A)		1,041,036	688,475
(Increase) / decrease in operating assets			
Deposits held for regulatory or monetary control purposes		(897,540)	934,075
Funds advanced to customers		(3,590,582)	(4,119,821)
Other receivables		(81,628)	(336,249)
Increase / (decrease) in operating liabilities			
Other payables		36,739	1,202,085
Deposits from customers		3,055,335	(249,290)
		(436,640)	(1,880,725)
Income taxes paid		(77,444)	(173,757)
Net cash from operating activities		(514,084)	(2,054,482)
Cash flows from investing activities			
Dividends received		69,863	177,001
Dividends received from associates		14,961	14,370
Proceeds from sale of non-dealing securities and government securities		2,013,968	228,422
Purchase of non-dealing securities		(188,546)	(21,148)
Proceeds from sale of property, plant and equipment		13,488	326,054
Purchase of property, plant and equipment and investment property	30 & 31	(117,032)	(85,378)
Acquisition of intangible assets	33	(52,187)	(2,977)
Net cash from investing activities		1,754,514	636,344
Cash flows from financing activities			
Borrowings obtained during the year		13,819,158	15,543,701
Borrowings repaid during the year		(14,657,037)	(13,905,033)
Dividends paid		(45,090)	-
Net Cash from financing activities		(882,969)	1,638,668
Net increase in cash and cash equivalents		357,461	220,530
Cash and cash equivalents at the beginning of the period		152,120	(68,410)
Cash and cash equivalents at the end of the period (Note B)		509,581	152,120

Statement of Cash Flow

For the year ended 31st March	Note	2018 Rs.'000	2017 Rs.'000
Reconciliation of profit before tax with cash inflow from operating activities (Note A)			
Profit before tax		878,955	313,679
Capital gain from sale of quoted shares and treasury bonds	9	(219,327)	(59,542)
Dividend from investing securities	9	(69,863)	(177,001)
Share of profit of associates	14	(94,996)	(104,194)
(Profit)/loss on sale of property, plant and equipment	9	368	(3,071)
Depreciation of property, plant and equipment and investment property	30 & 31	77,493	65,932
Amortisation of leasehold property	32	468	468
Amortisation of intangible assets	33	15,785	2,786
Provision for bad and doubtful debts	10	426,353	625,066
Retirement benefit provision	38.2	35,163	28,327
Retirement benefit paid	38.1	(9,362)	(3,975)
		1,041,036	688,475
Net cash and cash equivalents at the end of the period (Note B)			
Cash in hand	20	483,582	998,666
Balance with bank	20	280,237	245,888
Bank overdraft		(254,238)	(1,092,434)
		509,581	152,120

The significant accounting policies and the notes from pages 238 to 308 form an integral part of these financial statements.

Notes to the Financial Statements

1. REPORTING ENTITY

1.1. Corporate information

Mercantile Investments and Finance PLC is a public limited liability company, listed on the Colombo Stock Exchange, incorporated on 15th June, 1964 and domiciled in Sri Lanka. It is a licensed finance company regulated under the Finance Business Act No. 42 of 2011. The company was re-registered under the Companies Act No. 07 of 2007.The registered office of the company is located at No. 236, Galle Road, Colombo 03.

The staff strength of the company as at 31st March, 2018 was 951 (883 as at 31st March, 2017).

1.2. Principal activities and nature of operations

Company

The company provides a comprehensive range financial services including accepting deposits, granting of loans, lease financing, hire purchase financing, fleet management and share trading.

Associates

The principle activity of the company's associate, namely Nuwara Eliya Hotels Company PLC is engaged in the business of the hoteliering.

There were no significant changes in the nature of the principle activities of the company and its associate during the financial year under review.

1.3. Parent enterprise and ultimate parent enterprise

The company doesn't have an identifiable parent of its own.

1.4. Approval of financial statements by the Board of Directors

The financial statements of Mercantile Investments and Finance PLC for the year ended 31st March, 2018 (including comparatives) were approved and authorized for issue by the Board of Directors on 17th May, 2018.

2. BASIS OF PREPARATION

This section provides a summary of significant accounting policies, judgements, estimates and assumptions used and other general accounting policies.

All specific accounting policies and accounting estimates in relation to the reported values have been presented in the respective notes in the financial statements.

2.1. Statement of compliance

The financial statements of the company have been prepared and presented in accordance with Sri Lanka Accounting Standards comprising SLFRS and LKAS (hereafter "SLFRS"), as issued by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendments thereto, provide appropriate disclosure as required by Listing Rules of the Colombo Stock Exchange. These Sri Lanka Accounting Standards are available at www.casrilanka.com.

The company did not adopt any inappropriate accounting treatments which are not in compliance with the requirements of the SLFRSs and regulations governing the preparation and presentation of the financial statements.

The formats used in the preparation of the financial statements and the disclosures made therein also comply with the specified format prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of annual audited financial statements of licensed finance companies.

2.2. Responsibility for financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements of the company as per the provision of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for the financial statements in the statement of financial position on page no. 02.

These financial statements include the following components:

- Statement of comprehensive income providing the information on the financial performance of the company for the year under review (refer page 233).
- Statement of financial position providing the information on the financial position of the company as at year end (refer page 234).
- A statement of changes in equity depicting all changes in shareholders' equity during the year under review (refer page 235).
- Statement of cash flow providing the information on the users on the ability of the company to generate cash and cash equivalents and the needs to utilization of those cash flows (refer page 236)
- Notes to the financial statements comprising accounting policies used and other explanatory information (refer pages 238 to 308).

2.3. Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position.

Items	Basis of measurement	Note No.
Available-for-sale financial investments	Fair value	22
Land and buildings	Stated at valuation	31
Defined benefit obligations	Liability for defined benefit obligations is recognized as the present value of the defined benefit obligation plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.	38

2.4. Functional currency and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the functional currency).

These financial statements are presented in Sri Lankan Rupees, which is the company's functional and presentation currency except when otherwise indicated

2.5. Presentation of financial statements

The assets and liabilities of the company presented in its statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the financial statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the note 52 to the financial statements.

2.6. Materiality and aggregation

Each material class of similar items is presented separately in the financial statements .Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by Sri Lanka Accounting Standards LKAS 1 "Presentation of Financial Statements".

2.7. Rounding

The amounts in the financial statements have been rounded –off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standards LKAS 1 "Presentation of Financial Statements".

2.8. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amount and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of comprehensive income, unless required or permitted by an Accounting Standards or Interpretation, and as specifically disclosed in the accounting policies of the company.

2.9. Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter period comparability. The presentation and classification of the financial statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

2.10. Going concern basis of accounting

The company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.11. Significant accounting judgments, estimates and assumptions

The preparation of the company's financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods and thus the actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the financial statements of the company are as follows:

2.11.1. Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not possible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is described in more detail in the note 19 to the financial statements.

2.11.2. Financial assets and liabilities classification

The accounting policies of the company provide scope for assets and liabilities to be classified at inception into different accounting categories under certain circumstances. The classification of financial instrument is given in the note 18 to the financial statements.

2.11.3. Impairment losses on loans and advances

The company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence, actual results may differ, resulting in future changes to the provisions made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).The impairment loss on loans and receivables is disclosed in more detail in the note 10, 23, 24 and 25 to the financial statements.

2.11.4. Impairment of available for sale investments

The company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. The impairment loss on equity investments is disclosed in more detail in the note 10 to the financial statements.

2.11.5. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the asset discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

2.11.6. Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

2.11.7. Defined benefit obligations

The cost of defined benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and long-term nature, a defined benefit obligation is subject to significant uncertainty.

2.11.8. Useful economic lives of property, plant and equipment

The company reviews the residual values useful lives and method of depreciation of property, plant and equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence, they are subject to uncertainty.

2.11.9. Revaluation of property, plant and equipment

The company measures land and buildings at revalued amounts. The company engaged an independent professional valuer to assess fair value of land and buildings as at 31st March, 2018. The key assumptions used to determine the fair value of the land and buildings are provided in the note 31.4 to the financial statements.

2.11.10. Provisions for liabilities, commitments and contingencies

The company receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements, unless otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF ASSETS AND LIABILITIES.

3.1. Financial instruments — Initial recognition, classification and subsequent measurement

3.1.1. Date of recognition

All financial assets and liabilities except "regular way trades" are initially recognized on the trade date, i.e., the date that the company becomes a party to the contractual provisions of the instrument. "Regular way trades", means purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Those trades are initially recognized on the settlement date.

3.1.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instrument :Recognition and Measurement".

Transaction cost in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through the statement of comprehensive income.

3.1.2.1. Day 1' Profit or Loss

When the transactions price differs from the fair value of other observable current market transactions in the same instruments, or based on a valuation technique shows variables include only data from observable markets, the company immediately recognizes the difference between the transaction price and fair value (a'Day1' profit or loss) in 'interest income and personnel expenses". In cases where fair value is determined using data which is not observable, or when the instrument is recognized, The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortized using "Effective Interest Rates" (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.1.3. Classification and subsequent measurement of financial assets

At inception a financial asset is classified into one of the following categories;

- At fair value through profit or loss :
  - Held for trading or
  - Designated at fair value through profit or loss
- Loans and receivables;
- Held to maturity: or
- Available for sale

The subsequent measurement of financial assets depends on their classification.

Details on different types of financial assets recognized on the statement of financial position are given in the note 18 to the financial statements.

3.1.3.1. At fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed below:

3.1.3.1.1. Held for trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category also includes derivative financial instruments entered into that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

Financial assets held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in profit or loss. Interest and dividend income is recorded in 'net trading income' according to the terms of the contract, or when the right to receive the payment has been established.

The company has not designated any financial assets upon initial recognition as held for trading.

3.1.3.1.2. Designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'interest income', using the EIR, while dividend income is recorded in 'other operating income' when the right to receive the payment has been established.

The company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

3.1.3.2. Loans and receivables

Loans and receivables include, loans and receivables, finance leases receivables, hire purchase receivables and placements with the bank.

Details of loans and receivables are given in following notes to the financial statements.

Items	Note No.
Loans and receivables	23
Finance leases receivables	24
Hire purchase receivables	25
Placement with banks	21

3.1.3.3. Held-to-maturity

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which has the intention and ability to hold-to-maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'interest income' in the statement of comprehensive Income. The losses arising from impairment of such investments are recognized in the statement of comprehensive income in 'impairment charge/ reversal for loans and receivables'.

3.1.3.4. Available for sale financial investments

Details of financial investments – available for sale are given in the note 22 to the financial statements.

3.1.3.5. Cash and cash equivalents

Details of cash and cash equivalents are given in the note 20 to the financial statements.

3.1.4. Classification and subsequent measurement of financial liabilities

At inception a financial liability is classified into one of the following categories;

- At fair value through profit or loss
  - Held for trading; or
  - Designated at fair value through profit or loss.
- At amortized cost

The subsequent measurement of financial liabilities depends on their classification.

Details on different types of financial liabilities recognized on the statement of financial position are given in the note 18 to the financial statements.

3.1.4.1. At fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designed upon initial recognition as at fair value through profit or loss.

The company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

3.1.4.2. Financial liabilities at amortized cost

Financial instruments issued by the company that are not designated at fair value through profit or loss, are classified as liabilities under 'due to customers', 'debt securities issued' or 'subordinated term debts' as appropriate, where the substance of the contractual arrangement results in the company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of owned equity shares.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in 'interest expenses' in the statement of comprehensive income. Gain and losses too are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Details of financial liabilities at amortised cost are given in the following notes to the financial statements.

Items	Note No.
Deposits due to customers	34
Debts instruments issued and other borrowings	35

3.1.5. Reclassification of financial assets and liabilities

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the statement of comprehensive income.

The company may reclassify a non–derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

3.1.6. De-recognition of financial assets and financial liabilities

3.1.6.1. Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:

- The company has transferred substantially all the risks and rewards of the asset; or
- The company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

3.1.6.2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of comprehensive income.

3.1.7. Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in the note 19 to the financial statements.

3.1.8. Identification and measurement of impairment of financial assets

The company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In addition, for an investment in an equity security a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment.

3.1.8.1. Impairment of financial assets carried at amortised cost

Details of the individual and collective assessment of impairments are given in the note 10 to the financial statements.

3.1.8.2. Impairment of financial investments - available for sale

For available for sale financial investments, the company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. A decline of 20%-30% of the fair value of an investment in an equity instrument below its acquisition cost may be considered as significant and a general stock market decline over a period of 12 months may not be necessarily considered as prolonged. However, judgement is made after a careful analysis of the specific facts and circumstances of each case. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in equity through other comprehensive income is removed from equity and recognised in the statement of comprehensive income. Increases in the fair value after impairment are recognised in the other comprehensive income.

3.1.9. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

Income and expenses are presented on a net basis only when permitted under LKAS/SLFRS, or for gains and losses arising from a group of similar transactions such as in the company's trading activity.

3.2. Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets are reviewed at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the statement of comprehensive income under those expense categories consistent with the function of the impaired asset, except for property previously revalued where the gain or loss on revaluation was taken to equity. In this case, the impairment is also recognized in equity upto the extent of any previously recognized revaluation gains.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

3.3. Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.3.1. Operating leases

3.3.1.1. Operating leases – company as a lessee

Leases that do not transfer to the company substantially all risks and benefits incidental to ownership of the leased assets are operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

The company does not have any operating leases as a lessee.

3.3.1.2. Operating leases – company as a lessor

Leases where the company does not transfer substantially all risks and benefits of ownership of the asset are classified as operating leases.

Details of 'operating leases' are given in the note 9, 26 and 31 to the financial statements.

3.3.2. Finance leases

3.3.2.1. Finance leases – company as a lessee

Finance leases that transfer substantially all risks and benefits incidental to ownership of the leased item to the company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The company does not have any finance leases as a lessee.

3.3.2.2. Finance leases – company as a lessor

When the company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'finance leases receivables. The finance income receivable is recognized in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Details of 'finance leases receivables are given in the note 24 to the financial statements.

3.4. Hire purchase receivable

Advances granted under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as "hire purchases receivables."

Details of hire purchase receivables are given in the note 25 to the financial statements.

3.5. Property, plant and equipment

Details of property, plant and equipment are given in the note 31 to the financial statements.

3.5.1. Depreciation

Details of depreciation are given in the note 12 to the financial statements.

3.6. Intangible assets

Details of intangible assets are given in the note 33 to the financial statements.

Amortization recognized during the year in respect of intangible assets is included under the item of amortization of intangible assets under depreciation and amortization in the statement of comprehensive income.

3.7. Investment property

Details of investment property are given in the note 30 to the financial statements.

3.8. Provisions

When the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the company can reliably estimate the amount of the obligation, we recognize it as a provision in accordance with LKAS 37 - Provisions, Contingent Liabilities and Contingent Asset.

3.9. Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.10. Employee benefits

3.10.1. Defined benefit plan – gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

Details of retirement benefit obligations are given in the note 38 to the financial statements.

3.10.2. Defined contribution plan

Details of the defined contribution plans and amount recognized in the statement of comprehensive Income as expenses on defined contribution plans are given in the note 11 to the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

Details and recognition criteria of income and expenses are given in the notes 6 to 13 to the financial statements.

4.1. Income tax expenses

Details of income tax expense are given in the note 15 to the financial statements.

5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

SLFRS - 9 'Financial Instruments'

SLFRS 9 Financial Instruments will replace LKAS 39 for annual periods on or after 1 January 2018 with early adoption permitted. In 2016 the Company set up a multidisciplinary implementation team ('the Team') with members from its Risk, Finance and Operations teams to prepare for SLFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Risk and Financial officers.

The Project has clear individual work streams within two sub-teams for classification and measurement and impairment.

The initial assessment and analysis stage was completed for impairment in 2016, and the sub team has finalised the classification and measurement phase.

Company performed the Diagnotic Phase (Preliminary Impact Assessment exercise) and Implementation Phase (solution development) on SLFRS 9 Financial Instruments.

The Company has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

CLASSIFICATION & MEASUREMENT

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

BUSINESS MODEL ASSESSMENT

Company determines it's business model at the level that best reflects how it manages the financial assets to achieve it's objectives. The Company's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as :

- How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affects the performance of the business model (and the financial asset held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cashflow collected)
- The expected frequency, value and timing of sales are also important aspect of Company's assessment

The business model assessment is based on reasonably expected scenarios without taking 'Worst case' or 'Stress Case' scenarios in to account. If cashflows after initial recognition are realized in away that is different from the Company's original expectation, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

Contractual Cashflow Characteristic Test

As the second test of the classification process the Company assesses the contractual terms of the financial asset to identify whether they meet Solely the Payment of Principle & Interest (SPPI)

Principle' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial; asset (for example, if there are repayments of principle or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Company applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than deminimis exposure to risk or volatility in the contractual cashflows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount out standing. In such cases the financial asset is required to be measured at FVPL.

IMPAIRMENT OF FINANCIAL ASSETS

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the Company's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's incurred loss approach with a forward looking ECL Approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12month expected credit loss (12mECL)

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months after the reporting date

The Company has established a policy to perform an assessment, at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process Company groups loans in to stage 1, stage 2, stage 3 as described below :

- ➲ Stage 1 : When loans are first recognized, the Company recognizes an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been re-classified from Stage 2. Assessment of Stage 1 will be performed collectively.
- ➲ Stage 2 : When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 3. Assessment of stage 2 will be performed collectively
- ➲ Stage 3 : Loan considered to be credit Impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individual/Collectively

Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECLor LTECL, the Company assess whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the either of the following criterias are met :

- ➲ Facilities exceeding 30days past due
- ➲ Counterparties/facilities reflected coded any elevated risk industries as per the assessment performed by the Credit Risk Management Team
- ➲ Re-structured facilities
- ➲ Secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watchlist

Quantitative Disclosures

Financial Asset	LKAS 39 Measurement (As at 31 March 2018)		Re-Classification	Re-measurment ECL	SLFRS 9 Measurement (As at 31 March 2018)	
	Category	Amount (Rs.000)			Category	Amount (Rs.000)
Cash and cash equivalents	Loans and Receivables	763,819		-	Loans and Receivables	763,819
Placements with bank	Loans and Receivables	218,102		-	Loans and Receivables	218,102
Financial investments - available for sale	Available for Sale	2,838,480		-	Available for Sale	2,838,480
Loans and receivables	Loans and Receivables	14,549,748		807,207	Loans and Receivables	14,493,463
Finance leases receivables	Loans and Receivables	12,016,981		282,610	Loans and Receivables	11,937,129
Hire purchase receivables	Loans and Receivables	5,368,388		269,321	Loans and Receivables	5,355,827
Other financial assets	Loans and Receivables	506,326		-	Loans and Receivables	506,326

Individually Significant Assessment and Not Impaired Individually

Company will individually assess all customer exposures depending on the threshold. Individual assessment will be performed for all the customers with Objective evidence of incurred losses (under Stage 3). Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there have been significant credit deterioration since origination.

While establishing significant credit deterioration Company will consider the following criterias :

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioral score used to assess credit risk internally
- Existing or forecast adverse changes in business, financial or economic condition that are expected to cause s significant change in the borrower's ability to meet it's obligation
- An Actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, Increase in operating risk,

  working capital deficiency, Decrease in Asset quality, Increase in gearing, liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An Actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation

Grouping financial assets measured on a collective basis

As explained above, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an Individual basis includes All Individually significant Assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment.

Company groups these exposures for smaller homogenious exposures, based on a combination of internal and external characteristics of the loan as described below :

- Product Type
- Type of Collateral
- Days Past Due
- Industry

The Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR.

A cash shortfall is the difference between the cashflows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows :

- PD : The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio
- EAD : Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities.
- LGD : Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cashflows due and those that the lenders would expect to receive, including realization of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, Company considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products Company's considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

In it's ECL model Company relies on broad range qualitative/quantitative forward looking information as economic input such as:

Quantitative	Qualitative
GDP Growth	Government Policies
Inflation	Status of the Industry Business
Unemployment	Regulatory Impact
Interest Rates	
Exchange Rates	

Quantitative Disclosures

Instrument	Under LKAS 39 As At 31 March 2018	Re-measurement	ECL Under SLFRS 9	% Increase/Decrease
Cash and cash equivalents	763,819	763,819	-	-
Placements with bank	218,102	218,102	-	-
Financial investments - available for sale	2,838,480	2,838,480	-	-
Loans and receivables	14,549,748	14,493,463	807,207	-0.39%
Finance leases receivables	12,016,981	11,937,129	282,610	-0.66%
Hire purchase receivables	5,368,388	5,355,827	269,321	-0.23%
Other financial assets	506,326	506,326	-	-

Impairment Allowance for loans and advances to customers

Instrument	Amortized Cost	Stage 1	Stage 2	Stage 3	Total
Loans & Advances	14,493,463	61,263	16,119	729,825	807,207
Finance Leases	11,937,129	78,261	20,042	184,308	282,611
Hire Purchases	5,355,827	41,676	7,666	219,978	269,320

Based on the pre defined industry specific imapirment model that complies to the SLFRS 09 requirements ,we estimated impairment impact to Loan & Advances ,Finance Leases and Hire Purchases as of 31st March 2018.Based on the estimate an additional impairment provision will arrive as follows to be adjusted to the retained profit.

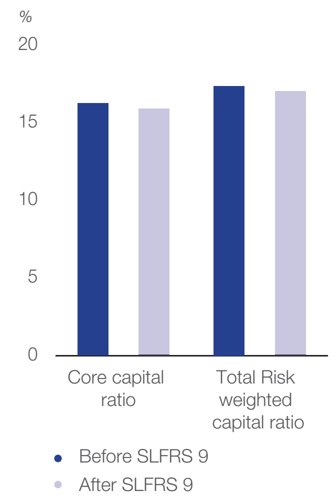
	Rs. 000
Expected loss as at 31.03.2018 for all products	443,924
(-) Collective provision for unimpaired Loans	296,857
Under provision as at 31.03.2018	147,067

Capital adequacy ratio's Impact

Impact to the capital adequacy ratio due to SLFRS 9 impairment as estimated above will be as follows.

Ratio	Before SLFRS 9	After SLFRS 9
Core capital ratio	16.24%	15.90%
Total Risk weighted capital ratio	17.36%	17.03%

IFRS 09 Impact On capital



Impairment Allowance for Financial Assets

Instrument	Amortized Cost	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	763,819	-	-	-	-
Placements with bank	218,102	-	-	-	-
Government T Bills & Bond	1,502,420	-	-	-	-
Other Financial Assets	506,326	-	-	-	-

SLFRS 15 – 'Revenue from Contracts with Customers'

Sri Lanka Accounting Standard SLFRS 15 – (Revenue from Contracts with Customers) establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard LKAS 18 – (Revenue), Sri Lanka Accounting Standard LKAS 11 – (Construction Contracts) and IFRIC 13 (Customer Loyalty Programmes).

Sri Lanka Accounting Standard SLFRS 15 – (Revenue from Contracts with Customers) is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted. Implementation of the Sri Lanka Accounting Standard SLFRS 15 – (Revenue from Contracts with Customers) is not expected to have an impact on the financial statements since majority of our revenue generating instruments meet the definition of financial instruments under Sri Lanka Accounting Standard SLFRS 9 –(Financial Instruments).

SLFRS 15 – Revenue from Contracts with Customers' effective date – 01st January, 2018.

SLFRS 16 – 'Leases'

SLFRS 16 eliminates the classification of leases as either operating or finance for lessees and instead, introduce single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying LKAS 17.

The company is assessing the potential impact on its financial statements resulting from the application of SLFRS 16.

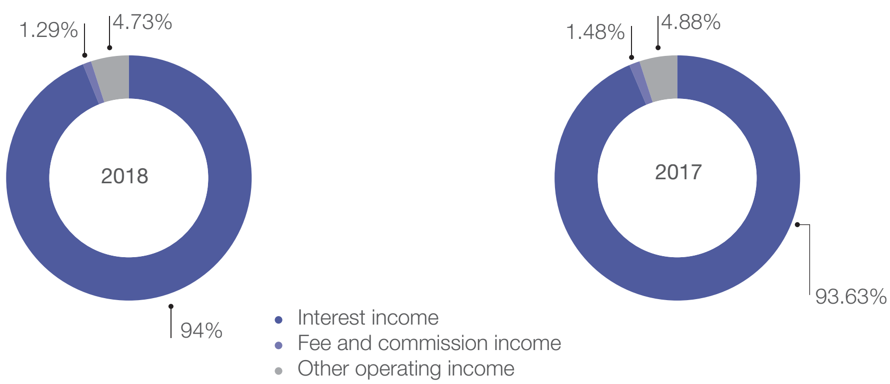
SLFRS 16, supersedes the requirement in LKAS 17 leases and will become effective on 01st January, 2019

6. GROSS INCOME

Accounting policy

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and such revenue can be reliably measured. The specific recognition criteria is given under the respective income notes.

Year ended 31 March 2018	2018 Rs.'000	2017 Rs.'000
Interest income (Note 7.1)	6,564,038	5,286,060
Fee and commission income (Note 8)	89,797	83,622
Other operating income (Note 9)	330,258	275,851
Total	6,984,093	5,645,533



Based on the gross income composition ,interest income contribution remained unchanged for current and previous financial years with a significant contribution of 94% from gross income.

7. NET INTEREST INCOME

Accounting policy

Recognition of income and expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, pre-payment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'interest and similar income' for financial assets and 'interest and similar expense' for financial liabilities.

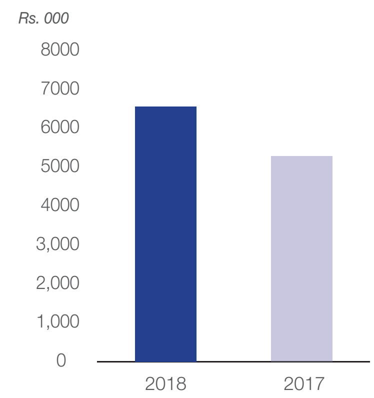
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Discounts/premium on treasury bills and treasury bonds are amortized over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognized on an accrual basis. The interest income on securities purchased under resale agreements is recognized in the statement of comprehensive income on an accrual basis over the period of the agreement.

7.1 INTEREST INCOME

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Income from finance lease	2,238,319	1,873,991
Income from hire purchase	1,221,985	1,262,361
Income from other loans and receivables	2,930,090	1,919,319
Income from treasury bills and bonds	151,392	200,207
Income from fixed deposits	22,253	30,182
Total	6,564,038	5,286,060

Interest income

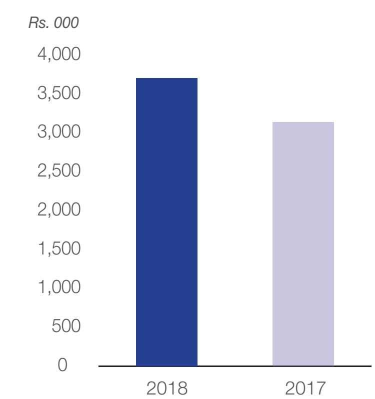


Total interest income of the company has gone up by 24% during the financial year ended 31st March 2018 when compared to financial year ended 31 st March 2017.

7.2 Interest expenses

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Interest on fixed deposits	2,502,368	1,841,797
Interest on savings deposits	4,044	4,564
Interest on certificate of deposits	871	648
Interest on bank overdraft	25,897	26,773
Interest on debts securities	23,806	5,301
Interest on bank and securitized borrowings	1,146,790	1,257,135
Total	3,703,776	3,136,218
Net interest income	2,860,263	2,149,842

Interest Expenses



Total interest expense of the company has gone up by 18% during the financial year ended 31st March 2018 when compared to financial year ended 31 st March 2017.

8. FEE AND COMMISSION INCOME

Accounting policy

The company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the purchase or sale of business is recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Service charges	89,797	83,622
Total	89,797	83,622

9. OTHER OPERATING INCOME

Accounting policy

Other income
Other income is recognized on an accrual basis.

Dividend income
Dividend income is recognized when the company's right to receive the payment is established.

Gain or losses on disposal of property, plant and equipment, investments in government securities, dealing securities and investment securities
Gains or losses resulting from the disposal of property, plant and equipment, investments in government securities, dealing securities and investment securities are accounted for on cash basis in the statement of comprehensive income, in the period in which the sale occurs.

Recovery of bad and doubtful debts written off
Recovery of amounts written off as bad and doubtful debts is recognized on a cash basis.

Operating lease rental income
Income arising on operating leases is accounted for on a straight line basis over the lease terms on ongoing leases.

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Capital gain from sale of quoted shares and treasury bonds	219,327	59,542
Dividend income	69,863	177,001
Rent income	14,385	16,120
Profit/(loss) on disposal of property, plant and equipment	(368)	3,071
Operating lease rental income	8,628	8,507
Other income	9,926	(1,871)
Bad debts recovered	8,496	13,481
Total	**330,258**	**275,851**

10. IMPAIRMENT CHARGE/(REVERSAL) FOR LOANS AND RECEIVABLES

Accounting policy

The company recognizes the changes in the impairment provisions for loans and receivables which are assessed as per the LKAS 39 - "Financial Instruments - Recognition and Measurement". The methodology adopted by the company is explained below:

Individual assessment of impairment

Individual assessment of impairment for financial assets carried at amortized cost (such as loans and advances to customers, finance leases and hire purchase receivable), the company first assesses individually, whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognized in statement of comprehensive income. Interest income continues to be accrued and recorded in 'interest income' on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. The calculation of the present value of the estimated future cash flows of collateralized financial asset, reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated impairment provision are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the provision account. If a future write-off is later recovered, the recovery is credited to 'other income'.

Collective Assessment of Impairment

If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the company's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from year-to-year such as changes in;

- Changes in unemployment rate
- Property prices
- Commodity prices
- Payment status
- Growth in Gross Domestic Production (GDP)
- Inflation rates
- Changes in laws and regulations
- Interest rates
- Recent lending portfolio growth and product mix

The methodology and assumptions used for estimating provision for impairment including assumptions for projecting future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of rescheduled loans and advances

Where possible, the company seeks to reschedule loans and advances rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. In case of individually significant rescheduled credit facilities, once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan/advance is no longer considered past due. The Management continually reviews renegotiated loans and advances to ensure that all criteria are met and that future repayments are likely to occur.

10. IMPAIRMENT CHARGE/(REVERSAL) FOR LOANS AND RECEIVABLES (CONTD.)

Accounting policy

Collateral valuation

The company seeks to use collateral, where possible, to mitigate its risks on financial assets. The fair value of collateral is generally assessed, at a minimum at inception and based on the company's annual reporting schedule.

To the extent possible, the company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collaterals such as motor vehicles, real estate are valued based on data provided by third parties such as valuers and other independent sources.

Collateral repossessed

Repossessed collateral will not be taken into books of accounts unless the company has taken those collaterals into its business operations.

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Charge/(reversal) to the statement of comprehensive income on impairment		
- Loans and receivables (Note 23.4)	220,354	246,308
- Finance leases receivables (Note 24.4)	57,796	(25,807)
- Hire purchase receivables (Note 25.4)	22,589	(39,171)
- Equity Investments and securities	125,614	443,736
Total	426,353	625,066

11. PERSONNEL EXPENSES

Accounting policy

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses.

Bonus

The provision for bonus is recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Defined contribution plans - Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF)

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods as defined in the 'Sri Lanka Accounting Standard LKAS 19 - Employee Benefits'.

The contribution payable to a defined contribution plan is in proportion to the services rendered to the company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The company and the employees contribute 14% and 8% respectively on the salary of each employee to the Employees' Provident Fund where as the company contributes 3% of the salary to the Employees' Trust Fund.

Defined benefit plan - gratuity

Defined benefit plan contribution are recognized in the statement of comprehensive income based on an actuarial valuation carried out for the gratuity liability in accordance with 'LKAS 19 - Employee Benefits'.

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Salary and bonus	696,208	551,747
Employer's contribution to EPF	76,611	65,710
Employer's contribution to ETF	16,431	14,046
Defined benefit plan (Note 38)	35,163	28,327
Other allowances and staff related expenses	20,277	18,402
Total	844,690	678,232

12. DEPRECIATION AND AMORTIZATION

Accounting policy

Depreciation of property, plant and equipment

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated. The estimated useful lives are as follows:

Class of assets	Depreciation % per annum	Estimated useful life
Buildings	1.33 - 2.5	40 - 75 Years
Plant and machinery	20	5 Years
Computer equipment	25	4 Years
Office equipment	10	10 Years
Furniture and fittings	10	10 Years
Fixtures	10	10 Years
Motor vehicles	10 - 16.67	6 - 10 Years
Office bicycles	10	10 Years
Tools	25	4 Years

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available-for-use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is derecognized. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

All classes of property, plant & equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in the note 31 to the financial statements.

Depreciation of investment property

Investment property includes lands and buildings. Depreciation on buildings is recognized on a straight line basis over the estimated useful life of 40-75 years.

Amortization of intangible assets

Intangible assets are amortized using the straight line method to write down the cost over its estimated useful economic lives as given below:

Class of assets	Depreciation % per annum	Estimated useful life
Computer software	20% - 50%	2 - 5 Years

The unamortized balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognized as expenses in the statement of comprehensive income to the extent that they are no longer probable of being recovered from the expected future benefits.

The reconciliation of carrying amounts and accumulated amortization and impairment at the beginning and end of the year are given in the note 33 to the financial statements.

Amortization of leasehold property

Leasehold property includes a land on 99 years lease which is amortized over the lease period using the straight line method.

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Depreciation of investment property (Note 30)	1,665	2,795
Depreciation of property, plant & equipment (Note 31)	75,829	63,137
Amortization of leasehold property (Note 32)	468	468
Amortization of intangible assets (Note 33)	15,785	2,786
Total	93,746	69,186

The company has reviewed the residual value and the useful lives of the assets as at 31st March, 2018 and there were no any material changes with the previous year reassessment.

13. OTHER OPERATING EXPENSES

Accounting policy

Other operating expenses are recognized in the statement of comprehensive income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to the statement of comprehensive income in arriving at the profit for the year.

Crop Insurance Levy (CIL)

As per the provision of Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 01st April, 2013 and is payable to the National Insurance Trust Fund.

Currently, the CIL is payable at 1% of the profit after tax and amount relevant for the year is accounted under "others" category of other operating expense.

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Directors' emoluments (Note 13.1)	65,488	59,491
Auditors' remuneration	1,300	1,570
Professional and legal expenses	16,797	11,433
Advertising and business promotion expenses	68,218	60,713
Insurance premium	44,341	41,410
Donations	923	1,031
Office and building maintenance	25,477	43,963
Computer equipment maintenance	16,560	9,925
Others	608,801	584,972
Total	847,904	814,508

13.1 Directors' emoluments

Directors' emoluments represents the fees, salaries and allowances paid to both executive and non-executive directors of the company.

14. SHARE OF ASSOCIATES COMPANY'S PROFIT AFTER TAXATION

Accounting policy

Investment in associates are accounted by using the equity method in terms of the Sri Lanka Accounting Standard - LKAS 28 - Investment in Associate and Joint Ventures.

The company's share of profit of loss of an associate is recognized in the statement of comprehensive income.

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
The Nuwara Eliya Hotels Co. PLC (Note 29.1)	94,996	104,194
Total	94,996	104,194

15. INCOME TAX EXPENSES

Accounting policy

As per the Sri Lanka Accounting Standard - LKAS 12 on 'Income Taxes', tax expense (tax income) is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognized in the statement of comprehensive income except to the extent it relates to items recognized directly in equity or in other comprehensive income (OCI), in which case it is recognized in equity or in OCI.

Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

Deferred taxation

Detailed disclosure of accounting policies and estimate of deferred tax are available in the note 37 to the financial statements.

Value added tax on financial services

The base for the computation of value added tax on financial services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of Value Added Tax charged in determining the profit or loss for the period is given in the statement of comprehensive income on page 233.

Nation building tax on financial services

The base for the computation of nation building tax on financial services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of nation building tax charged in determining the profit or loss for the period is given in the statement of comprehensive income on page 233.

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Income tax expenses on profit for the year (Note 15.1)	172,425	84,765
(over)/ under provision in respect of previous year	24,580	11,133
Deferred tax (reversal)/ charged (Note 37)	167,886	15,767
Total	364,890	111,665

15.1 Reconciliation of accounting profit to income tax expense

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Profit before tax	783,959	313,679
Add: Tax effect on non-deductible expenses	3,768,588	3,687,056
Less: Tax effect on deductible expenses	(3,719,640)	(3,414,346)
Tax effect on exempt income/profit	(289,190)	(340,736)
Assessable income	543,717	245,653
Taxable income	543,717	245,653
Income tax expense @ 28%	152,241	68,783
Share of income tax of associates (Note 29.1)	20,184	15,982
	172,425	84,765
Effective tax rate (excluding deferred tax)	21.99%	27.02%

The company is liable for income tax at 28% on the taxable income for the current year (2017 - 28%).

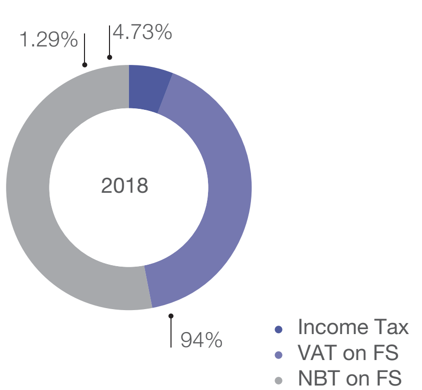
The company has taken into account the full benefit of capital allowances arising in terms of Section 23 of the Inland Revenue Act No. 10 of 2006 and amendments thereto in determining the taxation on profits for the year.

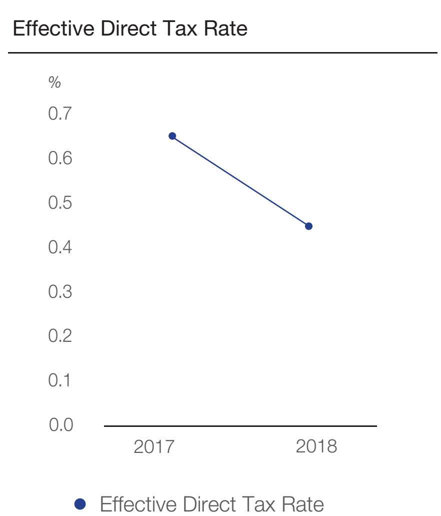
The company's land and buildings have been revalued in the financial year 2017/2018 resulting in book values being written up by Rs.890,093,029/-

15.2. Notional tax credit for withholding tax on government securities on secondary market transactions

The Inland Revenue Act No 10 of 2006 and the amendments thereto, provide that a company which earns interest income from the secondary market transaction in Government Securities (earned on or after 01st April, 2002) would be entitled to a notional tax credit (being one - ninth of the net interest income), provided such interest income forms part of statutory income of the company for that year of assessment.

Accordingly, the net interest income earned by the company on the secondary market transaction in Government Securities for the year, has been grossed up in the financial statements and the resulting notional tax credit amounted to Rs. 15,017,204/- (Rs. 19,917,243/- in 2017).





Direct taxes borne by the company which is a contribution to the government fiscal budget, increased significantly by 130% yoy.

Increase in Income tax combined with the VAT on FS has contributed mainly to move up during the financial year.

But the direct effective tax rate has gone down as shown in the direct tax rate graph due to increase in taxable income.

16. BASIC/ DILUTED EARNINGS PER ORDINARY SHARE

Accounting policy

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, as required by the LKAS No 33 on Earning Per Share. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects all dilutive potential ordinary shares).

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Amount used as the numerator		
Net profit attributable to equity holders of the company	514,065	202,014
Net profit attributable to equity holders of the company for basic and diluted earnings per share	514,065	202,014

For the year ended 31st March	2018 Nos.'000	2017 Nos.'000
Number of ordinary shares used as the denominator		
Weighted average number of ordinary shares	3,006	3,006
Weighted average number of ordinary shares used for basic and diluted earnings per share	3,006	3,006
Basic earnings per share (Rs.)	171.01	67.20
Diluted earnings per share (Rs.)	171.01	67.20

17. DIVIDEND PER ORDINARY SHARE

Accounting policy

Provision for final dividends is recognised at the time the divided recommended and declared by the board of directors, is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No 7 of 2007.

For the year ended 31st March	2018			2017		
	Gross Dividend Rs.'000	Dividend Tax Rs.'000	Net Dividend Rs.'000	Gross Dividend Rs.'000	Dividend Tax Rs.'000	Net Dividend Rs.'000
1st interim dividend						
Out of dividend received - free of tax	21,042	-	21,042	-	-	-
Out of normal profits	-	-	-	-	-	-
Total dividend	21,042	-	21,042	-	-	-
2nd interim dividend						
Out of dividend received - free of tax	24,048	-	24,048	-	-	-
Out of normal profits	-	-	-	-	-	-
Total dividend	24,048	-	24,048	-	-	-
Total	45,090	-	45,090	-	-	-
Dividend per ordinary share (Rs.)	15.00		15.00			

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

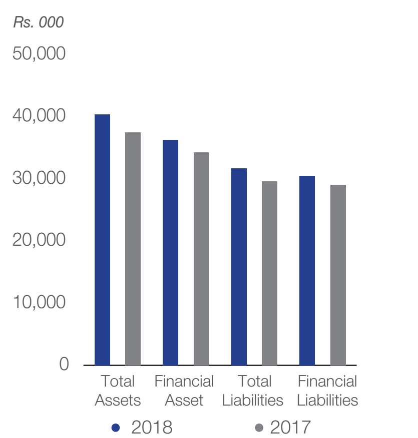
Accounting policy

Financial instruments are measured on an ongoing basis either at fair value or at amortized cost .The summary of significant accounting policies describes how the classes of financial instruments are measured and how income and expense, including fair value gains and losses are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 - Financial Instruments : Recognition and Measurement and by headings of the statement of financial position.

18.1. Analysis of financial instrument by measurement basis as at 31.03.2018

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Total Rs.'000
Financial assets					
Cash and cash equivalents	-	-	763,819	-	763,819
Placements with bank	-	-	218,102	-	218,102
Financial investments - available for sale	-	-	-	2,838,480	2,838,480
Loans and receivables	-	-	14,549,748	-	14,549,748
Finance leases receivables	-	-	12,016,981	-	12,016,981
Hire purchase receivables	-	-	5,368,388	-	5,368,388
Other financial assets	-	-	506,326	-	506,326
Total financial assets	-	-	33,423,364	2,838,480	36,261,844

Interest Expenses



Total assets position of the comany as of 31.03.2018 was 40 billion and out of which finacial assets amount was 36 billion which is an increase of 6 % compared to 2017.

Total liabilities position of the company as of 31.03.2018 was 36 billion and out of which financial liabilities amount was 30 billion which is an increase of 5 % compared to 2017.

	Fair Value Through Profit or Loss (FVTPL) Rs.'000	At Amortized Cost Rs.'000	Total Rs.'000
Financial liabilities			
Bank overdraft	-	254,238	254,238
Deposits due to customers	-	20,073,010	20,073,010
Debt instruments issued and other borrowed funds	-	9,327,958	9,327,958
Other financial liabilities	-	814,105	814,105
Total financial liabilities	-	30,469,310	30,469,310

18.2 Analysis of financial instrument by measurement basis as at 31.03.2017

	Held for Trading (HFT) Rs.'000	Held to Maturity (HTM) Rs.'000	Loans and Receivables (L & R) Rs.'000	Available for Sale (AFS) Rs.'000	Total Rs.'000
Financial assets					
Cash and cash equivalents	-	-	1,244,554	-	1,244,554
Placements with bank	-	-	53,501	-	53,501
Financial investments - available for sale	-	-	-	3,893,552	3,893,552
Loans and receivables	-	-	11,366,577	-	11,366,577
Finance leases receivables	-	-	11,093,954	-	11,093,954
Hire purchase receivables	-	-	6,184,745	-	6,184,745
Other financial assets	-	-	445,787	-	445,787
Total financial assets	-	-	30,389,117	3,893,552	34,282,669

	Fair Value Through Profit or Loss (FVTPL) Rs.'000	At Amortized Cost Rs.'000	Total Rs.'000
Financial liabilities			
Bank overdraft	-	1,092,434	1,092,434
Deposits due to customers	-	17,017,674	17,017,674
Debt instruments issued and other borrowed funds	-	10,165,837	10,165,837
Other financial liabilities	-	776,819	776,819
Total financial liabilities	-	29,052,764	29,052,764

19. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. External valuers are involved for valuation of significant assets such as properties.

19.1. Determination of fair value and fair value hierarchy

For all financial instruments where fair values are determined by referring to externally quoted price or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a trade price may not be possible. In these circumstances the company uses alternative market information to validate the financial instrument's fair value with greater weight given to information that is considered to be more relevant and reliable.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized using the following fair value hierarchy, which reflects the significance of the inputs used in the fair value measurement.

Fair values hierarchy

Level 1 - Quoted market price (unadjusted) : financial instruments with the quoted prices in active markets.

Level 2 - Valuation technique using observable inputs : financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 - Valuation technique with significant unobservable inputs : financial instruments are valued using valuation techniques where one or more significant inputs are unobservable.

19.2. Valuation framework

The Company has established control framework with respect to the measurement of fair values of all significant assets and liabilities.

Specific controls include

* Review and approval process for significant judgments and assumptions
* Periodic review of fair value measurements against observable market data

19.3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AND FAIR VALUE HIERARCHY

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. These amount were based on the values recognized in the statement of financial position.

As at 31st March	2018				2017			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non- financial assets								
Property, plant and equipment								
Land and buildings (note 19.3.1)	-	-	2,301,725	2,301,725	-	-	1,445,021	1,445,021
	-	-	2,301,725	2,301,725	-	-	1,445,021	1,445,021
Financial assets								
Financial investments- available for sale								
Quoted investments	1,265,633	-	-	1,265,633	3,054,219	-	-	3,054,219
Unquoted investments (note 19.3.2)	-	-	70,427	70,427	-	-	70,427	70,427
Government debt securities	1,502,420	-	-	1,502,420	758,705	-	-	758,705
Corporate debts securities	-	-	-	-	10,200	-	-	10,200
	2,768,053	-	70,427	2,838,480	3,812,925	-	70,427	3,893,552

19.3.1. The fair value of the land & buildings are based on the valuation done by professionally qualified independent professional valuer on 31st March, 2018.

19.3.2. Value of unquoted shares as at 31st March, 2018 categorized under financial investments available for sale whose fair values can not be reliably measured is stated at cost in the statement of financial position as permitted by the Sri Lanka Accounting Standard - LKAS 39 on Financial Instruments: Recognition and Measurement.

19.3.3. Significant unobservable inputs used in level 3 measurement

Note no 31.4 to the financial statements provides information on significant unobservable inputs used in measuring fair value of land and buildings categorized as Level 3 in the fair value hierarchy.

There were no transfer between Level 1 and Level 2 during the year 2017 and 2018.

19.4. Financial instruments not measured at fair value and fair value hierarchy

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows:

19.4.1. Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity it is assumed that carrying amount approximate their fair value. This assumption is also applied to savings accounts which doesn't have specific maturity.

19.4.2. Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rate of similar financial instruments as a significant unobservable input in measuring the fair value and accordingly categorized under Level 3 in the fair value hierarchy.

19.4.3. Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

19. FAIR VALUE MEASUREMENT (CONTD...)

19.4.4. The following table shows the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy.

As at 31st March	2018					2017				
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total fair value Rs. '000	Total carrying amount Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total fair value Rs. '000	Total carrying amount Rs. '000
Financial assets										
Cash and cash equivalents	-	-	-	763,819	763,819	-	-	-	1,244,554	1,244,554
Placement with banks	-	-	-	218,102	218,102	-	-	-	53,501	53,501
Loans and receivables	-	-	14,391,053	14,391,053	14,549,748	-	-	10,954,091	10,954,091	11,366,577
Finance leases receivables	-	-	11,654,537	11,654,537	12,016,981	-	-	10,463,108	10,463,106	11,093,954
Hire purchase receivables	-	-	5,297,091	5,297,091	5,368,388	-	-	5,886,527	5,886,527	6,184,744
Other financial assets	-	-	506,326	506,326	506,326	-	-	445,787	445,787	445,787
Total financial assets	-	-	31,849,007	32,830,928	33,423,364	-	-	27,749,513	29,047,568	30,389,116
Financial liabilities										
Bank overdraft	-	-	-	254,238	254,238	-	-	-	1,092,434	1,092,434
Deposits due to customers	-	-	19,230,882	19,230,882	20,073,010	-	-	16,386,915	16,386,915	17,017,674
Debt instruments issued and other borrowings	-	-	9,327,958	9,327,958	9,327,958	-	-	10,165,837	10,165,837	10,165,837
Other financial liabilities	-	-	814,105	814,105	814,105	-	-	776,820	776,820	776,820
Total financial liabilities	-	-	29,372,944	29,627,182	30,469,310	-	-	27,329,572	28,422,006	29,052,765

19.5. Reclassification of financial assets

There have been no reclassification during the year 2017 and 2018.

20. CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents comprise cash in hand, balances with banks, money at call with short notice that are subject to an insignificant risk of changes in their value. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

There were no cash and cash equivalents held by the company that were not available for use by the company.

Details of cash and cash equivalents in the statement of financial position are given below.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Cash in hand	483,582	998,666
Balances with the banks	280,237	245,888
	763,819	1,244,554

As at 31st March, 2018, the company had available Rs. 3,629Mn (2017-Rs. 1,629Mn) of undrawn committed borrowing facilities.

20.1. Net Cash & Cash Equivalent for the purpose of Cash Flow Statement

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, balances with banks, money at call with short notice net of outstanding bank overdrafts.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Cash and Cash Equivalents	763,819	1,244,554
Bank overdraft	(254,238)	(1,092,434)
	509,581	152,120

21. PLACEMENT WITH BANKS

Accounting policy

Balances with banks and financial institutions includes fixed deposits. Balances with banks and financial institutions are carried at amortized cost in the statement of financial position.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Fixed deposits	218,102	53,501
Total	218,102	53,501

22. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

Accounting policy

Available for sale financial investments include equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The company has not designated any loans or receivables as available for sale. After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity through other comprehensive income in the 'available for sale reserve'. When the financial investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income in 'other operating income'. Where the company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available for sale financial investments are recognized in the statement of comprehensive income as 'other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the statement of comprehensive income in 'impairment losses on financial investments' and removed from the 'available for sale reserve'.

Impairment of available for sale financial investments

For available for sale financial investments, the company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. A decline of 20% - 30% of the fair value of an investment in an equity instrument below acquisition cost may be considered as significant and a general stock market decline over a period of 12 months not be necessarily considered as prolonged. However, judgment is made after careful analysis of the specific facts and circumstances of each case. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in equity through other comprehensive income is removed from equity and recognized in the statement of comprehensive income. Increases in the fair value after impairment are recognized in other comprehensive income.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Government securities and quoted investments		
Government debt securities	1,502,420	758,705
Equities (Note 22.1)	1,265,633	3,054,219
Corporate debt securities (Note 22.2)	-	10,200
	2,768,053	3,823,125
Unquoted investments		
Equities (Note 22.3)	70,427	70,427
	70,427	70,427
Total financial investments - available for sale	2,838,480	3,893,552

22.1 Equities (quoted)

As at 31st March	2018			2017		
	No of Shares	Cost Rs.'000	Market Value Rs.'000	No of Shares	Cost Rs.'000	Market Value Rs.'000
Banks, finance & insurance						
Commercial Bank of Ceylon PLC	536	61	73	10,661,077	1,354,880	1,390,204
Lanka Orix Finance PLC	-	-	-	100,000	1,213	220
Sampath Bank PLC	27,757	7,461	8,327	23,792	6,490	6,162
Singer Finance PLC	400,000	19,351	6,160	400,000	19,351	6,840
		26,874	14,560		1,381,935	1,403,427
Diversified holdings						
Aitken Spence & Co. PLC	15,000	343	759	15,000	343	843
John Keells Holding PLC	1,314,307	243,096	209,763	1,314,307	243,096	181,243
Richard Pieris & Co. PLC	-	-	-	16,035,995	96,582	133,099
Vallibel One PLC	5,176,000	144,896	116,978	5,176,000	144,896	90,580
		388,336	327,500		484,917	405,765
Hotels and travels						
Amaya Leisure PLC	928,800	58,466	49,041	928,800	58,466	59,257
Eden Hotels PLC	1,049,600	17,738	15,954	1,049,600	17,738	11,441
Fortres Resource PLC	100,000	2,844	1,050	100,000	2,844	1,160
Hotel Sigiriya PLC	13,340	556	838	38,900	1,620	3,785
John Keels Hotels PLC	13,000,000	209,107	120,900	13,000,000	209,107	130,000
Light House Hotels PLC	7,736,677	224,407	307,920	7,736,677	224,407	379,097
Mahaweli Reach Hotel PLC	-	-	-	507,000	20,467	9,633
Plam Garden Hotel PLC	200,000	25,913	4,700	200,000	25,913	4,820
Royal Palms Beach Hotels PLC	8,576,700	124,582	154,381	8,576,700	124,582	187,830
Tangerine Beach Hotels PLC	3,899,644	26,343	176,654	3,899,644	26,343	232,029
	-	689,955	831,437	-	711,487	1,019,052
Investment trust						
Lanka Century Investments PLC	61,800	7,157	674	61,800	7,157	649
		7,157	674		7,157	649
Manufacturing						
Royal Ceramic PLC	550,000	89,930	57,970	550,000	89,930	65,450
	-	89,930	57,970	-	89,930	65,450
Power & energy						
Lanka IOC PLC	-	-	-	118,500	5,308	3,437
	-	-	-	-	5,308	3,437
Land & property development						
East West Properties PLC	50,000	2,471	960	50,000	2,471	705
	-	2,471	960	-	2,471	705
Motor						
United Motors PLC	150,000	18,701	11,400	150,000	18,701	11,700
	-	18,701	11,400	-	18,701	11,700
Telecommunication						
Dialog Axiata PLC	-	-	-	11,000,000	118,130	124,300
	-	-	-	-	118,130	124,300
Construction & engineering						
Colombo Dockyard PLC	161,000	44,966	13,363	161,000	44,966	12,236
	-	44,966	13,363	-	44,966	12,236
Trading						
Odel PLC	300,000	11,943	7,770	300,000	11,943	7,500
	-	11,943	7,770	-	11,943	7,500
Total	-	1,280,331	1,265,633	-	2,876,944	3,054,220

22.2 Corporate debt securities

As at 31st March	2018 No of Shares	2018 Cost Rs.'000	2018 Market Value Rs.'000	2017 No of Shares	2017 Cost Rs.'000	2017 Market Value Rs.'000
Debentures - Sampath Bank PLC		-	-		10,000	10,200
		-	-		10,000	10,200

22.3 Equities (non-quoted)

As at 31st March	2018 No of Shares	2018 Cost Rs.'000	2018 Market Value Rs.'000	2017 No of Shares	2017 Cost Rs.'000	2017 Market Value Rs.'000
Security Ceylon (Pvt) Ltd	250	200	200	250	200	200
Credit Bureau of Sri Lanka	269	27	27	269	27	27
Finance Houses Consortium	20,000	200	200	20,000	200	200
Fair View Hotels (Pvt) Ltd	7,000,000	70,000	70,000	7,000,000	70,000	70,000
		70,427	70,427		70,427	70,427

23. LOANS AND RECEIVABLES

Accounting policy

Financial assets classified as loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the company intends to sell immediately or in the near term and those that, upon initial recognition, designates as at fair value through profit or loss
- Those that the company, upon initial recognition, designates as available for sale
- Those for which the company may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, 'loans and receivables' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in "impairment charge/reversal for loans and receivables".

"Day 1" difference for staff loans

All staff loans granted at below market interest rates were recognized at fair value. The difference between the fair value and the amount disbursed were treated as 'day 1' difference and amortized as staff cost over the loan period by using effective interest rate (EIR). The staff loans were subsequently measured at amortized costs.

Write-off of loans and receivables

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is non-realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Gross loans and receivables	18,456,441	14,143,575
Prepaid rentals	(1,223)	(839)
Unearned interest	(3,154,548)	(2,243,224)
Allowance for impairment (Note 23.4)	(750,922)	(532,935)
Net loans and receivables	14,549,748	11,366,577

As at 31st March	2018 Rs.'000	2017 Rs.'000
23.1 Loans and receivables-within one year		
Gross loans and receivables	10,214,538	7,095,793
Prepaid rentals	(680)	(64)
Unearned interest	(1,612,384)	(1,164,391)
Loans and receivables	8,601,474	5,931,338
23.2 Loans and receivables-from one to five years		
Gross loans and receivables	8,241,262	7,039,022
Prepaid rentals	(543)	(775)
Unearned interest	(1,542,106)	(1,076,787)
Loans and receivables	6,698,613	5,961,460
23.3 Loans and receivables-after five years		
Gross loans and receivables	641	8,760
Unearned interest	(58)	(2,046)
Loans and receivables	583	6,714
23.4 Movement in allowance for impairment		
Balance at the beginning of the year	532,935	286,938
Bad debt written off during the year	(2,367)	(311)
Charge/(reverse) to the statement of comprehensive income	220,354	246,308
Balance at the end of the year	750,922	532,935
23.4.1 Individual impairment		
Balance at the beginning of the year	451,671	224,494
Bad debt written off during the year	(2,367)	(311)
Charge/(reverse) to the statement of comprehensive income	201,962	227,488
Balance at the end of the year	651,266	451,671
23.4.2 Collective impairment		
Balance at the beginning of the year	81,264	62,444
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	18,932	18,820
Balance at the end of the year	99,657	81,264
23.5 Sector wise analysis of loans and receivables		
Agriculture	415,236	222,669
Industrial	691,184	344,631
Tourism	336,220	202,435
Trading	4,291,835	3,332,683
Construction	821,695	399,817
Services	8,436,178	6,939,942
Others	3,464,094	2,701,398
	18,456,441	14,143,575

24. FINANCE LEASES RECEIVABLES

Accounting policy

When the company is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as finance lease. Amount receivable under finance leases net of initial rentals received, unearned interest and provision for impairment are classified as finance leases receivables in the statement of financial position.

After initial measurement, 'finance leases receivables' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest Income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in "impairment charge/reversal for Loans and receivables."

As at 31st March	2018 Rs.'000	2017 Rs.'000
Gross finance leases receivables	16,029,270	14,578,343
Prepaid rentals	(1,421)	(2,849)
Unearned interest	(3,808,110)	(3,326,978)
Allowance for impairment (Note 24.4)	(202,758)	(154,562)
Net finance leases receivables	12,016,981	11,093,954
24.1 Finance leases receivable-within one year		
Gross finance leases receivables	6,497,542	5,201,862
Prepaid rentals	(1,006)	(1,041)
Unearned interest	(1,964,700)	(1,679,572)
Finance leases receivables	4,531,835	3,521,249
24.2 Finance leases receivable-from one to five years		
Gross finance leases receivables	9,531,728	9,507,654
Prepaid rentals	(414)	(1,809)
Unearned interest	(1,843,410)	(1,666,522)
Finance leases receivables	7,687,904	7,839,323
24.3 Finance leases receivable-after five years		
Gross finance leases receivables	-	155
Unearned interest	-	(3)
Finance leases receivables	-	152
24.4 Movement in allowance for impairment		
Balance at the beginning the year	154,562	181,954
Bad debt written off during the year	(9,601)	(1,585)
Charge/(reverse) to the statement of comprehensive income	57,796	(25,807)
Balance at the end of the year	202,758	154,562
24.4.1 Movement in individual impairment		
Balance at the beginning of the year	68,962	72,988
Bad debt written off during the year	(9,601)	(1,585)
Charge/(reverse) to the statement of comprehensive income	35,966	(2,441)
Balance at the end of the year	95,327	68,962
24.4.2 Movement in collective impairment		
Balance at the beginning of the year	85,600	108,966
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	21,831	(23,366)
Balance at the end of the year	107,431	85,600

As at 31st March	2018 Rs.'000	2017 Rs.'000
24.5 Sector wise analysis of finance leases receivables		
Agriculture	934,810	682,155
Industrial	589,291	332,533
Tourism	329,344	366,414
Trading	2,983,706	2,565,520
Construction	163,941	99,980
Services	8,132,423	7,757,011
Others	2,895,755	2,774,731
	16,029,270	14,578,343

25. HIRE PURCHASES RECEIVABLES

Accounting policy

Advances granted under agreement that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as hire purchase receivables. Amount receivable under hire purchases net of initial rental received, unearned interest and provision for impairment are classified as hire purchases receivable in the statement of financial position.

After initial measurement, 'hire purchases receivables' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in "impairment charge/ reversal for loans and receivables".

As at 31st March	2018 Rs.'000	2017 Rs.'000
Gross hire purchases receivables	7,260,091	8,196,266
Prepaid rentals	(1,117)	(1,226)
Unearned interest	(1,633,826)	(1,759,895)
Allowance for impairment (Note 25.4)	(256,760)	(250,400)
Net hire purchases receivables	5,368,388	6,184,745
25.1. Hire purchases receivable-within one year		
Gross hire purchases receivables	3,331,675	3,264,507
Prepaid rentals	(1,107)	(155)
Unearned interest	(858,707)	(929,179)
Hire purchases receivables	2,471,860	2,335,173
25.2. Hire purchases receivable-from one to five years		
Gross hire purchases receivables	3,927,111	4,931,759
Prepaid rentals	(10)	(1,071)
Unearned interest	(775,102)	(830,716)
Hire purchases receivables	3,151,998	4,099,972
25.3. Hire purchases receivable-after five years		
Gross hire purchases receivables	1,306	-
Unearned interest	(16)	-
Hire purchases receivables	1,289	-

As at 31st March	2018 Rs.'000	2017 Rs.'000
25.4. Movement in allowance for impairment		
Balance at the beginning of the year	250,400	301,995
Bad debt written off during the year	(16,229)	(12,424)
Charge/(reverse) to the statement of comprehensive income	22,589	(39,171)
Balance at the end of the year	256,760	250,400
25.4.1. Movement in individual impairment		
Balance at the beginning of the year	163,915	187,639
Bad debt written off during the year	(16,229)	(12,424)
Charge/(reverse) to the statement of comprehensive income	19,304	(11,300)
Balance at the end of the year	166,989	163,915
25.4.2. Movement in collective impairment		
Balance at the beginning of the year	86,486	114,356
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	3,285	(27,871)
Balance at the end of the year	89,770	86,485
25.5. Sector wise analysis of hire purchases receivables		
Agriculture	315,358	217,479
Industrial	684,757	415,752
Tourism	205,904	96,313
Trading	1,765,402	1,478,146
Construction	29,751	111,398
Services	3,788,428	4,178,903
Others	470,492	1,698,275
	7,260,091	8,196,266

26. OTHER FINANCIAL ASSETS

Accounting policy

Insurance receivables

Premium receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premium receivables is reviewed for impairment whenever or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income.

Operating lease receivables

All leases other than finance leases are classified as operating leases. When acting as lessor, the company includes the assets subject to operating leases in 'property, plant and equipment' and accounts for them accordingly. Impairment losses are recognized to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

Rental receivable under operating leases are accounted for on a straight line basis over the periods of the leases to reduce the asset to its estimated residual value and are included in 'other operating income'. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Insurance receivables	181,280	140,101
Operating leases receivables	642	623
Receivable for investment made with a primary dealer	290,406	276,178
Other receivables	33,998	28,884
	506,326	445,787

The investment made in "Repurchase Agreements" with a primary dealer appointed by the Central Bank of Sri Lanka for the purpose of complying with the "Liquid Assets Direction No.4 of 2013 issued by the Central Bank of Sri Lanka" has been reclassified during the year 2016/17 from financial assets – available for sale category to loans and receivables which is included under other financial assets due to change of characteristic embedded with aforesaid investments subsequently as "ability to hold for the foreseeable future". An impairment provision of 50% for the total carrying value as at 31st March, 2017 amounting to Rs.346 Mn has been made in the financial statements in 2016/17 as per the letter dated 12th September 2017 from the Central Bank of Sri Lanka and a 6 year repayment period was adopted to arrive at the amortized cost of the balance Rs.346 Mn as at reporting date as per the discussions had with and undertaking given by the Central Bank of Sri Lanka to pay the balance 50% as per their said letter dated 12th September, 2017 Ref:24/03/015/0014/008. The resultant adjustment of Rs.70Mn for amortized cost was charged as an interest expense in the 2016/17 financial year.

27. INVENTORIES

Accounting policy

Inventory consists of spare parts, lubricants, stationary and others. Inventories are valued at the lower of cost and estimated net realizable value, after making due allowance for obsolete and slow moving items, using weighted average cost formula. The cost of inventory is determined at actual cost.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Spare parts	2,551	4,105
Lubricant and others	1,487	1,669
Stationary	2,724	2,108
	6,762	7,882

28. OTHER ASSETS

Accounting policy

Other assets mainly comprises deposits, prepayments other advance payments, VAT receivable and sundry receivables carried at historical cost.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Other receivables	41,309	20,671
Deposit and prepayments	53,810	52,077
Un-amortized staff cost	8,984	8,984
Total	104,102	81,732

29. INVESTMENT IN ASSOCIATES

Accounting policy

Investments in associates is accounted by using the equity method in terms of the Sri Lanka Accounting Standard – LKAS 28 on "investments in associates". An associate is an entity in which the company has significant influence. Significant influence is presumed to exist when the company holds between 20% and 50% of the voting power of another entity.

Under the equity method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the company's share of net assets of associate since acquisition date.

Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of comprehensive income reflects the company's share of results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the company and the associate are eliminated to the extent of the interest in the associate.

The company's share of the profit or loss of an associate is shown on the face of the statement of comprehensive income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the company. When necessary, adjustments are made to bring the accounting policies in line with those of the company.

After application of the equity method, the company determines whether it is necessary to recognize an impairment loss on its investment in its associate. The company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in 'share of losses of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the statement of comprehensive income.

Company has a 26.12% (2017-26.12%) holding in Nuwara Eliya Hotels Company PLC which is a quoted public company and involved in the business of the hotelliering.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Investment in associates - quoted (Note 29.1)	1,006,506	995,977
Total	1,006,506	995,977

29.1 Investment in associates - quoted

As at 31st March	2018 Rs.'000	2017 Rs.'000
Nuwara Eliya Hotels Company PLC		
Carrying value at the beginning of the year	995,977	927,318
Add: Share of associates profit before tax	94,996	104,194
Share of associates tax expenses	(20,184)	(15,982)
Less : Dividend received from associates	(14,961)	(14,370)
Current year retained profit	59,851	73,842
Share of other comprehensive income	(49,323)	(5,183)
Carrying value at the end of the year	1,006,506	995,977

Summary of associate's statement of financial position

As at 31st March	As per audited financial statements 2018 Rs.'000	As per audited financial statements 2017 Rs.'000
Current assets	1,207,264	991,988
Non-current assets	3,139,772	3,107,602
Current liabilities	(174,866)	(183,718)
Non-current liabilities	(318,778)	(102,789)
Net assets	3,853,392	3,813,083
Holding percentage of the company	26.12%	26.12%
Share of net assets of the company	1,006,506	995,977
Market value per share (Rs.)	1,346.80	1,449.70
Total market value of the investment (Rs.'000)	705,023	758,889

The board of directors is in the view of temporary decline of the market value will be recovered immediately after the reporting date and this investment will be held for considering strategic advantage in future and measured the investment in associates at equity method as per LKAS 28.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Summary of associate's revenue and profit before tax		
Revenue	1,033,721	1,114,871
Profit before tax	363,692	398,905
Share of associate's profit before tax	94,996	104,194
Adjustments	-	-
	94,996	104,194

30. INVESTMENT PROPERTY

Accounting policy

Recognition and measurement

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under cost model in the financial statements. Accordingly, after initial recognition, the property is carried at its cost, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided on a straight line basis over the estimated useful life of the class of asset from the date of purchase upto the date of disposal. Estimated useful life of the buildings classified as investment property is 40 to 75 years.

De-recognition

Investment properties are de-recognized when they are disposed of, or permanently withdrawn from use since no future economic benefits are expected. Transfers are made to and from investment property only when there is a change in use.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Cost		
Balance at the beginning of the year	163,334	452,334
Additions during the year	28,120	-
Disposals during the year	(12,000)	(289,000)
Balance at the end of the year	179,454	163,334
Less : Accumulated Depreciation		
Balance at the beginning of the year	4,994	4,100
Charge for the year	1,665	2,795
Disposals during the year	-	(1,901)
Balance at the end of the year	6,659	4,994
Carrying value	172,795	158,340

The company earned rental income from the property situated at No 75A-23/2, Kollupitiya Road, Colombo 03 for which the details are given below:

For the Year ended 31st March	2018 Rs.'000	2017 Rs.'000
Rental income derived from investment properties	7,245	5,699
Direct operating expenses incurred generating rental income	(1,180)	(669)
Profit arising from investment properties	6,065	5,030

The company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

30.1 INFORMATION ON THE INVESTMENT PROPERTY OF THE COMPANY

As at 31st March			2018		2017	
Location	Extent (Perches)	Building (Square Feet)	Cost Rs.'000	Fair Value Rs.'000	Cost Rs.'000	Fair Value Rs.'000
Nilaweli						
Nilaweli Village, Pulmoddai Road, Trincomalee.	438		59,000	65,700	59,000	65,700
Kurunegala						
Sapirimini Jeewa Pohora, Thaththiripitiya, Welipennegahamulla.	80		2,500	3,000	2,500	3,000
Peliyagoda						
151/3A, Negombo Road, Peliyagoda.	5		5,000	5,500	5,000	5,500
Nugegoda						
61, Raththanapitiya Road, Gangodawila.	10.2		-	-	12,000	12,750
Pannipitiya						
1222, Hokandara Road, Pannipitiya.	79.2		1,600	1,800	1,600	1,800
Kollupitiya						
No 75A-23/2, Kollupitiya Road, Colombo 03.	-	2,636	83,234	89,900	83,234	89,900
Gampaha						
No 254, Biyagama Road,Kellaniya.	36.6		21,000	21,000	-	-
Gampaha						
No 36/426, Walipillawa, Ganemulla.	57.8		7,120	7,120	-	-
Total			179,454	194,020	163,334	178,650

The fair value of the investment properties as at 31st March, 2018 was based on market valuations carried out in the year 2014/2015 by a professionally qualified independent valuer Mr. P. P. T. Mohideen, Chartered Valuation Surveyor, Bsc (Hons) Estate Management and Valuation, Executive Diploma in Business Administration, FIV (Sri Lanka) and member of the Royal Institute of Chartered Surveyors - England and directors are of the view that there is no material change in the fair values as at 31.03.2018 as per their judgement.

31. PROPERTY, PLANT AND EQUIPMENT

Accounting policy

The company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant and Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

Basis of recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the company and cost of the asset can be reliably measured.

Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing). The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Cost model

The company applies the cost model to all property, plant and equipment except freehold land and buildings and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation model

The company applies the revaluation model for the entire class of freehold land and buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the company are revalued every three to five years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and presented in revaluation reserve in equity or used to reverse a previous loss on revaluation of the same asset, which was charged to the statement of comprehensive income. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the statement of comprehensive income or charged in other comprehensive income and presented in revaluation reserve in equity only to the extent of any credit balance existing in the revaluation reserve in respect of that asset. Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

The company has revalued all its freehold land and building as at 31st March, 2018.

Subsequent cost

These are costs that are recognized in the carrying amount of an asset if it is probable that the future economic benefits embodied within that part will flow to the company and it can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in the statement of comprehensive income as incurred.

Restoration cost

Expenditure incurred on replacement, repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance is recognized as an expense when incurred.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in 'other income/ expenses' in the statement of comprehensive income in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant and Equipment'.

Capital work-in-progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the statement of financial position at cost.

Assets on operating leases

Assets leased to customers under agreements in which we retain substantially all the risks and rewards associated with ownership and legal title are classified as operating leases. Such assets are recognized as property, plant and equipment in the statement of financial position.

31.1 Carrying value of property, plant and equipment

	At valuation		At cost							
	Land	Buildings	Motor vehicles	Plant and machinery	Computer hardware	Office equipment	Furniture, fixtures & fittings	Motor vehicle on operating leases	Capital work-in-progress	Total
	(Rs' 000)	(Rs' 000)	(Rs' 000)	(Rs' 000)	(Rs' 000)	(Rs' 000)	(Rs' 000)	(Rs' 000)	(Rs' 000)	(Rs' 000)
2018- Current year										
Cost/ valuation										
Balance as at 01.04.2017	856,350	588,671	243,936	28,066	122,863	62,450	68,221	29,750	37,337	2,037,645
Additions during the year	-	1,910	34,751	7,845	22,493	7,016	3,637	-	11,261	88,913
Disposals during the year	-	-	(1,447)	-	(294)	(1,669)	(224)	-	-	(3,634)
Derecognition	-	-	-	-	-	-	-	-	-	-
Surplus on revaluation of property	784,050	106,043	-	-	-	-	-	-	-	890,093
Transfers/ adjustments	-	(35,300)	-	-	-	-	-	-	-	(35,300)
Cost/ valuation as at 31.03.2018	1,640,400	661,325	277,240	35,911	145,062	67,797	71,633	29,750	48,598	2,977,716
Accumulated depreciation										
Balance as at 01.04.2017	-	23,510	90,140	10,935	69,858	20,524	25,110	7,271	-	247,349
Charge for the year	-	11,790	17,952	5,624	22,585	6,522	6,893	4,462	-	75,828
Disposals during the year	-	-	(625)	-	(208)	(895)	(46)	-	-	(1,774)
Derecognition	-	-	-	-	-	-	-	-	-	-
Transfers/ adjustments	-	(35,300)	-	-	-	-	-	-	-	(35,300)
Accumulated depreciations as at 31.03.2018	-	-	107,468	16,560	92,235	26,152	31,957	11,734	-	286,104
Net book value as at 31.03.2018	1,640,400	661,325	169,773	19,351	52,827	41,645	39,677	18,016	48,598	2,691,612
2017 - Previous year										
Cost/valuation										
Balance as at 01.04.2016	856,350	587,750	284,526	17,789	89,263	54,295	59,930	25,600	23,918	1,999,423
Additions during the year	-	921	-	10,509	34,385	12,504	9,488	4,150	13,420	85,378
Disposals during the year	-	-	(40,591)	(210)	(785)	(2,007)	(432)	-	-	(44,025)
Derecognition	-	-	-	(23)	-	(2,342)	(765)	-	-	(3,129)
Cost/ valuation as at 31.03.2017	856,350	588,671	243,936	28,066	122,863	62,450	68,221	29,750	37,337	2,037,645
Accumulated depreciation										
Balance as at 01.04.2016	-	11,755	82,660	6,953	53,467	18,170	19,649	2,830	-	195,484
Charge for the year	-	11,755	14,046	4,060	16,805	5,712	6,317	4,442	-	63,137
Disposals during the year	-	-	(6,566)	(55)	(414)	(1,017)	(91)	-	-	(8,143)
Derecognition	-	-	-	(23)	-	(2,342)	(765)	-	-	(3,129)
Accumulated depreciations as at 31.03.2017	-	23,510	90,140	10,935	69,858	20,524	25,110	7,271	-	247,349
Net book value as at 31.03.2017	856,350	565,162	153,796	17,131	53,005	41,926	43,110	22,479	37,337	1,790,296

31.2 Revaluation of Property, Plant and Equipment

The land and buildings were revalued during the financial year 2017/2018 by a professionally qualified independent valuer, Mr. P.P.T. Mohideen, Chartered Valuation Surveyor, B.Sc. (Hons) Estate Management & Valuation, Executive Diploma in Business Administration, FIV (Sri Lanka) and Member of the Royal Institution of Chartered Surveyors – England. The results of such revaluation was incorporated in these financial statements from its effective date which was 31st March, 2018. Such assets were valued on an open market value for an existing use basis. The surplus arising from the revaluation was transferred to revaluation reserve.

31.3 Information on the Freehold Land and Building of the Company

As required by rule No. 7.6 (VIII) of the continuing listing requirements of the Colombo Stock Exchange

Location	Extent (Perches)	Buildings (Square Feet)	Revalued Amount of Buildings (Rs' 000)	Revalued Amount of Land (Rs' 000)	Net Book Value As At 31.03.2018 (Rs' 000)	As a % of Total NBV As At 31.03.2018	Net Book Value As At 31.03.2017 (Rs' 000)	As a % of Total NBV As At 31.03.2017
Kollupitiya - No. 236, Galle Road, Colombo 03	32.56	46,777	351,000	651,000	1,002,000	43.53	623,400	43.85
Maharagama - No. 176, Lake Road, Maharagama	168.74	22,900	19,000	337,500	356,500	15.49	187,240	13.17
Maharagama - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama	104.00	9,355	11,150	182,000	193,150	8.39	77,580	5.46
Kohuwala - No. 28, Sunethra Devi Road, Kohuwala	88.00	27,543	68,725	308,000	376,725	16.37	286,873	20.18
Kohuwala - No. 30/8, Sunethra Devi Road, Kohuwala	17.80	1,700	5,100	31,150	36,250	1.57	26,906	1.89
Borella - No. 219, Dr. N.M. Perera Mw, Colombo 08	9.46	6,264	49,200	85,800	135,000	5.87	78,632	5.53
Negombo - No. 26A, Colombo Road, Negombo	13.87	-	-	31,200	31,200	1.36	20,000	1.41
Kollupitiya - No. 75-17/4, Kollupitiya Road, Colombo 03	-	1,210	39,700	-	39,700	1.72	27,840	1.96
Kollupitiya - No. 89-28/4 & 89-28/5, Kollupitiya Road, Colombo 03	-	3,583	117,450	-	117,450	5.10	83,040	5.84
Negombo - 814/24, Colombo Road, Negombo	17.20	-	-	13,750	13,750	0.60	10,000	0.70
Total	-	-	661,325	1,640,400	2,301,725	100	1,421,511	100

31.4 Revaluation

Freehold land and building of the company were revalued by a professionaly qualified independent valuer (Mr. P.P.T Mohideen) as at 31st March, 2018.

Effective Date of Valuation as at 31st March, 2018

Location	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	NBV before revaluation As At 31st March, 2018		Revalued amount of		Revaluation gain/ (loss) recognized on	
			Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000
Kollupitiya - No. 236, Galle Road, Colombo 03.	Open market basis		307,850	309,000	351,000	651,000	43,150	342,000
	Price per perch of land (Rs.)	20,000,000.00						
	Price per square feet for building (Rs.)	7,503.69						
Maharagama - No. 176, Lake Road, Maharagama.	Open market basis		17,860	169,000	19,000	337,500	1,140	168,500
	Price per perch of land (Rs.)	2,000,000.00						
	Price per square feet for building (Rs.)	829.69						
Maharagama - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama.	Open market basis		11,675	67,500	11,150	182,000	(525)	114,500
	Price per perch of land (Rs.)	1,750,000.00						
	Price per square feet for building (Rs.)	1,191.88						
Kohuwala - No. 28, Sunethra Devi Road, Kohuwala.	Open market basis		64,578	220,000	68,725	308,000	4,147	88,000
	Price per perch of land (Rs.)	3,500,000.00						
	Price per square feet for building (Rs.)	2,495.19						
Kohuwala - No. 30/8, Sunethra Devi Road, Kohuwala.	Open market basis		5,462	22,250	5,100	31,150	(362)	8,900
	Price per perch of land (Rs.)	1,750,000.00						
	Price per square feet for building (Rs.)	3,000.00						
Borella - No. 219, Dr. N. M. Perera Mw, Colombo 08.	Open market basis		39,287	38,600	49,200	85,800	9,913	47,200
	Price per perch of land (Rs.)	10,000,000.00						
	Price per square feet for building (Rs.)	7,854.41						
Negombo - No. 26A, Colombo Road, Negombo.	Open market basis		-	20,000	-	31,200	-	11,200
	Price per perch of land (Rs.)	2,250,000.00						
Kollupitiya - No. 75-17/4, Kollupitiya Road, Colombo 03.	Investment method		27,260	-	39,700	-	12,440	-
	Gross annual rentals (Rs.)	2,250,000.00						
	Years purchase(present value of 1 unit per period)	23.5 Y.P.						
Kollupitiya - No. 89-28/4 & 89-28/5, Kollupitiya Road, Colombo 03.	Investment method		81,310	-	117,450	-	36,140	-
	Gross annual rentals (Rs.)	6,666,000.00						
	Years purchase(present value of 1 unit per period)	23.5 Y.P						
Negombo - No. 814/24 Colombo Road, Negombo.	Open market basis		-	10,000	-	13,750	-	3,750
	Price per perch of land (Rs.)	800,000.00						
Total			555,282	856,350	661,325	1,640,400	106,043	784,050

Narrative descriptions on the sensitivity of fair value measurement to changes in significant unobservable inputs are tabled below.

Valuation Technique	Significant unobservable valuation inputs	Sensitivity of the fair value measurement to inputs
Market comparable method In determining the fair value of the property being revalued, this method considers the selling price of a similar property within a reasonably recent period of time. This involves evaluating recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of the specific property.	· Price per perch for land · Price per square feet for building	Estimated fair value would increase (decrease) if; · Price per perch would be higher (lower) · Price per square feet would be higher (lower)
Investment method This method involves the capitalisation of the expected rental income over a specific period of time which is derived from the real estate market	· Gross Annual Rentals · Years Purchase	Estimated fair value would increase (decrease) if; · Gross Annual Rentals would be higher (lower) · Years purchase would be higher (lower)

31.5 The carrying amounts of revalued assets, that would have been included in the financial statements, had the assets been carried at cost are as follows:

As at 31st March	2018			2017		
	Cost (Rs.'000)	Cumulative Depreciation (Rs.'000)	Net Carrying Amount (Rs.'000)	Cost (Rs.'000)	Cumulative Depreciation (Rs.'000)	Net Carrying Amount (Rs.'000)
Class of asset						
Freehold land	160,521	-	160,521	160,521	-	160,521
Freehold buildings	255,755	84,438	171,317	252,923	79,344	173,579
	416,276	84,438	331,838	413,444	79,344	334,100

31.6 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs.77,651,428/- (2017- Rs.71,958,192/-). Cash payments amounting to Rs.77,651,428/- (2017- Rs.71,958,192/-) were made during the year for purchase of Property, Plant and Equipment.

31.7 Property, Plant and Equipments include assets under operating leases, where the company is a lessor. The net carrying amount of those assets as at 31st March 2018 was Rs.18,016,271/- (2017 - Rs.22,478,548/-), on which the accumulated depreciation as at 31st March 2018 was Rs.11,733,729/- (2017-Rs. 7,271,452/-).

Summary of future operating lease receivable is as follows

	Within One Year (Rs.'000)	1-5 Years (Rs.'000)	Over 5 Yrs (Rs.'000)	Total (Rs.'000)
As at 31st March, 2018				
Future operating lease recievable	8,072	11,172	-	19,244
As at 31st March, 2017				
Future operating lease recievable	9,166	19,244	-	28,411

31.8 Temporarily idle property, plant and equipment

There were no temporary idle property, plant and equipment or any asset retired from active use and held for disposal on the date of statement of financial position.

31.9 Fully depreciated property, plant and equipment

The cost of property, plant and equipment as at reporting date includes the fully depreciated assets amounting to Rs.144,627,857/- (2017- Rs.49,485,728/-)

31.10 Property, plant and equipment pledged as security for liabilities

There were no property, plant and equipment pledged as securities for liabilities except properties at Sri Vajiragnana Mawatha, Maharagama and No. 28, Sunethradevi Road, Kohuwala pledged as securities for overdraft facilities obtained from Sampath Bank PLC and Hatton National Bank PLC respectively for Rs.100 Mn each.

31.11 Title restriction in property, plant and equipment

There were no restrictions that existed in the title of the property, plant and equipment of the company as at reporting date except properties at Sri Vajiragnana Mawatha, Maharagama and No.28, Sunethradevi Road, Kohuwala pledged as securities for overdraft facilities obtained from Sampath Bank PLC and Hatton National Bank PLC respectively.

31.12 Compensation from third parties for items of property, plant and equipment

There were no compensation received /receivable from third parties for items of Property, Plant and Equipment that were impaired, lost or given up.

31.13 Capitalization of borrowing cost

There were no borrowing costs that have been capitalized into the capital work-in-progress.

31.14 Capital commitments

There are no significant capital commitments which have been approved or contracted for by the company as at 31st March, 2018.

32. LEASEHOLD PROPERTY

As at 31st March	2018 Rs.'000	2017 Rs.'000
Cost		
At the beginning of the year	46,354	46,354
Additions	-	-
Disposals	-	-
At the end of the year	46,354	46,354
Accumulated amortzation and impairment		
At the beginning of the year	4,214	3,746
Amortization for the year	468	468
Disposals	-	-
Impairment	-	-
At the end of the year	4,682	4,214
Net book value as at 31st March	41,672	42,140

Overview
Management Discussion and Analysis
Stewardship
Financial Reports
Supplementary Information

33. INTANGIBLE ASSETS

Accounting policy

Basis of recognition

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 38 'Intangible Assets'. Accordingly, these assets are stated in the statement of financial position at cost, less accumulated amortization and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in these assets. All other expenditure is charged to the statement of comprehensive income when incurred.

Useful economic lives, amortization and impairment

The company does not possess intangible assets with indefinite useful lives. Useful economic lives, amortization and impairment of finite intangible assets are described below:

Intangible assets with finite lives and amortization

Intangible assets with finite lives are amortized over the useful economic lives. The amortization period and the amortization method for an intangible asset with finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefit embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income as an expense.

Computer software

All computer software costs incurred, licensed for use by the company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the statement of financial position under the category of intangible assets and carried at cost, less accumulated amortization and accumulated impairment losses, if any.

Derecognition of intangible assets

Intangible assets are derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Cost		
At the beginning of the year	31,305	28,801
Additions	52,187	2,977
Derecognition	-	(473)
At the end of the year	83,492	31,305
Accumulated amortization and impairment		
At the beginning of the year	18,728	16,415
Amortization for the year	15,785	2,786
Derecognition	-	(473)
At the end of the year	34,513	18,728
Net book value as at 31st March	48,979	12,577

34. DEPOSITS DUE TO CUSTOMERS

These include fixed deposits, savings deposits and certificate of deposits. Subsequent to initial recognition deposits are measured at their amortized cost using the Effective Interest Rate method (EIR). Interest paid/payable on these deposits is recognized in the statement of comprehensive income.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Fixed deposits (Note 34.1)	20,008,086	16,964,297
Certificate of deposits (Note 34.2)	5,277	16,483
Savings deposits	59,647	36,894
	20,073,010	17,017,674
34.1 Analysis of fixed deposits by maturity date		
1 to 90 days	6,264,048	5,529,427
91 to 365 days	8,856,426	7,555,160
More than 365 days	4,887,612	3,879,711
	20,008,086	16,964,297
34.2 Analysis of certificate of deposits by maturity date		
1 to 90 days	5,277	8,038
91 to 365 days	-	8,444
More than 365 days	-	-
	5,277	16,483

34.3 In compliance with the Finance Companies (Insurance of Deposit Liabilities) Direction No. 02 of 2010 all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme, as a safety net measure that will safeguard customer rights and confidence. The company has paid Rs. 24,961,967 as the premium for the above insurance scheme during the year. (2017 - Rs 21,032,201).

35. DEBTS INSTRUMENTS ISSUED AND OTHER BORROWINGS

Accounting policy

These represent the funds borrowed by the company for long term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortized cost using the EIR method except where the company designates debt securities issued at fair value through profit or loss. Interest paid or payable is recognized in the statement of comprehensive income.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Money market borrowings	-	200,000
Short term borrowings (Note 35.1)	1,850,000	3,114,632
Long term borrowings (Note 35.2)	7,012,590	6,340,974
Debt instruments (Note 35.3)	200,000	200,000
Interest payable	265,368	310,230
Total	9,327,958	10,165,837

35.1 Short Term Borrowings

As at 31st March	Terms of Repayment			2018 Rs.'000	2017 Rs.'000
	Interest Rate	Period	Payment terms		
National Development Bank PLC	12.25%	3 Months	At maturity	600,000	-
National Development Bank PLC	13.75%	Quarterly	At maturity	250,000	-
Seylan Bank PLC	12.50%	1 Month	At maturity	500,000	-
Nations Trust Bank	13.00%	1 Month	At maturity	250,000	-
Cargills Bank	12.00%	1 Month	At maturity	250,000	-
National Development Bank PLC	14.50%	1 Month	At maturity	-	500,000
National Development Bank PLC	12.65%	Quartley	At maturity	-	125,000
National Development Bank PLC	14.50%	1 Month	At maturity	-	150,000
National Development Bank PLC	14.10%	1 Month	At maturity	-	500,000
Bank of Ceylon	13.99%	1 Year	At maturity	-	441,143
Capital Alliance Ltd	9.50%	Overnight	At maturity	-	98,489
Sampath Bank PLC	15.00%	1 month	At maturity	-	500,000
Hatton National Bank PLC	14.00%	1 Year	At maturity	-	750,000
Cargills Bank	12.50%	3 Months	At maturity	-	50,000
				1,850,000	3,114,632

35.2 Long Term Borrowings

As at 31st March	Terms of Repayment			2018 Rs.'000	2017 Rs.'000
	Interest Rate	Period	Payment terms		
Securitized Borrowings	9.35%-12.45%	3 to 4 yrs	Variable monthly instalment	1,147,657	2,190,245
Hatton National Bank PLC	8.50%	4 yrs	Fixed monthly instalment	82,800	207,960
Hatton National Bank PLC	9.50%	4 yrs	Fixed monthly instalment	458,334	687,501
Commercial Bank of Ceylon PLC	AWPLR+1.5%	4 yrs	Fixed monthly instalment	-	17,000
Commercial Bank of Ceylon PLC	9.5%	4 yrs	Fixed monthly instalment	48,500	174,500
Commercial Bank of Ceylon PLC	8.5%	4 yrs	Fixed monthly instalment	208,080	458,160
Commercial Bank of Ceylon PLC	10.50%	3 yrs	Fixed monthly instalment	152,500	319,300
Commercial Bank of Ceylon PLC	11.75%	15 Months	Fixed monthly instalment	-	266,300
Commercial Bank of Ceylon PLC	15.00%	4 yrs	Fixed monthly instalment	749,800	1,000,000
Seylan Bank PLC	8.50%	2 yrs	Fixed monthly instalment	-	104,167
Seylan Bank PLC	14.25%	2 yrs	Fixed monthly instalment	-	708,333
Cargills Bank	12%-AWPLR+1	5 yrs	Fixed monthly instalment	156,519	207,509
Commercial Bank of Ceylon PLC	13.50%	4 yrs	Fixed monthly instalment	1,000,000	-
Hatton National Bank PLC	13.00%	2 yrs	Fixed monthly instalment	1,000,000	-
Hatton National Bank PLC	15.75%	4 yrs	Quarterly	1,050,000	-
Hatton National Bank PLC	13.00%	2 yrs	Fixed monthly instalment	958,400	-
				7,012,590	6,340,974

Maturity analysis of borrowings and assets pledged details are given in Note 52 and 49 to the financial statements respectively.

35.3 Debt instruments

As at 31st March	2018 Rs.'000	2017 Rs.'000
Unsecured redeemable debentures (Note 35.3.1)	200,000	200,000
Total	200,000	200,000

35.3.1 Unsecured redeemable debentures

No of debentures	2,000,000
Face value (Rs.)	200,000,000
Category	Fixed rate debenture 2014/2018
Colombo stock exchange listing	Listed
Interest payable frequency	Annually
Allotment date	11.07.2014
Maturity date	11.07.2018
Effective annual yield	10.50%

36. OTHER FINANCIAL LIABILITIES

As at 31st March	2018 Rs.'000	2017 Rs.'000
Vendor payable	555,818	575,337
Insurance payable	173,729	137,744
Other payable	84,557	63,738
Total	814,105	776,819

37. DEFERRED TAX LIABILITIES

Accounting policy

Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except;

- Where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilized: except
- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

The deferred tax relating to items recognized directly in equity are also recognized in equity, and not in the statement of comprehensive income.

As at 31st March	2018 Temporary Difference Rs.'000	2018 Tax Effect Rs.'000	2017 Temporary Difference Rs.'000	2017 Tax Effect Rs.'000
Summary of net deferred tax liability				
Balance at the beginning of the year	1,290,080	361,223	1,225,920	343,259
Amount originating/(reversing) during the year	599,591	167,886	56,312	15,767
Deferred tax effect on revaluation surplus on PPE	1,598,505	447,581	(2,246)	(629)
Deferred tax effect on actuarial gain	15,280	4,278	10,094	2,826
Balance at the end of the year	3,503,456	980,970	1,290,080	361,223
Deferred tax asset				
Retirement benefit obligation	183,478	51,374	172,957	48,428
Tax loss from leasing activities	175,751	49,210	93,635	26,218
Unclaimed impairment provision	432,823	121,191	399,208	111,778
	792,052	221,775	665,800	186,424
Deferred tax liability				
Accelerated depreciation for tax purpose - leased assets	(2,058,459)	(576,368)	(1,366,038)	(382,491)
Accelerated depreciation for tax purpose - owned assets	(261,982)	(73,355)	(213,279)	(59,718)
Deferred tax effect on revaluation surplus	(1,975,067)	(553,019)	(376,563)	(105,438)
	(4,295,508)	(1,202,744)	(1,955,880)	(547,647)
Net temporary difference and deferred assets/(tax liability)	(3,503,456)	(980,970)	(1,290,080)	(361,223)

38. RETIREMENT BENEFIT OBLIGATIONS

GRI General Disclosures
201-3

Accounting policy

The company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit (PUC) method as required by Sri Lanka Accounting Standard LKAS No. 19 - on 'Employees Benefits'. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflow using interest rates that apply to the currency in which the benefits will be paid.

The company policy is to perform actuarial valuation in every year.

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS 19 on 'Employees Benefits'.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

As at 31st March	2018 Rs.'000	2017 Rs.'000
38.1 Provision for retirement benefit obligations		
Balance at the beginning of the year	171,772	146,235
Expenses recognized during the year (Note 38.2)	21,067	29,512
Payments made during the year	(9,362)	(3,975)
Balance at the end of the year	183,477	171,772
38.2 Expenses recognized in the statement of comprehensive income		
Interest cost - statement of comprehensive income	20,973	14,624
Current service cost - statement of comprehensive income	14,189	13,703
	35,163	28,327
Actuarial (gain) / loss - other comprehensive income	(14,095)	1,185
	21,067	29,512

Actuarial valuation of the gratuity liability was carried out as at 31st March, 2018 by Messers Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit method' (PCU), the method recommended by the Sri Lanka Accounting Standard (LKAS 19) on 'Employee Benefits'.

38.3 Actuarial assumptions - demographic

Mortality

In service - A 67/70 Mortality table issued by the Institute of Actuaries, London.

Withdrawal

The withdrawal rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health and normal retirement. Withdrawal rate of 15% used in this valuation have been determined based on the staff turnover statistics of the company. (Previous year 13%).

Disability

The disability rate at an age represents the probability of an employee leaving within one year of that age due to ill health/disability. Assumptions similar to those used in other comparable plans for disability were used as the data required to do a "scheme specific" study was not available.

Normal retirement age

55 to 60 years, The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays. (Previous year 55 years to 60 years).

Actuarial assumptions - financial

Rate of discount

In the absence of a deep market in long term bonds in Sri Lanka ,a long term rate of discount of 12.5% has been used having given weightage to the anticipated long term rate of inflation. (Previous year 12.21%).

Salary increases

A 8% p.a salary increment rate has been used in respect of the active employees. (Previous year 10%).

38.4 Sensitivity analysis

In order to show the significance of the salary escalation rate and discount rate used in the actuarial valuation as at 31st March 2018, sensitivity analysis has been carried out as follows:

Discount Rate	Salary Escalation Rate	Present Value of Defined Benefit Obligation Rs.
1% Increase	As the Rate Above	176,113,462
1% Decrease	As the Rate Above	191,524,138
As the Rate Above	1% Increase	190,982,547
As the Rate Above	1% Decrease	176,507,910

39. STATED CAPITAL

As at 31st March	2018 Rs.'000	2017 Rs.'000
Value		
Ordinary shares	36,000	36,000
	36,000	36,000

As at 31st March	2018 (Nos '000)	2017 (Nos '000)
Number of shares in issue		
Ordinary shares	3,006	3,006
	3,006	3,006

40. CAPITAL RESERVE - REVALUATION RESERVE

As at 31st March	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	1,535,061	1,539,615
Increase during the year due to revaluation	840,770	(5,183)
Deferred tax effect	(447,581)	629
Balance at the end of the year	1,928,250	1,535,061

The revaluation reserve relates to revaluation of land and buildings of the company and its associates company and represents the increase in the fair value of the land and buildings at the date of revaluation.

41. STATUTORY RESERVE FUND

As at 31st March	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	661,400	631,400
Transfers during the year	50,000	30,000
Balance at the end of the year	711,400	661,400

Statutory reserve fund which is a capital reserve, was created in accordance with Finance Companies Direction No. 1 of 2003 issued by Central Bank of Sri Lanka.

42. GENERAL RESERVE

As at 31st March	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	4,086,430	4,086,430
Transfers during the year	-	-
Balance at the end of the year	4,086,430	4,086,430

The company maintains the general reserve to retain funds for future expansion.

43. RETAINED EARNINGS

As at 31st March	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	1,291,730	1,123,727
Total comprehensive income		
Profit for the year	514,065	202,014
Other comprehensive income	9,817	(4,011)
Transfer to statutory reserve	(50,000)	(30,000)
Dividend paid	(45,090)	-
Balance at the end of the year	1,720,521	1,291,730

44. AVAILABLE FOR SALE RESERVE

As at 31st March	2018 Rs.'000	2017 Rs.'000
Balance at the beginning of the year	256,644	237,060
Net gain and losses on remeasuring of AFS financial assets	(56,158)	19,584
Balance at the end of the year	200,486	256,644

The available for sale reserve comprises the cumulative net change in fair value of financial investment available for sale, until such investment are derecognized or impaired.

45. CAPITAL COMMITMENTS

There are no significant capital commitments which have been approved or contracted for by the company as at 31st March, 2018.

46. CONTINGENCIES

46.1 Contingent liabilities

Accounting policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless its occurrence is remote.

The company does not anticipate any contingent liabilities to arise out of any contingent event as at the date of statement of financial position except as disclosed below :

a. The gratuity liability of the company as at 31st March, 2018 is based on the actuarial valuation carried out by Ms. Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. As per the actuarial valuation, the provision in respect of gratuity liabilities of the existing employees of the company as at 31st March, 2018 is Rs. 183,477,778/-. If the company had provided for gratuity on the basis of Gratuities Act No.12 of 1983, the liability would have been Rs. 220,765,651/-. Hence, there is a contingent liability of Rs.37,287,873/-, which would crystallize only if the company ceases to be a going concern.

b. Litigations filed by the customers against the company.

   Although there can be no assurance, the directors believe, based on the information currently available, that the ultimate resolution of such legal procedures would not likely to have a material adverse effect on the results of operations, financial position or liquidity. Accordingly no provision for any liability has been made in these financial statements.

46.2 Contingent assets

There are no contingent assets as at the date of statement of financial position.

47. TRUST ACTIVITIES

The company is not engaged in any trust activities which may have an impact on its financial results, financial position or liquidity of the company.

48. RELATED PARTY DISCLOSURE

The company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Except for the transactions that key management personnel (KMPs) have made under schemes uniformly applicable to all the staff at concessionary rates, transactions with the related parties listed below have been at commercial rates.

48.1 Parent and ultimate controlling party

The company does not have an identifiable parent of its own.

48.2 Transactions with the key management personnel

Key management personnel (KMP) are those persons having authority and responsibility for directing, planning and controlling the activities of the company directly or indirectly. The Board of Directors(including executive and non-executive) of the company have been classified as key management personnel.

Apartment No.89-28/4 and 89-28/5, Kollupitiya Road, Colombo - 03 is being currently used by one of the key management personnel without any charges for residential purpose.

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Short - term employee benefits	33,934	26,135
Directors' remuneration	65,488	59,491
	99,422	85,626

48.3 Transactions involving key management personnel (KMPs) and their close family members (CFMs)

Close family members (CFM) are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include children, spouse or domestic partner of KMP.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Statement of financial position		
Liabilities		
Deposits	669,435	580,640
	669,435	580,640
Statements of comprehensive income		
Interest expenses	89,689	85,852
Other transactions		
Dividend paid on shareholding	21,625	-

48.4 Transactions with the entities which are controlled by key management personnel (KMPs) and their close family members (CFMs)

48.4.1 Statement of financial position.

As at 31st March	2018 Rs.'000	2017 Rs.'000
Assets		
Loan and advances	1,542	7,755
Other receivables	4,116	1,822
Total	5,657	9,577
Accommodation as a % of capital funds	0.07%	0.12%
Liabilities		
Deposits	1,588,056	1,285,359
Accrued expenses	2,498	2,572
	1,590,554	1,287,931

Statements of comprehensive income

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Interest income on loans and advances	296	668
Interest expenses on fixed deposits	185,963	104,789
Rent income	7,140	7,050
Other income	7,217	8,902
Security expenses	25,571	27,884
Other transactions		
Dividend paid on shareholding	18,713	-

48.4.2 Transactions with the associates

Statement of financial position

As at 31st March	2018 Rs.'000	2017 Rs.'000
Assets		
Other assets	252	4
Liabilities		
Deposits	674,339	590,264

Statement of comprehensive income

For the year ended 31st March	2018 Rs.'000	2017 Rs.'000
Interest expenses on fixed deposits	84,419	47,173
Rent income	1,500	1,500
Other income	1,075	2,524
Other transactions		
Dividend income	14,961	14,370

49. ASSETS PLEDGED

The following assets have been pledged as security for banking and loan facilities

Name of the bank	Nature of the facility	Facility amount (Rs.)	Outstanding as at 31.03.2018 Rs. '000	Securities/ mortgages
Commercial Bank of Ceylon PLC	Overdraft	125 Mn	3,532	Mortgaged over investment in quoted shares by the company.
	Term loan	500 Mn	48,500	Mortgaged over hire purchase & leases receivables for Rs. 650 Million.
	Term loan	500 Mn	152,500	Mortgaged over hire purchase & leases receivables for Rs. 500 Million.
	Term loan	1 Billion	208,080	Mortgaged over hire purchase & leases receivables for Rs.1.3 Billion.
	Term loan	1 Billion	1,000,000	Mortgaged over hire purchase & leases receivables for 140 %
	Term loan	1 Billion	749,800	Mortgaged over hire purchase & leases receivables for Rs.1.3 Billion.
Hatton National Bank PLC	Overdraft	400 Mn	(248,707)	Mortgaged over investment in quoted shares by the company.
	Overdraft	4 Mn	4,000	Clean
	Term loan	1100Mn	1,050,000	Mortgaged over hire purchase & leases receivables for Rs .1.4 Billion
	Term loan	500 Mn	82,800	Mortgaged over hire purchase & leases receivables for Rs. 700 Million
	Term loan	1 Billion	458,334	Mortgaged over hire purchase & leases receivables for Rs . 1Billion
	Term loan	1 Billion	958,400	Mortgaged over hire purchase & leases receivables for 140 %
	Term loan	1 Billion	1,000,000	Mortgaged over hire purchase & leases receivables for 140 %
Sampath Bank PLC	Overdraft	100 Mn	21,948	Mortgaged over Maharagama property at Vajiragnana Mawatha, Maharagama for Rs.100 Million
				Promissory note for Rs.100 Mn
Seylan Bank PLC	Short Term loan	500 Mn	500,000	Mortgaged over hire purchase & leases receivables for Rs.1.5 Billion
Cargills Bank	Term loan	250 Mn	156,519	Mortgaged over hire purchase & leases receivables for Rs.500 Million
	Money Market Loan	250 Mn	250,000	
National Development Bank PLC	Short Term loan	600 Mn	600,000	Mortgaged over hire purchase & leases receivables for Rs. 2375 Million.
		500 Mn	250,000	
Nations Trust Bank	OD	50Mn	2,832	Mortgaged over hire purchase & leases receivables for 130 %
	Short Term loan	250 Mn	250,000	
Securitized borrowings	Term loan (Trust 15)	1000 Mn	249,800	Mortgaged over hire purchase & leases receivables for Rs. 1 Billion
	Term loan (Trust 16)	870 Mn	272,857	Mortgaged over hire purchase & leases receivables for Rs. 870 Million
	Term loan BOC (Trust 1)	1000 Mn	625,000	Mortgaged over hire purchase & leases receivables for Rs. 1 Billion.

50. EVENTS AFTER THE REPORTING DATE

Accounting policy

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made into the financial statements where necessary.

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosures in the financial statements.

51. FINANCIAL REPORTING BY SEGMENTS AS PER THE PROVISIONS OF SRI LANKA FINANCIAL REPORTING STANDARD - SLFRS 08

Accounting policy

An operating segment is a component of the company that engages in business activities from which it may earn revenues and incur expenses, including revenues and incur expenses, that relate to transactions with any of the company's other components, whose operating results are reviewed regularly by the company management committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

As per the provisions of Sri Lanka Reporting Standard - SLFRS 8, the operating segments of the company has been identified based on the products and services offered by the company of which level of risk and rewards are significantly differ from one another.

The operating business are organized and managed separately according to the nature of the products and services provided with each segment representing a strategic business unit that offers different products and serves different markets. The operating segments identified by the company for are as follows:

Finance lease	This segment includes finance leasing products offered to the customers
Hire purchase	This segment includes hire purchase products offered to the customers
Loans and advances	This segment include vehicle loans, loans against property mortgages and micro finance lending
Investments	This segment includes the investments in equities and debt securities
Other	This segment includes all other business activities other than the above segments

The company has aggregated all other business lines under "other segment" considering the risks & rewards and the materiality criteria.

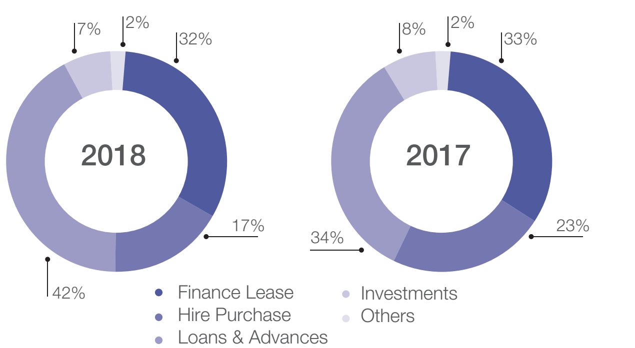
Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing financial statements of the company. Inter-segment transfers are accounted at arms length basis.

51.1 Business Segments

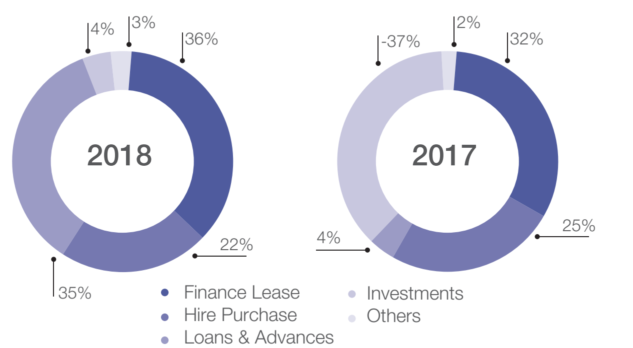
The following table presents the income, profit and assets and liability information on the company business's segment for the year ended 31st March, 2018 and comparative figures for the year ended 31st March, 2017.

For the year ended 31st March	Finance Lease		Hire Purchase	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
External operating income				
Interest income	2,238,319	1,873,991	1,221,985	1,262,361
Interest expenses	1,187,016	1,041,043	648,038	701,269
Net interest income/(expenses)	1,051,303	832,948	573,947	561,092
Fee and commission income	-	-	-	-
Capital gains	-	-	-	-
Dividends	-	-	-	-
Others	-	-	-	-
Total operating income	1,051,303	832,948	573,947	561,092
Impairment charge/(reversal) for loans and receivables / Equity Investments	57,796	(25,807)	22,589	(39,171)
Net operating income	993,507	858,755	551,358	600,263
Personnel expenses	282,407	234,979	154,177	158,287
Commission	55,381	53,855	23,705	33,244
Depreciation and amortisation	31,342	23,970	17,111	16,147
Disallowed VAT on expenses	16,069	9,608	8,773	6,472
Other overheads	230,952	234,433	126,086	157,919
	616,150	556,845	329,851	372,069
Operating profit before value added tax on financial services	377,356	301,910	221,507	228,194
Value added tax and NBT on financial services	90,912	37,456	49,632	25,231
Operating profit after value added tax on financial services	286,445	264,454	171,875	202,963
Share of associate company's profit before taxation				
Profit before taxation from operations				
Income tax expenses				
Profit for the year				
Other information				
As at 31st March				
Segment assets	12,016,981	11,093,954	5,368,388	6,184,745
Segment liabilities	9,431,378	8,766,056	4,213,313	4,886,971
Net assets	2,585,604	2,327,898	1,155,076	1,297,774

Operating Income Pie Chart

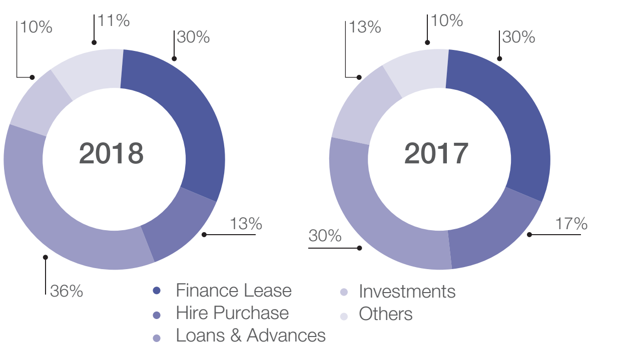


Operating Profit Pie Chart

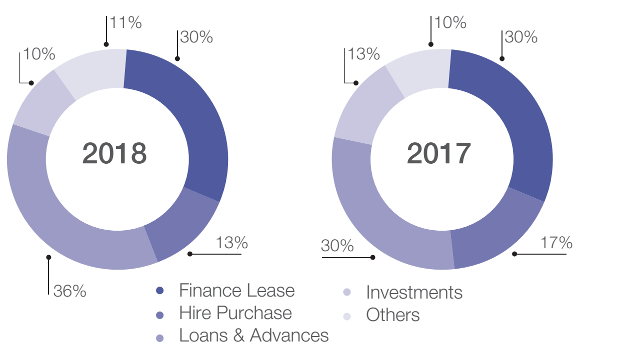


Loans & Advances		Investments		Others		Total	
2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
2,930,090	1,919,319	173,645	230,389	-	-	6,564,039	5,286,060
1,553,873	1,066,224	245,449	259,391	69,400	68,291	3,703,776	3,136,218
1,376,217	853,095	(71,804)	(29,002)	(69,400)	(68,291)	2,860,263	2,149,842
-	-	-	-	89,797	83,622	89,797	83,622
-	-	219,327	59,542	-	-	219,327	59,542
-	-	69,863	177,001	-	-	69,863	177,001
-	-	-	-	41,068	39,308	41,068	39,308
1,376,217	853,095	217,386	207,541	61,465	54,639	3,280,318	2,509,315
220,354	246,308	125,614	443,736	-	-	426,353	625,066
1,155,862	606,787	91,773	(236,195)	61,465	54,639	2,853,965	1,884,249
369,687	240,663	21,909	28,888	16,511	15,415	844,689	678,232
29,969	23,021	-	-	-	-	109,055	110,120
41,029	24,550	2,431	2,947	1,832	1,572	93,746	69,186
21,035	9,840	1,247	1,181	939	630	48,062	27,731
302,329	240,103	17,917	28,821	13,503	15,381	690,786	676,657
764,049	538,177	43,504	61,837	32,786	32,998	1,786,340	1,561,926
391,813	68,610	48,269	(298,032)	28,679	21,641	1,067,625	322,323
119,009	38,362	18,799	9,333	5,315	2,456	283,667	112,838
272,804	30,248	29,471	(307,365)	23,364	19,185	783,959	209,485
						94,996	104,194
						878,955	313,679
						(364,890)	(111,665)
						514,065	202,013
14,549,748	11,366,577	4,063,087	4,943,028	4,357,743	3,904,360	40,355,948	37,492,664
11,419,188	8,981,474	3,188,863	3,905,809	3,420,120	3,085,089	31,672,862	29,625,399
3,130,560	2,385,103	874,224	1,037,219	937,623	819,271	8,683,086	7,867,265

Segment Assets Pie Chart



Segment Liabilities Pie Chart



52. CURRENT AND NON-CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

As at 31st March	2018			2017		
	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000	Within 12 months Rs.'000	After 12 months Rs.'000	Total Rs.'000
Assets						
Financial assets						
Cash and cash equivalents	763,819	-	763,819	1,244,554	-	1,244,554
Placement with banks	216,891	1,211	218,102	52,324	1,177	53,501
Financial investments-available for sale	2,561,473	277,006	2,838,479	3,080,212	813,340	3,893,552
Loans and receivables	7,181,339	7,368,409	14,549,748	5,931,338	5,435,239	11,366,577
Finance lease receivables	4,313,096	7,703,885	12,016,981	3,410,081	7,683,873	11,093,954
Hire purchase receivables	2,111,525	3,256,863	5,368,388	2,335,328	3,849,417	6,184,745
Other financial assets	215,920	290,406	506,326	169,608	276,178	445,786
Total financial assets	17,364,063	18,897,780	36,261,843	16,223,445	18,059,225	34,282,669
Non-financial assets						
Inventories	6,762	-	6,762	7,882	-	7,882
Current tax refunds	21,676	-	21,676	121,051	-	121,051
Investment in associates	-	1,006,506	1,006,506	-	995,977	995,977
Other assets	41,309	62,794	104,102	20,671	61,061	81,732
Property, plant and equipment	-	2,691,612	2,691,612	-	1,790,296	1,790,296
Leasehold property	-	41,672	41,672	-	42,140	42,140
Intangible assets	-	48,979	48,979	-	12,577	12,577
Investment property	-	172,796	172,795	-	158,340	158,340
Total non-financial assets	69,747	4,024,360	4,094,106	149,604	3,060,391	3,209,995
Total assets	17,433,810	22,922,140	40,355,958	16,373,049	21,119,616	37,492,664
Liabilities						
Financial liabilities						
Bank overdraft	254,238	-	254,238	1,092,434	-	1,092,434
Deposits due to customers	15,185,398	4,887,612	20,073,010	13,137,963	3,879,711	17,017,674
Debt instruments issued and other borrowings	5,723,242	3,604,715	9,327,958	7,286,980	2,878,857	10,165,837
Other financial liabilities	791,593	22,512	814,105	776,819	-	776,819
Total financial liabilities	21,954,471	8,514,839	30,469,311	22,294,196	6,758,568	29,052,764
Non-financial liabilities						
Deferred tax liability	-	980,970	980,970	-	361,223	361,223
Other liabilities	39,104	-	39,104	39,640	-	39,640
Retirement benefit obligation	-	183,477	183,477	-	171,772	171,772
Total non-financial liabilities	39,095	1,164,447	1,203,551	39,640	532,995	572,635
Total liabilities	21,993,566	9,679,286	31,672,862	22,333,836	7,291,563	29,625,399
Net assets/ liabilities	(4,559,756)	13,242,854	8,683,089	(5,960,787)	13,328,055	7,867,265

53 FINANCIAL RISK MANAGEMENT

53.2 Introduction

MI’s risk management process is streamlined to ensure there is appropriate balance between risk and rewards. By instilling various controls and strategies, management continuously strives to mitigate risks in the attempt of generating higher profits. This note provides disclosure about MI’s exposure to each identified key risks and outlines management process for the identification, measurement (with assumptions wherever necessary) and monitoring of such risks and associated considerations. The risk management process is linked to the business model and strives to either eliminate or reduce risks stemming from our business spheres as depicted below.

53.2.2 Integrated Risk Management Framework

53.2.3 Board's Role in Risk Management

Overall responsibility for the establishment and oversight of MI's risk management framework lies with the Company's Board of Directors. The Board discharges its governance responsibility through Board Subcommittees. Namely; the Board Integrated Risk Management Committee (IRMC) and the Audit Committee. Other sub Board committees namely the Assets and Liabilities Committee (ALCO), Credit Committee, Remuneration Committee and Nomination Committee have been entrusted to oversee specified areas for better governance to either directly or indirectly assist IRMC in maintaining a sound risk governance function.

Risk management policies of the Company are aligned to the overall businesses strategy. Based on accepted industry norms on risk tolerance levels and risk appetite level of MI, management has set forth predetermined specific risk limits approved by the IRMC. Any negative deviations and exceeding of limits are captured through a sound process of risk measurement and appropriately reported to IRMC for their guidance and instructions.

53.3 Credit Risk

The financial loss resulting from a borrower or counterparty to a financial instrument failing or delaying to meet its contractual obligations is referred to as credit risk. Since MI possesses over Rs. 37 billion loans and advances portfolio and other comparable financial instruments including investments in debt securities, MI is exposed to credit risk that need to be managed in a prudent manner.

As a finance company, management of Credit Risk is the most vital element in MI's overall risk management strategy. The management takes into account of all indicators of credit risk exposures (such as product risk, individual obliger default risk, and geographic and sector concentration risks) both at micro and macro levels to manage and control associated risks.

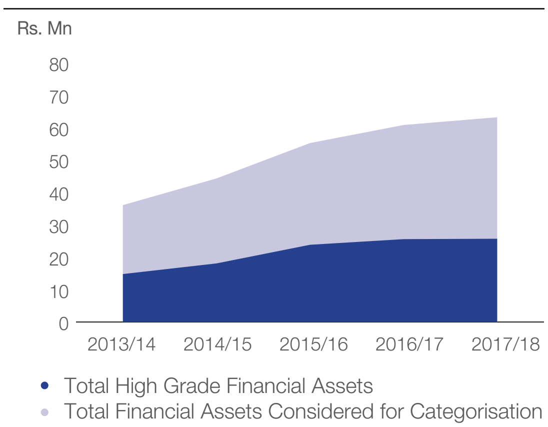
53.3.1 Credit Quality by Class of Financial Assets

The credit quality categorisation method adopted by MI is based on a contract's debt servicing status, available collateral buffer and loss rate indicators to ascertain the credit quality of financial assets. The table below sets out information about the maximum exposure to credit risk, broken down according to financial assets by its class based on the credit risk categorization mechanism adopted by the company as at the end of the financial year.

53.3.1. A. Credit Quality by Class of Financial Assets - As at 31st March 2018

	Neither past due nor impaired			Past due not impaired	Individually Impaired	Total
	High Grade	Standard Grade	Low Grade			
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets						
Cash & Short term Fund	763,819	0	0	0	0	763,819
Placements with the banks	218,102	0	0	0	0	218,102
Financial Investments -Available for sale	2,613,533	0	0	0	224,947	2,838,480
Other Financial assets	215,920	0	0	0	290,406	506,326
Hire Purchase receivable	3,055,457	224,191	477,874	1,396,399	474,147	5,628,068
Finance lease receivables	7,659,369	798,402	741,736	2,377,222	645,572	12,222,301
Loans & Advances	11,166,523	0	0	2,056,714	2,088,124	15,311,361
	25,692,723	1,022,593	1,219,610	5,830,335	3,723,196	37,488,457

Total High Grade Financial Assets over Last 5 Years



Measurement Assumptions

- Credit quality was measured in terms of the collection status and categorized for risk analysis. Below definitions were used to define different stages of the credit collection cycle.
- Impairment: The amount by which the recoverable amount of an asset is less than its carrying amount.(Refer pages 251 to 252 in notes to the financial statements for details on impairment methodology adopted and related policies).
- Individual Impairment: Significant lending contracts are assessed individually for impairment. Assets are tested under individually impaired category if the carrying value of a credit contract is greater than a pre-determined threshold specified for product categories.
- Past Due: MI considers any amount uncollected one day or more beyond their contractual due date are 'past due'.
- Neither past due nor impaired - High, Standard, Low : Assets are categorised as High, Standard and Low grades based on their available collateral buffer and loss rate indicators.

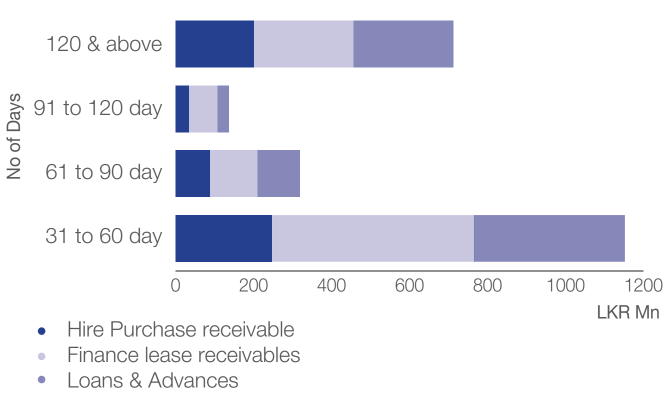
Commentary

68.5% of MI's financial assets is 'high grade' which are neither past due nor impaired mainly comprising of the lending and financial investments – Available-for-sale. There is constant review over individually impaired, past due not impaired and low grade accounts conducted by MI's recovery division to sustain overall asset quality, taking appropriate recovery measures on a timely manner.

53.3.1. B. Past due (Facilities In Arrears of 1 Day and above) but not Impaired-Age Analysis by Class of Financial Assets;

	Past due not impaired Age analysis					
	< 30 Days Rs.'000	31 to 60 days Rs.'000	61 to 90 days Rs.'000	91 to 120 days Rs.'000	120 & above Rs.'000	Total Rs.'000
Hire Purchase receivables	826,852	246,586	87,691	33,789	201,482	1,396,400
Finance lease receivables	1,441,003	517,904	120,604	72,463	225,247	2,377,221
Loans & Advances	1,273,526	387,550	109,992	29,577	256,069	2,056,714
	3,541,381	1,152,040	318,287	135,829	682,798	5,830,335

Past due Not Impaired Age Analysis



53.3.1. C Types of Collateral Taken to Minimise Credit Exposure

Type of Lending	Collateral generally obtained
Lease	Agricultural land and vehicles, Commercial property, Computer hardware and equipment, Dual purpose vehicles, Land vehicles, Motor bicycles, Motor cars, Motor coaches, Motor lorries, Motor Tricycles, Non-agricultural land vehicles, Other equipment, Other machinery, Prime movers, Tractor three wheels and tractor four wheels.
Hire Purchase	Same as above
Personal Loans/ Term Loans	Same as above except Residential property.
Micro Finance, Cheque Loans	Promissory notes

53.3.1. D Credit Portfolio Classification Based on Loan to Value (LTV)

Lending facilities granted during the year were backed by collaterals as elaborated in the below table.

LTV Ratio %	2018				2017			
	Hire Purchase	Lease	Other Loans	Total New lending During the Year	Hire Purchase	Lease	Other Loans	Total New lending During the Year
0-20	9,498	37,391	306,164	353,053	13,443	45,079	170,762	229,284
20-40	113,441	383,557	1,130,131	1,627,129	205,410	353,876	739,003	1,298,289
40-60	533,393	2,007,700	3,100,003	5,641,096	668,589	1,558,207	2,410,571	4,637,367
60-80	1,839,324	2,887,687	5,641,443	10,368,454	2,271,379	3,542,364	5,240,682	11,054,425
80-100	19,810	549,011	108,333	677,154	35,000	122,686	116,896	274,582
>100	-	-	125,719	125,719	-	639	157,067	157,706
	2,515,466	5,865,346	10,411,793	18,792,605	3,193,821	5,622,851	8,834,981	17,651,653

53.3.1. E Maximum and Net Exposure of the Financial Assets

The following table shows the company's net exposure to credit risk.

	31st March 2018		31st March 2017	
	Maximum exposure to credit risk Rs.'000	Net exposure Rs.'000	Maximum exposure to credit risk Rs.'000	Net exposure Rs.'000
Cash and cash equivalents (excluding cash in hand)	763,819	763,819	1,244,554	1,244,554
Placements with Banks	218,102	218,102	53,501	53,501
Financial assets - Available-for-sale	2,838,480	2,838,480	3,893,552	3,893,552
Loans and receivables	31,935,117	(13,961,254)	28,645,276	(13,449,549)
Other Financial assets	506,326	506,326	445,787	445,787
	36,261,844	(9,634,527)	34,282,670	(7,812,155)

Refer pages 198 - 201 in the Risk Report for further information on credit risk

Measurement Assumptions

- The value of collateral replesets the market value of the collateral asset at the time of granting the credit facility.
- Net exposure was arrived by deducting the total value of collateral from the total carrying value.

Commentary

- Over 95% of new lending businesses possessed LTV ratios below 80%.
- Both new HP and Lease businesses were 100% backed by collaterals.

53.3.2 Analysis of Risk Concentration

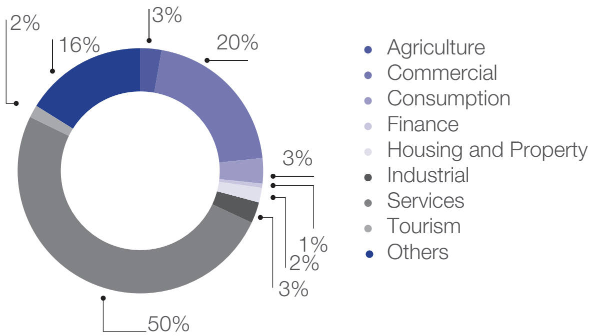
The company monitors its credit concentration risk by referring to the degree of credit exposure by MI to various sectors and by geographic locations.

53.3.2. A. Sector Wise Analysis

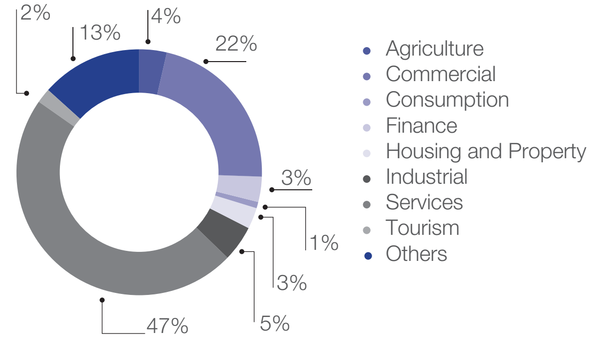
Outlined below are the maximum credit exposures of MI's loans and advances to various sectors, as at the end of the financial year:

Concentration by Sector	31.03.2018 (Rs. 000)	%	31.03.2017 (Rs. 000)	%
Agriculture	1,282,217	3.87	901,570	3.05
Commercial	7,310,707	22.05	6,031,322	20.38
Consumption	1,142,076	3.45	987,308	3.34
Finance	293,636	0.89	202,054	0.68
Housing and Property	901,891	2.72	512,207	1.73
Industrial	1,548,665	4.67	896,456	3.03
Services	15,856,477	47.83	14,832,278	50.13
Tourism	680,789	2.05	525,114	1.77
Others	4,132,860	13.36	4,701,978	15.89
Total	33,149,318	100	29,590,287	100

Sectorwise Credit Concentration 2016/17



Sectorwise Credit Concentration 2017/18



Measurement Assumptions

- Sector-wise credit concentration was measured using the information of customers.

Commentary

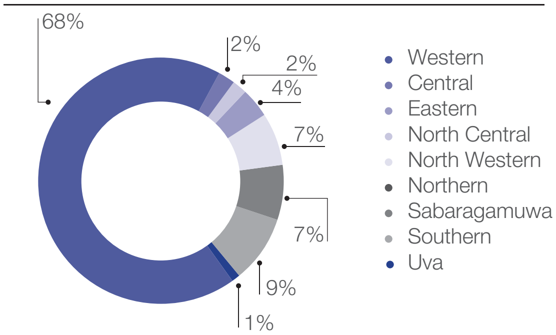
- There is high concentration on Services sector which is over 50% of total lending value. This is mainly attributed to lending carried out for transportation services. MI's Management closely monitors the risk levels attached to these sectors and foresee no significant credit risk due to higher concentration.

53.3.2. B. Province Wise Analysis

This table below discloses MI's geographic credit exposure.

Concentration by Province	31.03.2018 (Rs. 000)	%	31.03.2017 (Rs. 000)	%
Western	22,561,818	68.06	20,253,892	68.4
Central	754,247	2.28	459,415	1.55
Eastern	710,572	2.14	691,270	2.34
North Central	1,331,947	4.02	1,307,575	4.42
North Western	2,237,925	6.75	1,971,525	6.66
Northern	17,170	0.05	13,994	0.05
Sabaragamuwa	2,152,016	6.49	1,803,641	6.1
Southern	3,108,080	9.38	2,857,324	9.66
Uva	275,542	0.83	231,652	0.78
Total	33,149,318	100	29,590,287	100

Credit Concentration Province-wise 17/18



Measurement Assumptions

- Geographic credit concentration is measured based on the branch credit disbursement geographic spread.

Commentary

- MI's lending mainly concentrated around the Western Province with a 68% contribution towards total lending, with a marginal decrease compared to last year's 68.4%. In keeping to MI's expansion strategy beyond the Western Province, there is gradual diversification to other regions, in particular the Southern, Central, North Western and Sabaragamuwa Provinces, bringing down the concentration levels.

53.4 Liquidity Risk

Liquidity risk is the possibility of the Company being unable to meet its financial obligations in a timely manner. MI has implemented strict policies on managing of its assets, keeping liquidity as a vital focus, monitoring liquidity and taking measures to enhance liquidity, meet prudential limits, arrest long term assets and liquidity mismatches.

53.4.1 Exposure to Liquidity Risk

Ratio	2018	2017
Net Loans/Customer Deposits	159%	168%
Net Loans/Total Assets	79%	76%

Commentary

- MI was able to maintain a statutory liquidity ratio well above the minimum requirement as at the balance sheet date. However, MI's net loans to deposits ratio remained high at 159%. The Management plans to bring this ratio below 140 % as per forecast within the next financial year, with the planned growth in deposits.

53.4.2 Financial Assets and Liabilities by Remaining Contractual Maturities

The following tables show the maturity gap analysis of MI's financial assets and financial liabilities as at 31st March 2018.

	On demand Rs.'000	Up to 3 Months Rs.'000	4-12months Rs.'000	1 to 3 Years Rs.'000	3 to 5 Years Rs.'000	More than 5 Years Rs.'000	Unclassified Rs.'000	Total Rs.'000
Financial Assets								
Cash & Cash Equivalents	763,819	-	-	-	-	-	-	763,819
Placement with Banks	-	17,274	210,127	-	-	1,211	-	228,612
Financial Investments Available for Sale	-	1,232,314	1,329,160	18,913	9,590	144,757	103,746	2,838,480
Loans and Receivables	961,635	2,239,051	6,822,582	6,675,216	1,757,316	641	(750,922)	17,705,519
Finance Lease Receivables	342,266	1,319,823	4,415,202	7,918,021	2,033,958	-	(202,758)	15,826,512
Hire Purchase Receivables	542,924	1,024,748	3,961,938	1,729,508	1,792	-	(256,760)	7,004,150
Other Financial Assets	-	215,920	-	-	-	-	290,406	506,326
Total Financial Assets	2,610,644	6,049,130	16,739,009	16,341,658	3,802,656	146,609		44,873,418
Financial Liabilities								
Bank Overdraft	-	254,238	-	-	-	-	-	254,238
Deposits Due to Customers	59,647	6,155,096	9,985,003	4,992,103	2,136,031	-	-	23,327,880
Debt Instruments Issued and Other Borrowings	-	2,692,916	3,251,320	4,033,777	768,677	-	-	10,746,690
Other Financial Liabilities	-	652,638	138,955	-	-	-	22,512	814,105
Total Financial Liabilities	59,647	9,754,888	13,375,278	9,025,880	2,904,708	-	22,512	35,142,913
Net Financial Assets/ Liabilities	2,550,997	(3,705,758)	3,363,731	7,315,778	897,948	146,609		9,730,505

Measurement Assumptions

- Liquidity gap analysis was prepared based on the contractual maturity of assets and liabilities which represents their remaining period to maturity.
- Future interest income and interest expenses were considered for estimating future cash flows of Placements with other Banks,

  Loans and receivables, Finance Lease receivables, Hire purchase receivables, Deposits due to customers and Debt Instruments Issued and Other Borrowings.
- In the case of variable future interest income and expenses, the higher of 31st March 2018 interest rate or the interest rate cap was used for calculation.

Commentary

- Strengthening of MI's Treasury division with revised policies and procedures which enabled effective decision making, resulted in a narrowed down mismatch in financial assets and liabilities of the one year and less maturity bucket.

53.4.3 Performance in Statutory Liquidity Position

"This includes meeting daily cash requirements and the maintaining of the minimum statutory liquidity position. The Board is appraised of MI's liquidity position on a monthly basis and periodic statutory liquid assets reports are also submitted to the regulator on due dates. MI maintained its statutory liquid assets ratio and the minimum approved securities requirement well above the minimum requirements specified by the regulator.
To comply with the liquid assets direction No: 4 of 2013, MI's liquidity shall not be less than the total of;

(a) 10% of the outstanding value of the time deposits and accrued interest payable at the close of the business on such day and

(b) 15% of outstanding value of the saving deposit and accrued interest payable at the close of the business on such day and

(c) 10% of the total outstanding borrowing and any payable.

Further, MI maintained assets in the form of Sri Lankan government treasury bills and government securities equivalent to 8% of the average of its month end total deposit liabilities and unsecured borrowings of the 12 months preceding financial year, above the required level of 7.5% by the CBSL.

53.4.4 Liquidity Risk Management

Liquid Assets Ratio

	CBSL minimum requirement as at 31st March 2018	Actual 31st March 2018	CBSL minimum requirement as at 31st March 2017	Actual 31st March 2017
Total liquid assets (Rs.000)	2,031,095	2,311,208	1,724,423	2,554,928
Statutory liquid assets ratio (%)	10%	11.40%	11.67%	14.83%
Minimum approved securities (Rs.000)	1,242,297	1,329,287	1,147,357	1,256,874

53.4.5 Daily Liquidity Management

Based on the funding requirements, to meet daily financial liabilities, lending and expenditure, the treasury department manages the cash flows by obtaining funding lines and temporary facilities from banks and other financial intermediaries. The total unutilized funding lines stood at Rs. 3,629 million as at 31st March 2018.

53.5 Market Risks

Market risk is the risk of losses resulting from on or off-Balance Sheet positions arising due to movements in prices caused by changes in interest rates, foreign exchange exposures and equity prices. MI's market risk exposure primarily revolves around the interest rate risk and equity price risk. MI is not exposed to exchange rate risk at present, due to not holding or transacting in foreign currency.

53.5.1 Interest Rate Risk

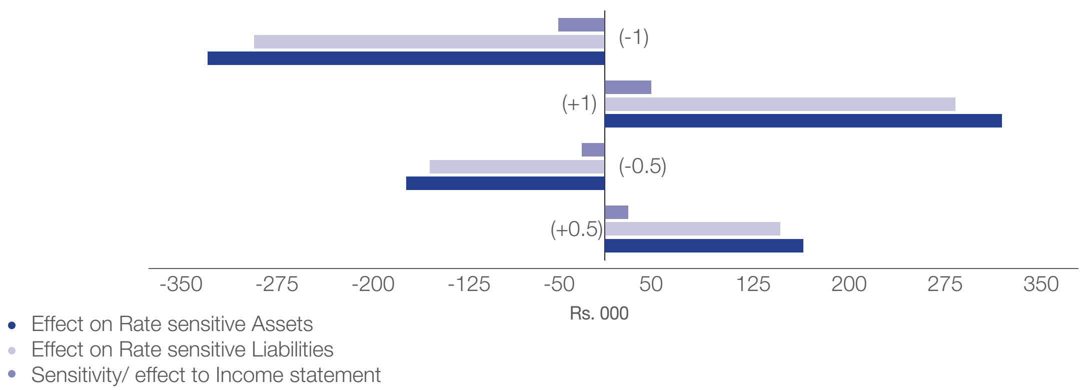
Interest Rate Risk is the possibility of cash flows or the fair values of financial instruments being affected due to changes in the interest rate. MI continued to monitor and evaluate interest rate shocks against the profitability and adopt strategies to ensure that interest rate risk is maintained within the prudent levels. In analyzing impacts of interest rate on profitability, we analyze MI interest rate sensitivity level based on the company's exposure to various financial assets and liabilities terms of interest payments. MI manages its interest rate risk by having a balanced portfolio based on tenor and fixed and variable rate financial assets and financial liabilities.

53.5.1. A Interest Rate Sensitivity Analysis

Given below is the interest rate sensitivity analysis carried out as at 31st March 2018 that demonstrates possible impact to MI's income statement.

	Market Rates up by 0.5% effect to the Interest Income / (Expenses) (Rs. 000)	Market Rates drop by 0.5% effect to the Interest Income/ (Expenses) (Rs.000)	Market Rates up by 1% effect to the Interest Income / (Expenses) (Rs. 000)	Market Rates drop by 1% effect to the Interest Income/ (Expenses) (Rs.000)
Effect on Rate sensitive Assets	167,929	-167,929	335,858	-335,858
Effect on Rate sensitive Liabilities	148,276	-148,276	296,552	-296,552
Sensitivity/ effect to Income statement	19,653	-19,653	39,306	-39,306

interest Rate Sensitivity Analysis



Measurement Assumptions

- Effect to the Income Statement was calculated by using predicted changes (+/- 0.5% and +/- 1%) in the interest rate, keeping all other variables constant.
- Such predicted changes were then applied on rate sensitive assets and liabilities as at 31/03/2018.

53.5.1. B Financial Assets and Financial Liabilities Exposed to Interest rate Risk

Disclosed below are the company's financial assets and financial liabilities exposed to interest rate risk as at 31st March 2018. The financial assets and financial liabilities so disclosed are at their carrying amounts and categorized by the earlier of contractual re- pricing or maturity dates.

	Up to 3 Months Rs.'000	3-12months Rs.'000	1 to 3 Years Rs.'000	3 to 5 Years Rs.'000	More than 5 Years Rs.'000	Non Interest Bearing Rs. '000	Total Rs.'000
Assets							
Cash and Cash Equivalents	-	-	-	-	-	763,819	763,819
Placement with Banks	16,880	200,010	-	-	1,212	-	218,102
Financial Investments Available for Sale	1,232,314	1,329,160	18,913	9,590	144,757	103,746	2,838,480
Loans and Receivables	1,604,108	5,577,232	4,944,764	1,420,668	583	1,002,393	14,549,748
Finance Lease Receivables	1,310,061	3,003,033	6,182,439	1,374,630	-	146,818	12,016,981
Hire Purchase Receivables	726,049	1,385,475	2,535,736	568,191	-	152,937	5,368,388
Other Financial Assets	-	-	-	-	-	506,326	506,326
Total Financial Assets Exposed to Interest Rate Risk	4,889,412	11,494,910	13,681,852	3,373,079	146,552		36,261,844
Liabilities							
Bank Overdraft	254,238	-	-	-	-	-	254,238
Deposits Due to Customers	6,328,972	8,856,426	3,638,246	1,249,366	-	-	20,073,010
Debt Instruments Issued and Other Borrowings	2,701,385	3,021,858	3,086,234	518,481	-	-	9,327,958
Other Financial Liabilities	-	-	-	-	-	814,105	814,105
Total Financial Liabilities Exposed to Interest Rate Risk	9,284,595	11,878,284	6,724,480	1,767,847	-	-	30,469,311
Interest Sensitivity Gap	(4,395,183)	(383,374)	6,957,372	1,605,232	146,552	-	-

Measurement Assumptions

- The interest rates movements have been applied on the basis that both assets & liabilities pricing rates are on a fixed basis. i.e. Assumed minimal impact from floating rates applicable.
- The market rates are predicted with no material changes in the foreseeable future.
- The lending and deposit volumes are assumed to remain unchanged.

Commentary

- MI possesses interest rate sensitive assets of Rs. 33.6 billion and rate sensitive liabilities of Rs. 29.7 billion. Currently the impact from an interest rate fluctuation of +1% or (1%) is moderate at Rs 39.3 million.

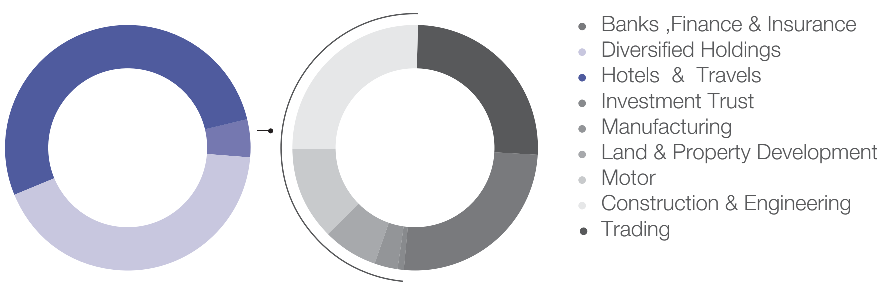
53.5.2 Equity Risk

Equity price risk arises as a result of possible fluctuations in prices and volatilities of individual equities held by MI. MI possesses a well-diversified share portfolio which was valued at a market value of Rs. 1.3 billion , which has been primarily invested in large blue chips institutions mostly the hotels and banking sector.

53.5.2.A. Analysis on Exposure to Equity Price Risk

Sector	Value of Equity Portfolio at the Lowest Market Price Recorded During 17/18	Effect to the Comprehensive Statement of Income if Market drops to the recorded lowest market price (Rs.000)	Effect to the Comprehensive Statement of Income if Market drops to the recorded lowest market price %
Banks ,Finance & Insurance	13,066	1,494	1.11
Diversified Holdings	270,113	57,387	42.76
Hotels & Travels	760,671	70,765	52.72
Investment Trust	630	43	0.03
Manufacturing	57,805	165	0.12
Land & Property Development	475	485	0.36
Motor	10,545	855	0.64
Construction & Engineering	11,930	1,433	1.07
Trading	6,180	1,590	1.18
	1,131,416	134,216	100.00

Effect to the Comprehensive Statement of Income if Market drops to the recorded lowest market price %



	2017/18 Available-for-Sale Rs. '000	2016/17 Available-for-Sale Rs. '000
Stress Level	Impact on OCI	Impact on OCI
Shock of 10% on equity price (upward)	126,563	305,402
Shock of 10% on equity price (downward)	(126,563)	(305,402)

Measurement Assumptions

- 53.5.2.A. a- The lowest price recorded during the financial year was the base in calculating the possible effect on Comprehensive Income Statement and on the equity.
- 53.5.2.A. b - The table below summarizes the impact on both the Other Comprehensive Income and on the equity due to a 10% fall in equity market prices.

Commentary

Based on the risk analysis carried out on MI's equity portfolio considering possible downward market changes. The maximum amount of equity risk effect to the other comprehensive statement of income is Rs. 126.5 million as at the end of 31 March 2018.

53.6 Operational Risk

Operational risk arises due to inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputational losses. (Refer Risk Report pages 204 to 206 operational risk for further disclosure)

53.6.1 Nature of Relationship between the Associate and the Company

MI has a stake of 26.12% in Nuwara Eliya Hotels; and the hotel is an associate of the company. Currently, Nuwara Eliya Hotels being in the tourism sector is enjoying steady profitability growth considering the positive economic environment towards tourism and the increasing influx of tourist arrivals to the country. MI expects this positive scenario to prevail in the foreseeable future, minimising associated risk to a significant degree.

53.6.2 Defined benefit Plans Associated Risk

“For the purpose of assessing risks associated with employee benefit plans, the Company obtains support of an Independent expert to identify specific risks and for actuarial valuations and then to incorporate the same in the Financial Statements.
Refer relationship capital pages 82 to 97. Financial Statements Note 38 provides a detailed breakdown of defined employment benefit estimates including assumptions made.

53.7 Capital Adequacy

53.7.1 Objective

The company manages its capital requirement taking into account the need to meet minimum regulatory capital needs and to sustain a strong capital buffer against unexpected losses as well as to cater to the current and future business needs, stakeholder expectations and to seek available options for raising and generating capital.

The regulatory capital base stood at Rs 6.4 billion, up by 34.7% from the year before comprises of two elements, namely Tier 1 and Tier 2 capital. Tier 1 capital comprises of the stated capital, statutory reserve fund, retained profits, general and other reserves excluding the revaluation reserve. Tier 2 capital consists of the revaluation reserve of which only 50% could be taken for the computation. Other Tier 2 components include the general provision, approved subordinated term debts and other hybrid capital instruments. The Tier 2 capital is not allowed to exceed 100% of the Tier 1 capital for the Total Risk Weighted Capital Ratio. In deriving at the Total Risk Weighted Assets, on balance sheet assets are arranged in the order of their risk and available security and thereafter pre-defined risk weights are assigned to each such category to compute the total risk weighted value. Off balance sheet assets are also converted to on balance sheet equivalents and the risk weights are assigned.

53.7.2 Total Risk Weighted Asset Computation

	Principal amount of On-Balance Sheet Items	Credit Equivalent of Off-Balance Sheet Items	Total	Principal amount of On-Balance Sheet Items	Credit Equivalent of Off-Balance Sheet Items	Total	Risk Weight Factor %	Risk Weighted Balance	
Assets As At 31st March	2017/18			2016/17				2018	2017
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000		Rs.'000	Rs.'000
Cash and Cash Equivalents	763,819	-	763,819	1,244,554	-	1,244,554	0	-	-
Government debt securities	1,502,547	-	1,502,547	758,705	-	758,705	0	-	-
Financial Investments - Available for Sale	1,321,373	-	1,321,373	1,731,420	-	1,731,420	100	1,321,373	2,727,397
Placements with Bank	218,102	-	218,102	53,501	-	53,501	20	43,620	10,700
Loans against fixed deposits	267,462	59,310	326,772	203,473	183,842	387,315	0	-	-
Loans and Advances	31,140,409	-	31,140,409	28,120,073	-	28,120,073	100	31,140,409	28,120,073
Inventories	6,762	-	6,762	7,882	-	7,882	100	6,762	7,882
Other Assets	1,638,610	-	1,638,610	1,644,547	-	1,644,547	100	1,638,610	648,570
Investments Properties	172,795	-	172,795	158,340	-	158,340	100	172,795	158,340
Property, Plant and Equipment	2,782,263	-	2,782,263	1,845,014	-	1,845,014	100	2,782,263	1,845,014
Total Risk Weighted Assets	39,814,141	59,310	39,873,451	35,767,509	183,842	35,951,351		37,105,832	33,517,976

53.7.2. A Total Capital Base Computation

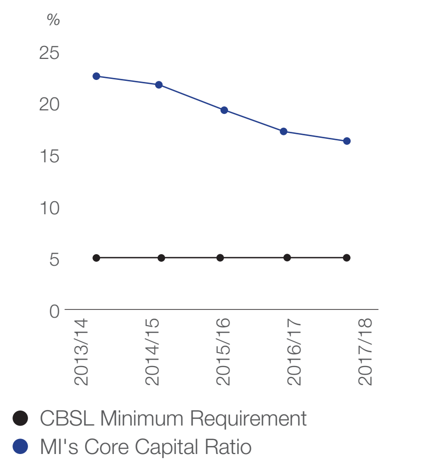
As at 31st March	2018 Rs.000	2017 Rs.000
Tier 1: Core Capital		
Stated capital	36,000	36,000
Statutory Reserve fund	711,400	661,400
General reserve	3,764,700	4,067,234
Retained earnings	1,515,004	989,196
Total Tier 1 Capital	6,027,104	5,753,830
Tier 2: Supplementary Capital		
Revaluation Reserves(as approved by CBSL)	428,012	428,012
Total Tier 2 Capital	428,012	428,012
	6,455,116	6,181,842
Less		
Investments in capital of other banks/financial associates	(14,560)	(1,403,427)
Capital Base	6,440,556	4,778,415

53.7.2. B. Capital Adequacy Ratios

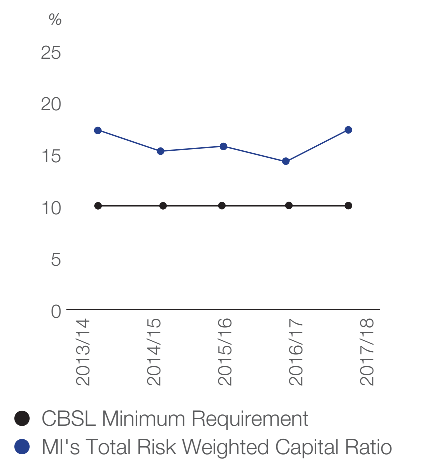
As at 31st March		Industry Average * 31/12/2017 %	2017/18 %	2016/17 %
Core Capital Ratio =	Tier 1 Capital / Risk Weighted Assets	12.4	16.24	17.17
Total Risk Weighted capital Ratio =	Capital Base / Risk Weighted Assets	13.1	17.36	14.26

*Source: CBSL Annual Report 2017

Core Capital Ratio



Total Risk Weighted Capital Ratio



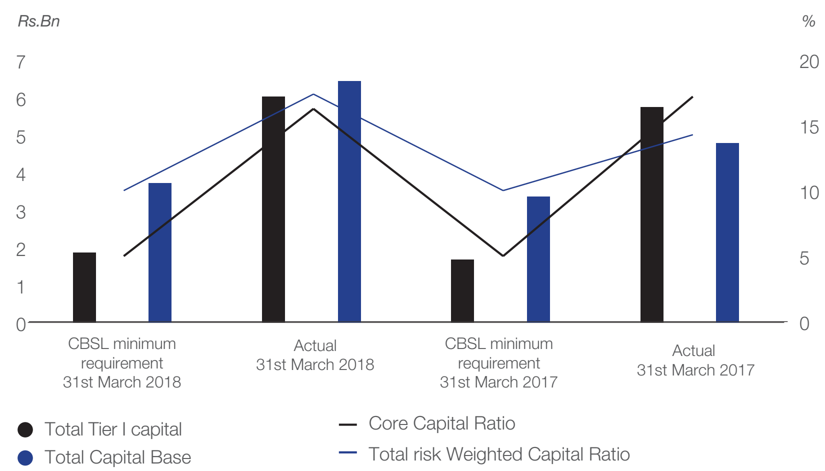
53.7.3 Performance in Capital Adequacy Position

MI reviews its capital adequacy ratios (CAR) on a monthly basis to ensure compliance to prudential requirements on capital. The company's Core Capital Ratio and Total Risk Weighted Capital Ratio (TRWCR) were maintained well above the minimum regulatory requirements of 5% and 10% respectively throughout 2017/18 financial period. MI will be required to maintain the CAR ratio at 12% or above from 2018 onwards according to Basel II minimum capital requirements.

	CBSL minimum requirement as at 31st March 2018	Actual 31st March 2018	CBSL minimum requirement as at 31st March 2018	Actual 31st March 2017
Total Tier I capital (Rs.000)	1,855,635	6,027,104	1,676,116	5,753,830
Total Capital Base (Rs. 000)	3,709,998	6,440,556	3,352,232	4,778,415
Core Capital Ratio (%)	5	16.24	5	17.17
Total risk Weighted Capital Ratio (%)	10	17.36	10	14.26

*Based on statutory basis reporting balances.

Performance in Capital Adequacy Position



Where did we get our direction from

Supplementary Information

Investor Relations

STOCK EXCHANGE LISTING

The issued ordinary shares of Mercantile Investments and Finance PLC are listed with the Colombo Stock Exchange. The audited Income Statement for the year ended 31st March 2018 and the audited Balance Sheet of the Company as at date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

Stock exchange code for Mercantile Investments & Finance PLC share is "MERC".

MI'S INVESTOR BASE

The Company's investor base currently comprises of 3,006,000 voting shares distributed among few large investors as given in the table below. The total numbers of shareholders stood at 17 in 2017/18.There were no non voting shares issued by the company or any changes in share capital of the company during the year.

Distribution of Ordinary Shareholders

	Resident			Non-Resident			Total		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
1 - 1,000	3	1,153	0.04	1	10	0.00	4	1,163	0.04
1,001 - 10,000	1	2,004	0.07				1	2,004	0.07
10,001 - 100,000	5	55,110	1.83				5	55,110	1.83
100,001 - 1,000,000	7	2,947,723	98.06				7	2,947,723	98.06
Over 1,000,000	0	0					0	0	
Total	16	3,005,990	100.00	1	10	0.00	17	3,006,000	100.00

ANALYSIS OF SHAREHOLDERS

RESIDENT / NON-RESIDENT

	31st March 2018			31st March 2017		
	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
Resident	16	3,005,990	100.00	16	3,005,990	100.00
Non-Resident	1	10	0.00	1	10	0.00
Total	17	3,006,000	100.00	17	3,006,000	100.00

INDIVIDUALS / INSTITUTIONS

	31st March 2018			31st March 2017		
	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
Individuals	14	1,758,451	58.50	14	1,758,451	58.50
Institutions	3	1,247,549	41.50	3	1,247,549	41.50
Total	17	3,006,000	100.00	17	3,006,000	100.00

PUBLIC HOLDING

As per the rule No. 7.6 (iv) of Colombo Stock Exchange, percentage of public holding as at 31st March 2018 was 10.54% ,comprising 10 shareholders. (2017 - 10.54% comprising 10 Shareholders)

TWENTY MAJOR SHAREHOLDERS OF THE MI AS AT 31ST MARCH 2018

Name	% on total capital	No of Shares 2018	% on total capital	No of Shares 2017
1. Nilaveli Beach Hotels (Pvt) Ltd	20.94	629,580	20.94	629,580
2. A.M. Ondaatjie	15.88	477,213	15.88	477,213
3. G.G. Ondaatjie	15.88	477,213	15.88	477,213
4. T.J. Ondaatjie	15.88	477,213	15.88	477,213
5. Mercantile Fortunes (Pvt) Ltd	13.78	414,160	13.78	414,160
6. G.L.A. Ondaatjie	8.93	268,535	8.93	268,535
7. Tangerine Tours (Pvt) Ltd	6.78	203,809	6.78	203,809
8. P.R. Divitotawela and A.D. Galagoda	0.42	12,525	0.42	12,525
9. P.R. Divitotawela and R.D. Madugalle	0.42	12,525	0.42	12,525
10. N.H.V. Perera	0.33	10,020	0.33	10,020
11.J.A.S.S. Adhihetty	0.33	10,020	0.33	10,020
12.R.M.D. Abeygunawardena	0.33	10,020	0.33	10,020
13. C.A. Ondaatjie	0.07	2,004	0.07	2,004
14. A.D. Rajapaksha	0.02	501	0.02	501
15. A.M. Rajapaksha	0.02	501	0.02	501
16. A.M. Dominic	0.01	151	0.01	151
17. C.A.D.S. Woodward	0.00	10	0.00	10
Total	100.00	3,006,000	100.00	3,006,000

DIRECTORS' SHAREHOLDINGS AS AT 31ST MARCH 2018

Name	Position	31st March 2018		31st March 2017	
		No. of Shares held	%	No. of Shares held	%
Mr. S H J Weerasuriya	Chairman	-	0.00%	-	0.00%
Mr. G G Ondaatjie	Managing Director	477,213	15.88%	477,213	15.88%
Mr. P M Amarasekara	Deputy Managing Director	-	0.00%	-	0.00%
Ms. A M Ondaatjie	Director	477,213	15.88%	477,213	15.88%
Mr. T J Ondaatjie	Director	477,213	15.88%	477,213	15.88%
Mr. S H Jayasuriya	Director	-	0.00%	-	0.00%
Ms. P T K Navaratne	Director	-	0.00%	-	0.00%
Mr. N H V Perera	Director	10,020	0.33%	10,020	0.33%
Mr. S M S S Bandara	Director	-	0.00%	-	0.00%
Mr. P C Guhashanka	Director	-	0.00%	-	0.00%

SHARE TRADING

Since obtaining listing status under the Diri Savi Board of the Colombo Stock Exchange, share trading has been negligible. The share trading details for the year are given below.

Name	2017/18	2016/17
Number of transactions	-	9
Number of shares traded	-	22,940
Value of Shares traded - Rs '000	-	58,320

MARKET VALUE

Name	Highest Rs.	Lowest Rs.	Year End Rs.
2016/2017	2,580.30	2,500.00	2,580.30
2017/2018	-	-	2,580.30

MARKET CAPITALISATION (AS AT 31ST MARCH)

Name	Capital & Reserves Rs 000	MI Market Capitalisation* Rs 000	CSE Market Capitalisation Rs 000	MI Market Capitalisation as a percentage of CSE Market Capitalisation
2016-2017	7,867,265	7,756,382	2,662,860,329	0.29
2017-2018	8,683,086	7,756,382	3,032,708,226	0.26

RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS

No any Related party transactions during the year which exceeds 10% of the equity or 5% of the total assets

Debentures

In November 2014, the company issued 2,000,000 senior unsecured, subordinated, redeemable four year debentures of Rs. 100/- each to the value of Rs. 200 million. These debentures are also listed on the Colombo Stock for which Fitch Ratings Lanka Limited has assigned BBB- (lka) rating. The proceeds were utilised to optimize the cost of the company's funding mix and to minimize the mismatches in funding exposure. The Company did not issue any debentures during the financial year ended 31 March 2018. The company paid out the second annual interest payment to its debenture holders in November 2016.

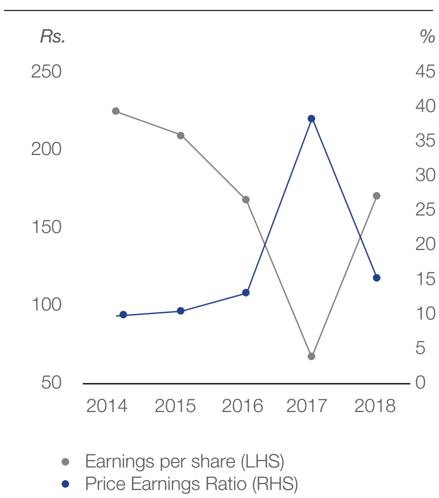
	2017/18	2016/17
Tenure of Debenture	4 Years	4 Years
Issue date	11/7/14	11/7/14
Maturity Date	11/7/18	11/7/18
Interest Rate	Fixed	Fixed
Coupon Rate (%)	10.50%	10.50%
Effective Annual Yield (%)	10.50%	10.50%
Interest Rate Comparable Government Security	8.52%	11.94%
Frequency of Interest Payable	Annually	Annually
Rating	BBB- by Fitch Ratings Lanka	BBB- by Fitch Ratings Lanka
Amount (Rs.Mn)	200	200
Market Information		
Market Value -Highest (Rs)	98.00	100.67
- Lowest (Rs)	98.00	96.00
-Closed (Rs)	98.00	97.10
Current Yield (%)	10.71	10.81
Yield to Maturity (%)	10.5	10.5

DETAILS OF SUBMISSION TO COLOMBO STOCK EXCHANGE

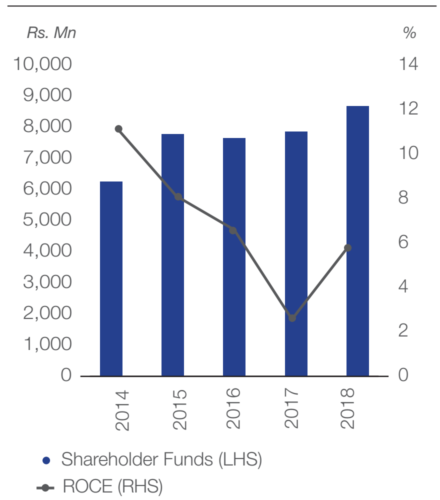
The following table presents the important disclosures made by the company to the Colombo stock exchange during the year 2017/2018

Date of Disclosure	Details of disclosures
31-May-17	Submission of unaudited interim financial statement for the period ended 31st March 2017
5-Jul-17	Announcement of Non-compliance of minimum public holding
2-Aug-17	Announcement of Non-compliance of minimum public holding
15-Aug-17	Submission of unaudited interim financial statement for the 01st quarter ended 30th June 2017
31-Aug-17	Announcement of Non-compliance of minimum public holding
15-Sep-17	Submission of audited financial statements for the year ended 31st March 2017
22-Sep-17	Announcement of first interim dividend of Rs 7.00 per share for the financial year 2017/18
4-Oct-17	Announcement of Non-compliance of minimum public holding
1-Nov-17	Announcement of Non-compliance of minimum public holding
15-Nov-17	Submission of unaudited interim financial statement for the 02nd quarter ended 30th September 2017
4-Dec-17	Announcement of Non-compliance of minimum public holding
5-Jan-18	Announcement of Non-compliance of minimum public holding
30-Jan-18	Submission of unaudited interim financial statement for the 03rd quarter ended 31st December 2017
30-Jan-18	Announcement of second interim dividend of Rs 8.00 per share for the financial year 2017/18
30-Jan-18	Announcement of Change of Auditors
6-Feb-18	Announcement of Non-compliance of minimum public holding
8-Mar-18	Announcement of Non-compliance of minimum public holding

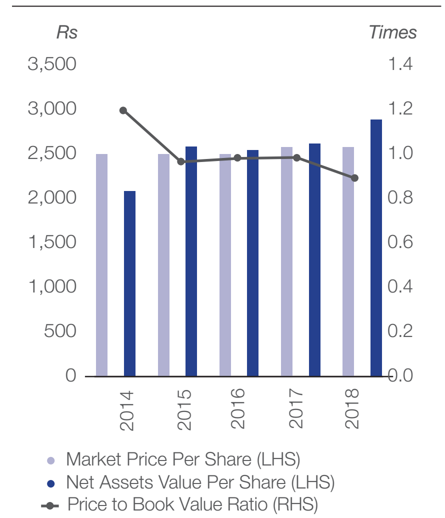
EPS & PRICE EARNINGS



Growth in Shareholder Funds & ROCE



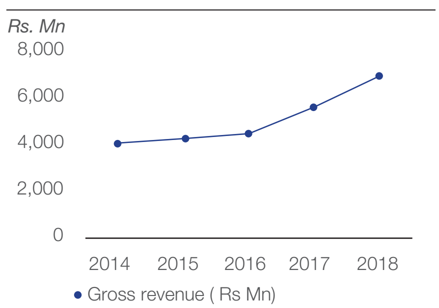
Market Price/ Price to Book Value & Net Assets



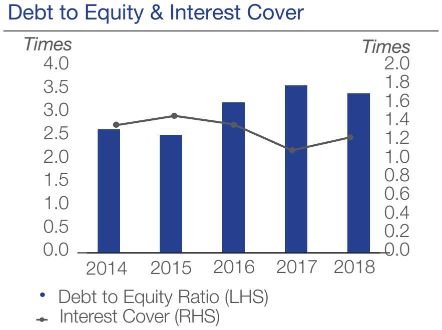
Decade at A Glance

For the year ended 31st March	Based on SLFRS/LKAS								Based On SLAS	
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Operating Results										
Income	6,984,093	5,645,532	4,500,275	4,286,288	4,095,811	3,370,086	2,394,235	2,214,120	1,806,966	1,708,609
Interest expense	3,703,776	3,136,218	2,098,378	1,947,783	2,215,483	1,867,700	1,009,874	679,728	791,308	989,662
Non Interest expenses	2,496,360	2,299,829	1,690,927	1,540,416	1,055,997	770,317	726,397	485,795	574,623	464,225
Profit before tax	878,955	313,679	802,645	911,884	824,331	732,069	625,755	1,048,597	441,035	254,409
Provision for taxation	364,890	111,664	297,626	280,612	148,969	101,278	15,667	142,699	112,436	21,034
Net profit for the year	514,065	202,015	505,019	631,272	675,362	630,791	610,088	905,898	328,600	233,375
Dividends	45,090	-	21,042	88,677	30,060	82,665	66,132	30,000	13,800	9,750
As at 31st March										
Assets										
Liquid assets	2,311,208	1,861,433	1,879,970	1,773,833	1,455,405	1,389,107	787,268	522,280	483,483	462,636
Investments	1,509,192	3,319,973	3,559,791	4,202,760	2,892,173	2,980,019	3,390,331	4,779,213	1,761,332	930,836
Debentures	-	10,200	10,400	10,700	10,700	10,773	-	-	-	-
Advances	31,935,118	28,645,275	25,053,528	19,468,293	16,187,399	13,844,647	10,446,514	6,416,176	4,430,395	5,205,265
Other assets	638,866	656,452	226,532	157,544	419,479	718,304	741,769	271,242	309,509	217,281
Property, plant & equipment	2,691,612	1,790,296	1,803,939	1,756,125	1,709,676	1,535,732	1,565,620	1,214,750	1,037,007	1,015,271
Leasehold Property	41,672	42,140	42,609	43,076	43,545	44,013	44,481	44,950	45,418	45,886
Intangible Assets	48,979	12,578	12,386	3,344	3,714	4,681	2,855	6,521	-	-
Investment Property	172,795	158,340	448,234	198,769						
Investment in Associates	1,006,506	995,977	927,318	794,381	777,127	695,670	628,397	493,555	456,363	-
Total Assets	40,355,948	37,492,664	33,964,707	28,408,825	23,499,218	21,222,946	17,607,235	13,748,687	8,523,507	7,877,174
Liabilities										
Bank overdraft	254,238	1,092,434	412,472	272,634	279,269	999,036	505,815	397,246	213,395	625,709
Borrowings	9,327,958	10,165,837	8,527,169	5,682,640	4,917,129	5,232,331	4,638,644	2,318,481	403,599	1,236,670
Deposits from customers	20,073,010	17,017,674	15,815,590	13,720,729	11,417,741	8,424,720	6,137,896	4,297,801	3,479,291	2,774,974
Other liabilities	2,017,656	1,349,453	1,555,245	953,057	618,694	860,501	850,274	442,081	651,206	545,411
	31,672,862	29,625,399	26,310,476	20,629,060	17,232,833	15,516,588	12,132,629	7,455,609	4,747,491	5,182,764
Share Holder's Fund										
Share Capital	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	30,000	30,000
Reserves	8,647,086	7,831,265	7,618,231	7,743,765	6,230,385	5,670,358	5,438,606	6,257,078	3,746,016	2,664,410
	8,683,086	7,867,265	7,654,231	7,779,765	6,266,385	5,706,358	5,474,606	6,293,078	3,776,016	2,694,410
Total Share Holder's Funds & total liabilities	40,355,948	37,492,664	33,964,707	28,408,825	23,499,218	21,222,946	17,607,235	13,748,687	8,523,507	7,877,174

Gross Revenue

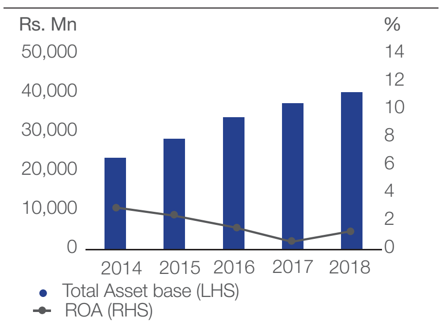


Debt to Equity & Interest Cover

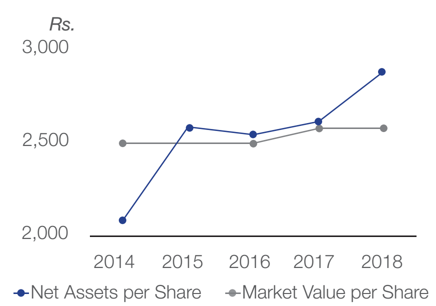


For the year ended 31st March	Based on SLFRS/LKAS								Based On SLAS	
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Financial Position										
Total Assets to Shareholders funds - (Times)	4.65	4.77	4.44	3.65	3.75	3.72	3.22	2.18	2.26	2.92
Debt to Equity - (Times)	3.42	3.59	3.23	2.53	2.65	2.57	2.06	1.11	1.08	1.72
Liquid assets as a % of deposits	11.51	10.94	11.89	12.93	12.75	17.00	13.00	12.00	14.00	17.00
Investor										
Return on shareholders' funds - (%)	5.92	2.57	6.60	8.11	10.78	11.05	11.14	14.40	8.70	8.66
Return on Average Assets-(%)	1.32	0.57	1.62	2.43	3.02	3.25	3.89	8.13	4.01	2.91
Net Assets per share - (Rs.)	2,888.00	2,616.87	2,546.32	2,588.08	2,084.63	1,898.32	1,821.23	2,093.51	1,258.67	898.14
Earnings per Share - (Rs.)	171.01	67.20	168.00	210.00	224.67	209.84	202.96	301.36	109.53	77.79
Dividend per Share - (Rs.)	15.00	-	7.00	29.50	20.00	27.50	22.00	9.98	4.60	3.25
Dividend Cover - (Times)	11.40	-	24.00	7.12	11.23	7.63	9.23	30.20	23.81	23.94
Dividend Payout-(%)	8.77	-	4.17	14.05	8.90	13.10	10.84	3.31	4.20	4.18
Interest Cover - (Times)	1.24	1.10	1.38	1.47	1.37	1.39	1.62	2.54	1.56	1.26
Growth										
Growth in income -(%)	23.71	25.45	4.99	4.65	21.53	40.76	8.13	22.53	5.76	24.52
Growth in Interest Expenses-(%)	18.10	49.46	7.73	-12.08	18.62	84.99	48.57	-14.10	-20.04	37.43
Growth in Other Expenses-(%)	8.55	36.01	9.77	45.87	37.09	6.05	49.53	-15.46	-23.78	10.34
Growth In Profit before Tax-(%)	180.21	-60.92	-11.98	10.62	12.60	16.99	-40.32	137.76	73.36	10.00
Growth in Profit after Tax - (%)	154.47	-60.00	-20.00	-6.53	7.07	3.39	-32.65	175.68	40.80	57.08
Growth In Total Assets-(%)	7.64	10.39	19.56	20.89	10.73	20.54	28.06	61.30	8.21	-3.35
Growth in advances-(%)	11.48	14.34	28.69	20.27	16.92	32.53	62.82	44.82	-14.89	-3.20
Growth in Deposit Base-(%)	17.95	7.60	15.27	20.17	35.53	37.26	42.81	23.53	25.38	15.18
Growth in Shareholders Funds-(%)	10.37	2.78	-1.61	24.15	9.81	4.23	13.01	66.66	40.14	-0.65
Statutory ratios										
Core Capital Ratio - (Minimum 5%)	16.24	17.17	19.35	21.70	22.52	20.83	22.4	28.5	30.52	24.02
Risk Weighted Capital Ratio - (Minimum 10%)	17.36	14.26	15.75	15.27	17.32	22.4	27.17	34.69	38.82	30.26
Liquid assets (%)	11.40	10.81	11.73	12.45	12.78	17.11	12.86	12.78	13.85	16.89

Total Asset Base & ROA



Net Assets per Share & Market Value per Share

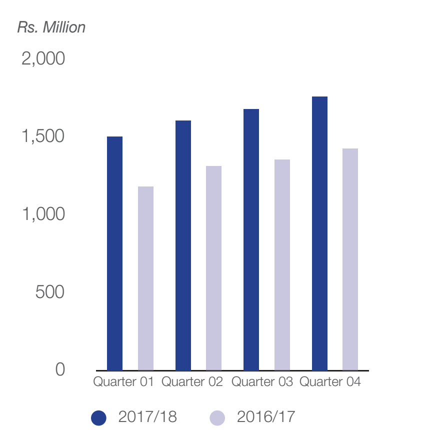


Quarterly Performance Results

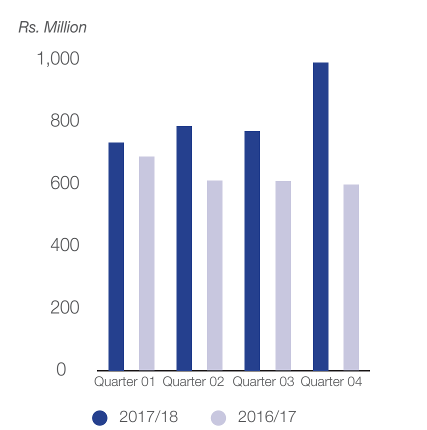
Statement of Profit or Loss

	1st Quarter		2nd Quarter	
	Apr-Jun 17 Rs.000	Apr-Jun 16 Rs.000	July-Sep 17 Rs.000	July-Sep 16 Rs.000
Interest Income	1,506,107	1,185,170	1,610,421	1,315,226
Interest Expense	(884,778)	(635,474)	(913,475)	(775,910)
Net Interest Income	621,330	549,696	696,947	539,316
Fee and Commission Income	20,239	17,924	23,508	17,823
Net fee and commission income	20,239	17,924	23,508	17,823
Other operating Income	91,896	121,736	65,046	54,251
Total Operating Income	733,465	689,356	785,500	611,390
Impairment gain/(loss) for loan and receivable	(179,849)	(85,058)	(56,706)	(26,188)
Net operating income	553,616	604,298	728,795	585,202
Less: Operating Expenses				
Personnel Expenses	214,041	194,514	231,277	172,665
Depreciation of property and equipment	19,098	15,848	19,029	17,976
Amortization of intangible assets	2,720	1,118	3,903	1,312
Amortization of leasehold property	117	117	117	117
Define benefit plans	6,713	6,715	8,661	6,711
Other operating expenses	193,164	178,754	182,999	177,938
	435,851	397,065	445,985	376,718
Operating Profit Before VAT& NBT on financial services	117,765	207,233	282,810	208,485
VAT & NBT on financial services	(45,516)	(47,245)	(71,808)	(39,714)
Operating Profit after VAT & NBT on financial services	72,249	159,987	211,003	168,772
Share of Associates company profit /(loss)	3,302	(1,577)	26,842	44,804
Profit Before Taxation	75,551	158,410	237,845	213,576
Income Tax Expenses	(17,975)	(39,681)	(79,717)	(59,214)
Profit After Taxation	57,576	118,731	158,128	154,362
Earnings per Share	19	39	53	51
Dividend per Share	-	-	7	-

Interest Income

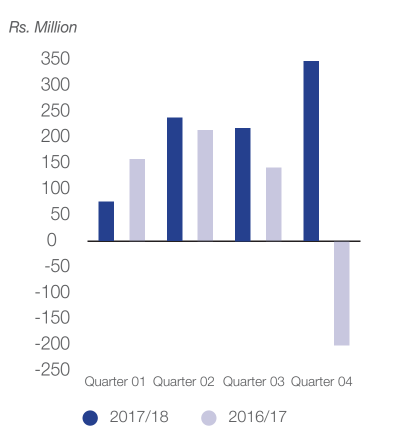


Total Operating Income

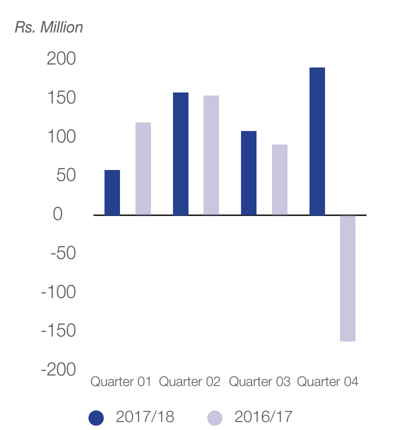


3rd Quarter		4th Quarter		TOTAL	
Oct-Dec 17 Rs.000	Oct-Dec 16 Rs.000	Jan-Mar 18 Rs.000	Jan-Mar 17 Rs.000	Apr 17 - Mar 18 Rs.000	Apr 16 - Mar 17 Rs.000
1,683,206	1,356,264	1,764,306	1,429,401	6,564,038	5,286,060
(946,644)	(798,688)	(958,880)	(926,147)	(3,703,776)	(3,136,218)
736,563	557,577	805,426	503,254	2,860,263	2,149,842
21,536	18,954	24,515	28,921	89,797	83,622
21,536	18,954	24,515	28,921	89,797	83,622
11,946	33,609	161,371	66,255	330,258	275,851
770,044	610,139	991,312	598,430	3,280,318	2,509,315
(67,138)	(48,051)	(122,662)	(465,771)	(426,353)	(625,066)
702,907	562,089	868,650	132,659	2,853,965	1,884,249
210,334	174,908	153,877	107,818	809,526	649,905
19,058	19,183	20,309	12,927	77,493	65,932
4,134	4,287	5,029	(3,930)	15,785	2,786
117	117	117	117	468	468
8,901	6,708	10,888	8,194	35,163	28,327
187,378	187,360	284,364	270,456	847,904	814,508
429,920	392,561	474,584	395,582	1,786,340	1,561,926
				-	-
272,988	169,530	394,066	(262,923)	1,067,625	322,323
(66,757)	(44,010)	(99,588)	18,130	(283,667)	(112,838)
206,230	125,520	294,478	(244,793)	783,959	209,485
11,910	16,886	52,944	44,081	94,996	104,194
218,140	142,406	347,421	(200,712)	878,955	313,679
(110,096)	(51,655)	(157,103)	38,883	(364,890)	(111,665)
108,045	90,751	190,318	(161,829)	514,065	202,014
36	30	63	(54)	171	67
-	-	8	-	15	-

Profit Before Taxation from Operations



Profit for the Period (After Tax)

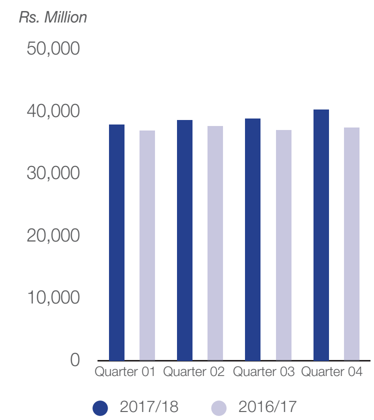


Statement of Financial Position

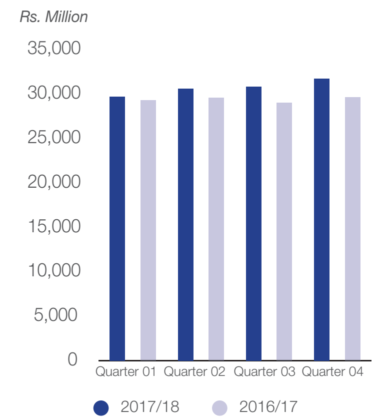
	1st Quarter		2nd Quarter	
	Apr-Jun 17 Rs.000	Apr-Jun 16 Rs.000	July-Sep 17 Rs.000	July-Sep 16 Rs.000
Assets				
Cash & Short Term Funds	1,035,438	429,363	1,070,289	452,733
Placement with other banks	54,622	474,330	206,866	265,461
Financial Investments-Available for Sale (quoted)	3,452,442	6,550,538	3,585,199	6,858,641
Loan and Advances	12,400,590	8,717,885	13,128,401	9,625,786
Lease Receivable	11,116,220	10,650,529	11,199,650	10,797,628
Hire Purchase Receivable	6,098,049	6,681,639	5,942,859	6,447,112
Financial Investments-Available for Sale (unquoted)	70,427	70,427	70,427	70,427
Other Financial Assets	174,286	137,318	195,167	135,848
Inventories	7,345	31,158	8,855	27,773
Other Assets	408,527	83,581	94,007	77,224
Current tax Receivable	77,779	-	82,617	-
Investment in Associates	1,015,100	922,004	1,034,584	977,179
Investments Properties	186,044	442,055	173,628	174,184
Property, Plant & Equipment	1,792,664	1,808,322	1,781,932	1,812,087
Leasehold Property	42,023	42,491	41,906	42,374
Intangible Assets	58,799	13,170	57,238	11,431
Total Assets	37,990,356	37,054,812	38,673,625	37,775,887
Liabilities				
Bank overdraft	570,966	303,635	231,664	319,988
Deposits due to customers	17,440,418	16,055,008	20,275,133	16,128,498
Debt instruments issued and other borrowings	10,314,779	11,876,679	8,692,347	11,975,334
Other Financial Liabilities	627,836	504,204	775,764	579,382
Current tax liabilities	-	2,241	-	48,560
Deferred tax liabilities	480,833	343,259	361,223	343,259
Other liabilities	38,713	17,508	63,846	18,522
Retirement benefit obligations	175,964	151,589	183,018	157,362
Total Liabilities	29,649,509	29,254,124	30,582,996	29,570,905
Equity				
Stated capital	36,000	36,000	36,000	36,000
Revaluation reserve	1,550,881	1,535,877	1,543,525	1,546,249
Statutory reserve fund	661,400	631,400	661,400	631,400
General reserve	4,086,430	4,086,430	4,086,430	4,086,430
Available for sale reserve	360,501	268,524	276,885	508,086
Retained earnings	1,645,635	1,242,457	1,486,390	1,396,817
Total Equity	8,340,847	7,800,688	8,090,630	8,204,982
Total Liabilities & Equity	37,990,356	37,054,812	38,673,625	37,775,887
Net Assets Per Share	2,775	2,730	2,691	2,730

3rd Quarter		4th Quarter	
Oct-Dec 17	Oct-Dec 16	Jan-Mar 18	Jan-Mar 17
Rs.000	Rs.000	Rs.000	Rs.000
650,709	807,186	763,819	1,244,554
212,424	296,715	218,102	53,501
3,436,753	4,689,641	2,768,053	3,823,125
13,830,867	10,694,459	14,549,748	11,366,577
11,380,841	11,063,555	12,016,981	11,093,954
5,618,735	6,291,857	5,368,388	6,184,744
70,427	70,427	70,427	70,427
495,840	145,490	506,326	445,787
9,481	12,202	6,762	7,882
85,959	84,742	104,102	81,732
13,479	-	21,676	121,051
1,038,629	987,403	1,006,506	995,977
173,211	158,773	172,795	158,340
1,808,240	1,772,876	2,691,612	1,790,296
41,789	42,257	41,672	42,140
53,968	8,648	48,979	12,577
38,921,353	37,126,232	40,355,948	37,492,664
143,062	401,489	254,238	1,092,434
20,206,387	16,541,510	20,073,010	17,017,674
9,034,960	10,778,394	9,327,958	10,165,837
796,697	690,845	814,105	776,819
-	33,875	-	-
381,907	343,259	980,970	361,223
44,179	24,568	39,104	39,640
189,964	163,382	183,477	171,772
30,797,154	28,977,321	31,672,862	29,625,399
36,000	36,000	36,000	36,000
1,535,660	1,539,587	1,928,250	1,535,061
661,400	631,400	711,400	661,400
4,086,430	4,086,430	4,086,430	4,086,430
210,274	367,927	200,485	256,644
1,594,435	1,487,567	1,720,521	1,291,730
8,124,199	8,148,911	8,683,086	7,867,265
38,921,353	37,126,232	40,355,948	37,492,664
2,703	2,711	2,888	2,617

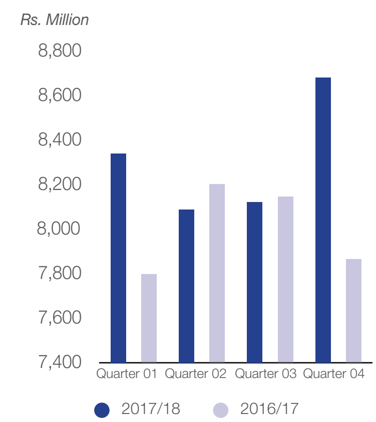
Total Assets



Total Liabilities



Total Shareholders Equity



Glossary

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment.

Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in joint venture.

Available-for-Sale

All assets not in any of the three categories, namely, held to maturity, Fair Value through Profit or Loss and Loans & Receivable. It is a residual category. It does not mean that the entity stands ready to sell these all the time.

C

Capital Adequacy ratios

The relationship between capital and the risk weighted assets as prescribed by the Central Bank of Sri Lanka developed by modifying International best practices on maintenance of Capital for financial Institutions, to suit the local requirements.

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Corporate governance

The process by which Corporate Institutions are governed. It involves the way in which authority is exercised over the management and the direction of the company, the supervisions of executive roles and the responsibility and accountability towards owners and other parties.

Cost Method

This is a method of accounting for an investment whereby the investment is initially recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distribution from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Cost to Income ratio

Total operating expenses excluding impairment charge/(reversed)for loans and advances expressed as a percentage of operating Income.

Credit Rating

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and banks and investment debt securities.

D

Debt to equity

Total Borrowings expressed as a percentage of equity.

Deferred Tax

Sum set aside in the financial statements for taxation that would become payable/receivable in a financial year other than the current financial year.

Derecognition

The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position

Dividend cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividends is covered by the current year's distributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

E

Earnings per share

Net profit after tax and after dividend on Preference shares divided by the number of ordinary shares in issue.

Economic Value added

A measure to assess productivity of a business that takes into consideration cost of total invested equity.

Effective Income Tax Rate

Provision for taxation divided by the net profit before taxation.

Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

F

Fair Value

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in other entity.

I

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired Loans

Loans where identified impairment provisions have been raised and also include loans which are collateralized or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment allowances

Impairment allowances are a provision held as a result of the rising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Impairment Provision Cover

Total impairment provision expressed as a percentage of non-performing loans.

Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Intangible Asset

An Intangible Asset is an identifiable non-monetary asset without physical substance.

Interest Cover

Profits before interest and taxes divided by the interest cost. This ratio measures the number of times Interest is covered by the current year's profits before interest and taxes.

K

Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning,directing and controlling the activities of the entity,directly or indirectly.

L

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily,such as deposits with banks free from any charge or lien and Treasury Bills and Bonds.

Liquid Assets ratio

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total deposits and outstanding borrowings excluding secured borrowings and borrowings considered as capital funds.

Loans and Receivables

Conventional loan assets that are unquoted (originated).

Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to loss in the event of obligor default

Loan to Value Ratio

LTV ratio is a computation that expresses the amount of a first disbursement as a percentage of the total appraised value of assets kept as security.

M

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Market Value Added (MVA)

The difference between the current market value of a firm and the capital contributed by investors. Market value added represents the wealth generated by a company for its shareholders since inception. Since the main goal of a for-profit organization is to maximize shareholders' wealth, market value added is an important measure to analyze how much value a company has added to the wealth of its shareholders. Higher market value added indicates higher wealth generation.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net assets per share

Shareholders' funds excluding preference shares divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amount a Financial Institution earns on assets such as Loans and securities and what it incurs on liabilities such as deposits and borrowings.

Net Interest Margin

Net interest income expressed as a percentage of average assets.

Non-performing Loans

A loan placed on a cash basis (i.e. Interest Income is only recognized when cash is actually collected) after when six installments or more are overdue, as there is reasonable doubt regarding the collectability of its installments of capital and interest.

Non Performing Ratio

Total non-performing loans expressed as a percentage of the total loans and advances.

O

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, peoples and systems or from external events.

P

Price earnings ratio

Market price of an ordinary share divided by earnings per share.

R

Related parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Return on average assets

Net profit after tax divided by the average assets.

Return on shareholders' funds

Net profit after tax divided by the shareholders' funds.

Risk Weighted Assets

On-Balance Sheet assets and the credit equivalent of off-Balance Sheet assets multiplied by the relevant risk weighting factors prescribed by the Central Bank of Sri Lanka.

S

Segmental Analysis

Analysis of financial information by segments of an organization specifically, the different Industries and the different business lines in which it operates.

Shareholders' funds

Total of stated capital plus capital and revenue reserves.

Sustainability report

Sustainability reporting is a practice of measuring, disclosing, and being accountable for organizational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organization.

T

Tier I capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier 11 Capital

Supplementary capital that consist of revaluation reserves, general provisions and debt instruments such as subordinated term debts and other hybrid capital instruments that combine characteristics of equity and debt.

V

Value added

Value of wealth created by providing financial and other related services less the cost of providing such services.

Basis of Ratios

Attrition rate (%) = $\frac{\text{Number of Employees resigned during the year}}{\text{Number of Employees}}$ X 100

Carbon Footprint Intensity (Per employee) = $\frac{\text{Total Carbon Emissions}}{\text{Number of Employees}}$

Cost to income ratio (%) = $\frac{\text{Total operating cost with VAT on financial Services}}{\text{Total operating income}}$ X 100

Debt to equity ratio (Times) = $\frac{\text{Borrowings + Deposits}}{\text{Equity}}$

Dividend Cover (Times) = $\frac{\text{Profit /loss attributable to ordinary shareholders}}{\text{Total dividends}}$

Dividend Payout (%) = $\frac{\text{Total dividends}}{\text{Profit/loss attributable to ordinary shareholders}}$ X 100

Dividend Yield (%) = $\frac{\text{Dividend per ordinary share}}{\text{Market Price per share}}$ X 100

Earnings per share (EPS) (Rs.) = $\frac{\text{Profit/loss attributable to ordinary shareholders}}{\text{Number of shares}}$

Equity asset ratio (%) = $\frac{\text{Equity}}{\text{Total Assets}}$ X 100

Gross non-performing advances ratio (%) = $\frac{\text{Non-performing portfolio (net of unearned income)}}{\text{Gross portfolio (net of unearned income)}}$ X 100

Interest cover (Times) = $\frac{\text{Profit before interest and tax}}{\text{Interest cost}}$

Interest Spread (%) = Yield on average interest earning assets - Cost on average interest bearing liabilities

Local hiring of employees (%) = $\frac{\text{Locally hired employees}}{\text{Total number of employees}}$ X 100

Market Capitalisation (Rs.) = Market price per share X Number of shares

Net assets per share (Rs.) = $\frac{\text{Total shareholders' Funds}}{\text{Number of shares}}$

Net interest margin (%) = $\frac{\text{Net interest income}}{\text{Average interest earning assets}}$ X 100

Operating Profit margin (%) = $\frac{\text{Operating profit after VAT on financial services}}{\text{Gross Income}}$ X 100

Price earning (PE) (Times) = $\frac{\text{Market price per share}}{\text{Earnings per share}}$

Price to book Value (PVB) (Times) = $\frac{\text{Market price}}{\text{Net assets per share}}$

Provision cover (Times) = $\frac{\text{Cumulative impairment}}{\text{Non-performing loans and advances}}$

Return on asset (ROA) (%) = $\frac{\text{Profit after tax}}{\text{Total Average assets}}$ X 100

Return on shareholder's Funds (Equity) = $\frac{\text{Profit after tax}}{\text{Equity}}$ X 100

Training hours per employee (hrs) = $\frac{\text{Total Training hours}}{\text{Number of employees}}$

Value added per employee (Rs.) = $\frac{\text{Economic value generated}}{\text{Number of employees}}$

Alphabetical Index

Abbreviations and Acronyms

AFS	Available for Sale
AGM	Annual General Meeting
ALCO	Assets and Liabilities Management Committee
AML	Anti-Money Laundering
ASPI	All Share Price Index
ATM	Automated Teller Machine
AWPLR	Average Weighted Prime Lending Rate
BCP	Business Continuity Plan
BN	Billion
BOD	Board of Directors
BPS	Basis Points
BRA	Budget Relief Allowances
CAR	Capital Adequacy Ratio
CASL	The Institute of Chartered Accountants of Sri Lanka
CBSL	Central Bank of Sri Lanka
CCTV	Closed-Circuit Television
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CRO	Chief Risk Officer
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
DPS	Dividend Per Share
DR	Disaster Recovery
ECL	Expected Credit Loss
EIR	Effective Interest Rate
EPF	Employees' Provident Fund
EPS	Earnings per Share
ESC	Economic Service Charge
ETF	Employees' Trust Fund
EVA	Economic Value Aded
EY	Ernst and Young
FTRA	Financial Transaction Reporting Act
FY	Financial Year
GDP	Gross Domestic Product
GHG	Green House Gas
GRI	Global Reporting Initiative
HFT	Held for Trading
HODs	Head of Departments
HP	Hire Purchase
HR	Human Resource
HRIS	Human Resource Information System
HTM	Held to Maturity
IBC	Inner Back Cover
IFRS	International Financial Reporting Standard
IIRC	International Integrated Reporting Council
IMF	International Monetary Fund
IRMC	Integrated Risk Management Committee
IS	Information Systems
IT	Information Technology
IUCN	International Union for Conservation of Nature
KMP	Key Management Personnel
KPIs	Key Performance Indicators
KRIs	Key Risk Indicators

KYC	Know Your Customer
L&R	Loans and Receivables
LCB	Licensed Commercial Bank
LFC	Licensed Finance Companies
LGD	Loss Given Default
LHS	Left Hand Side
LKAS	Sri Lanka Accounting Standards
LKR	Sri Lankan Rupees
LTV	Loan to Value
MI	Mercantile Investments and Finance PLC
MIS	Management Information System
MN	Million
NBT	Nation Building Tax
NII	Net Interest Income
NIM	Net Interest Margin
NO.	Number Of
NOx	Nitrogen Oxide
NPA	Non-Performing Advances
NPL	Non-Performing Loans
OCI	Other Comprehensive Income
ODS	Ozone Depleting Substances
PAT	Profit after Tax
PAYE	Pay As You Earn
PD	Probability of Default
PER	Price Earnings Ratio
PLC	Public Limited Company
PR	Public Relations
PVT	Private Limited Company
RHS	Right Hand Side
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
RPT	Related Party Transactions
RPTC	Related Party Transaction Review Committee
RWA	Risk-Weighted Assets
S&P	Standard & Poor's
SBUs	Strategic Business Units
SEC	Securities and Exchange Commission
SLA	Statutory Liquid Assets
SLAS	Sri Lanka Accounting Standards
SLC	Specialized Leasing Company
SLFRS	Sri Lanka Financial Reporting Standards
SLIPS	Sri Lanka Interbank Payment System
SME	Small and Medium Enterprises
SOx	Sulfur Oxide
SRF	Special Recoveries Force
UN	United Nations
UNGC	United Nations Global Compact
USD	US Dollar
VAT	Value Added Tax
WHT	Withholding Tax
YoY	Year on Year
YTM	Yield to Maturity

Corporate Information

Name of the Company

Mercantile Investments and Finance PLC

Legal Form

Public Limited Liability Company incorporated in Sri Lanka under the Companies Ordinance No 51 of 1938 and re-registered under the Companies Act No. 07 of 2007. A licensed finance company under the Finance Business Act No 42 of 2011.

Company Registration Number

PB 76 PQ

Tax Payer Identification Number

104021794

VAT Registration Number

104021794 7000

Registered Office

No. 236 Galle Road,
Colombo 3
Head Office
No. 236 Galle Road, Colombo 3
Telephone: 2343720 – 7
Fax: 2434524
Email:mercantile@mi.com.lk
Website: http// www.mi.com.lk

Board of Directors

Saroja Hemakumar Jayawickrama Weerasuriya *(Chairman)*
Gerard George Ondaatjie *(Managing Director)*
Pathiranage Mahes Amarasekera *(Deputy Managing Director)*
Shermal Hemaka Jayasuriya *(Finance Director)*
Angeline Myrese Ondaatjie
Travice John Ondaatjie
Punyakanthi Tikiri Kumari Navaratne
Nawagamuwage Hasantha Viraj Perera
Singappuli Mudiyanselage Susantha Sanjaya Bandara
Pathmanathan Cumarasamy Guhashanka

Company Secretary

Sonali Pethiyagoda

Audit Committee

Singappuli Mudiyanselage Susantha Sanjaya Bandara - *(Chairman of the Committee)*
Saroja Hemakumar Jayawickrama Weerasuriya
Nawagamuwage Hasantha Viraj Perera
Sonali Pethiyagoda - *Company Secretary*
- *(Secretary to the Committee)*

Credit Committee

Gerard George Ondaatjie - *(Chairman of the Committee)*
Pathiranage Mahes Amarasekera
Shermal Hemaka Jayasuriya
Dhanushka Fonseka -*Director (non-board)*
–Credit & Marketing - *(Secretary to the* Committee)

Remuneration Committee

Saroja Hemakumar Jayawickrama Weerasuriya
- *(Chairman of the Committee)*
Nawagamuwage Hasantha Viraj Perera
Punyakanthi Tikiri kumari Navaratne
Sonali Pethiyagoda-Company Secretary
- *(Secretary to the Committee)*

Nominations Committee

Saroja Hemakumar Jayawickrama Weerasuriya
- *(Chairman of the Committee)*
Gerard George Ondaatjie
Singappuli Mudiyanselage Susantha Sanjaya Bandara
Nawagamuwage Hasantha Viraj Perera
Sonali Pethiyagoda-Company Secretary
- *(Secretary to the Committee)*

Integrated Risk Management Committee

Nawagamuwage Hasantha Viraj Perera
- *(Chairman of the Committee)*
Gerard George Ondaatjie
Pathiranage Mahes Amarasekera
Shermal Hemaka Jayasuriya
Ramidu Costa – *Head of Compliance & Risk Management - (Secretary to the Committee)*

Assets & Liability Committee

Gerard George Ondaatjie (Chairman of the committee)
Pathiranage Mahes Amarasekara (Deputy Managing Director)
Shermal Hemaka Jayasuriya (Finance Director)
Corporate Management
Ramidu Costa – *Head of Compliance & Risk Management - (Secretary to the Committee)*

Related Party Transaction Review Committee

Singappuli Mudiyanselage Susantha Sanjaya Bandara
- (Chairman of the Committee)
Saroja Hemakumar Jayawickrama Weerasuriya
Shermal Hemaka Jayasuriya (Finance Director)
Nawagamuwage Hasantha Viraj Perera
Sonali Pethiyagoda-Company Secretary
- (Secretary to the Committee)

External Auditors

Ernst & Young
Chartered Accountants

Internal Auditors

PricewaterhouseCoopers (Pvt) Ltd.

Bankers

Commercial Bank of Ceylon PLC
Hatton National Bank PLC
Seylan Bank PLC
Sampath Bank PLC
NDB Bank PLC
Nations Trust Bank PLC
Peoples Bank
Bank of Ceylon
Union Bank PLC.
PanAsia Bank PLC.
Cargills Bank PLC

Credit Rating

Long-term Financial Institution Rating at BBB-(lka) (stable outlook) by Fitch Ratings.

Notice of Meeting

NOTICE IS HEREBY given that the Fifty-fifth (55) Annual General Meeting of MERCANTILE INVESTMENTS AND FINANCE PLC will be held at No 236, Galle Road, Colombo 3, on 29th June 2018, at 10.45 a.m. for the following purposes:

- To receive and consider the Report of Directors and the Statement of Accounts for the year ended 31st March 2018 and the Report of the Auditors thereon.

- To re-elect Directors retiring by rotation in terms of Article 23 (7) of the Articles of Association.

- To ratify 2nd Interim Dividend of Rs. 8/- per share declared on 31st October 2017 as the final dividend for the financial year ended 31st March 2018

- To authorize the Directors to determine the remuneration of the Auditors Messrs. Ernst & Young, Chartered Accountants who are deemed to have been reappointed as Auditors in terms of section 158 of the Companies Act No.7 of 2007.

- To authorize the Board of Directors to determine donations.

By Order of the Board,

Ms. Sonali Pethiyagoda
Company Secretary

Colombo
17th May 2018

Notes

1. A member who is entitled to attend and vote at the above - mentioned meeting is entitled to appoint a proxy, who need not also be a member to attend instead of him/her.
2. A Form of proxy is enclosed in the report.
3. The completed Proxy Form should be deposited at the Registered Office of the Company at No 236, Galle Road, Colombo 3, not less than 48 hours before the time fixed for holding the meeting.

Notes

Notes

Form of Proxy

I/We*...
of ....
being a member/members* of MERCANTILE INVESTMENTS AND FINANCE PLC, do hereby appoint; ....
.... of...or failing him/her

Mr. Saroja Hemakumar Jayawickrema Weerasuriya	or failing him
Mr. Gerard George Ondaatjie	or failing him
Mr. Pathiranage Mahes Amarasekara	or failing him
Mr. Shermal Hemaka Jayasuriya	or failing him
Ms. Angeline Myrese Ondaatjie	or failing her
Mr. Travice John Ondaatjie	or failing him
Ms. Punyakanthi Tikiri Kumari Navaratne	or failing her
Mr. Nawagamuwage Hasantha Viraj Perera	or failing him
Mr. Singappuli Mudiyanselage Susantha Sanjaya Bandara	or failing him
Mr. Pathmanathan Cumarasamy Guhashanka	

as my/our* proxy to represent me/us* and to vote for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held on 29th June 2018 at 10.45 a.m. at No.236, Galle Road, Colombo 03 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

		FOR	AGAINST	WITHHOLD
1)	To receive and adopt the Report of Directors and the Statement of Accounts for the year ended 31st March 2018, with the Report of the Auditors there on.	☐	☐	☐
2)	To elect Mr. S M S S Bandara retiring in terms of Article 23(7) of the Articles of Association of the Company.	☐	☐	☐
3)	To elect Ms. P T K Navaratne retiring in terms of Article 23(7) of the Articles of Association of the Company.	☐	☐	☐
4)	To elect Mr. N H V Perera retiring in terms of Article 23(7) of the Articles of Association of the Company.	☐	☐	☐
5)	To ratify 2nd Interim Dividend of Rs. 8/- per share declared on 31st October 2017 as the final dividend for the financial year ended 31st March 2018	☐	☐	☐
6)	To authorize Directors to determine the remuneration of the Auditors Messrs. Ernst & Young, Chartered Accountants who are deemed to have been reappointed in terms of section 158 of the Companies Act No.07 of 2007	☐	☐	☐
7)	To authorize the Directors to determine contributions for charities and other donations for the year 2018/19.	☐	☐	☐

As witness my/our* hand this ....day of ....2018.

....
Signature of Shareholder/s

Note: Please delete the inappropriate words.

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy, after filling in legibly your full name and address by signing in the space provided and please fill in the date of signature.
2. If the Proxy Form is signed by an Attorney, the relative Power of the Attorney should also accompany the Proxy Form for registration, if such Power of Attorney has not already been registered with the Company.
3. In the case of a Company/Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
4. The completed Form of Proxy should be deposited at the registered office of the Company at No. 236, Galle Road, Colombo 3, not less than 48 hours before the time of the meeting.

Voting at Meetings of Shareholders

Article 14 of the Articles of Association of the Company, dealing with voting is quoted below, for information of shareholders:

Voting at Meetings of Shareholders

1. In the case of a meeting of shareholders unless a poll is demanded, voting at the meeting shall be by whichever of the following methods as determined by Chairperson of the meeting:

(a) Voting by voice; or

(b) Voting by show of hands.

2. A declaration by the chairperson of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded in accordance with Article 14(3).

3. At a meeting of shareholders, a poll may be demanded by-

(a) Not less than three (3) shareholders having the right to vote at the meeting; or

(b) A shareholder or shareholders representing not less than ten per centum of the total voting rights of all shareholders having the right to vote at the meeting.

4. A poll may be demanded either before or immediately after the vote is taken on a resolution.

5. If a poll is taken, votes must be counted according to the votes attached to the shares of each shareholder present and voting.

6. The Chairperson of a shareholder's meeting is not entitled to a casting vote.

7. If a poll is duly demanded (and the demand be not withdrawn) it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the person presiding at the meeting may direct and the result of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The person presiding may (and if so requested shall) appoint a scrutiniser and may adjourn the meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

8. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded.

9. No objection shall be made to the validity of any vote except at the meeting or poll at which such vote shall be tendered and every vote to which no objection shall be made at such meeting or poll shall be deemed valid for all purposes of such meeting or poll whatsoever.

Stakeholder Feedback Form

Your relationship with MI (Please tick 'x' the appropriate box)

Employee		Shareholder		Regulators/Government	
Customer		Business Partner		Society	

Share your views about the Integrated Annual Report 2017/18 (Please scale from Excellent to Poor)

Theme & Layout		Content & Disclosures		Directness & Transparency	
Excellent		Excellent		Excellent	
Good		Good		Good	
Average		Average		Average	
Poor		Poor		Poor	

Please write details of your feedback & any suggestions to improve content:

....
....
....
....
....

As a stakeholder any other suggestions, improvements & concerns to be addressed:

....
....
....
....
....

Your Name :

Your Tel/Email :

Finance Director,

Mercantile Investments & Finance PLC,
No.236,
Galle Road,
Colombo 03.
Tel: +94 11 2343720-7

Minimize waste by informing the Company Secretary to email a soft copy of the Annual Report, rather than the hard copy in future.

What have we reported on Sustainability

GRI Standards Index

Mercantile Investments and Finance PLC

Integrated Annual Report 2017/18

GRI Standards Content Index: “In accordance comprehensive ”

GRI Standards	Disclosure number	Disclosure title		Related Disclosure /Disclosure Remarks	Page reference	If omitted, reasons
GRI 101: Foundation 2016		**Reporting principles**				
GRI 102: General Disclosure 2016	102-1	**Organisational Profile :** Name of the Organisation		Mercantile Investments and Finance PLC	8	
	102-2	Activities, brands, products, and services		Overview Our product lines/ Business Sphere Report	31 64-69	
	102-3	Location of headquarters		236, Galle Road, Colombo 03. Sri Lanka.	78	
	102-4	Location of Operations		Operations are carried out entirely in Sri Lanka.	8	
	102-5	Ownership and legal form		Overview	8 and 30	
	102-6	Markets served		Overview	31 and 78	
	102-7	Scale of the Organisation		Capital Highlights	12 to 15	
	102-8	a. Information on employees and other workers		Staff on contract is immaterial.		
		b. Total number of employees by employment contract and gender		Human Capital Review		
		b. Total number of employees by employment contract, by region		Human Capital Review		
		c. Total number of employees by employment type, by gender				
		d. Whether substantial portion of work is done by workers who are not employees.		Not applicable. Substantial part of work is done by permanent staff.		
		e. Significant variations in employment numbers above due to seasonal fluctuations		No significant variation in employee numbers due to seasonal fluctuations.		
		f. Explanations of how data have been compiled including assumptions made		Human Capital Review		
	102-9	Supply Chain		Social and Relationship Capital Review	89	
	102-10	Significant changes to the organization and its supply chain		Overview	31	
	102-11	Precautionary principle or approach		Natural Capital Review	114	
	102-12	External Initiatives		Reference to United Nations Global Compact Consideration Principles Reference to United Nations Sustainability Development Goals Integrated Reporting framework Global Reporting Initiatives (GRI)	97 40 8 8	
	102-13	Membership of Associations		Corporate Governance Report	142	
	102-14	**Strategy** Statement from senior decision maker		Chairman’s Message	20-23	
	102-15	Key impacts, risks and opportunities		Management Discussion and Analysis	49-50	
	102-16	**Ethics and Integrity** Values, principles, standards, and norms of behavior		Overview Corporate Governance Report	30 104,149,169	
GRI 102: General Disclosure 2016	102-17	Mechanisms for advice and concerns about ethics		Corporate governance report	149 and 173	
	102-18	**Governance** Governance structure		Corporate Governance Report	140,141,145, 151 and 170	
	102-19	Delegating authority		Corporate Governance Report	1 41	

GRI Standards	Disclosure number	Disclosure title	Related Disclosure /Disclosure Remarks	Page reference	If omitted, reasons
	102-20	Executive-level responsibility for economic, environmental and social topics	Corporate Governance Report	141	
	102-21	Consulting stakeholders on economic, environmental and social topics	Corporate Governance Report	141 and 145	
	102-22	Composition of highest governance body and its committees	Corporate Governance Report	142, 146, 151 and 176	
	102-23	Chair of the highest governance body	Corporate Governance Report	145	
	102-24	Nominating and selecting the highest governance body	Corporate Governance Report	145 and 158	
	102-25	Conflicts of interest	Corporate governance report	145, 174 and 186	
	102-26	Role of the highest governance body in setting purpose, value and strategy	Corporate governance report	141,148 and 171	
	102-27	Collective knowledge of the highest governance body	Corporate governance report	149 and 155	
	102-28	Evaluation of the highest governance body's performance	Corporate governance report	140, 141 and 149	
	102-29	Identifying and managing economic, environmental and social impacts	Corporate governance report Risk Report	140, 141 and 145 196	
	102-30	Effectiveness of risk management process	Corporate governance report Risk Report	141 195 and 196	
	102-31	Review of economic, environmental and social topics	Corporate governance report Risk Report	141 195 and 196	
	102-32	Highest governance body's role in sustainability reporting	Overview Corporate governance report	9 141	
	102-33	Communicating critical concerns	Corporate governance report	141	
	102-34	Nature and total number of critical concerns	Corporate governance report	140 & 158	
	102-35	Remuneration Policies	Corporate governance report	149	
	102-36	Process of determining remuneration	Corporate governance report	149	
	102-37	Stakeholders involvement in remuneration	Corporate governance report	161	
	102-38	Annual total compensation ratio			Not disclosed due to confidentiality
	102-39	Percentage increase in annual total compensation ratio			Not disclosed due to confidentiality
	102-40	**Stakeholder engagement** List of stakeholder groups	Overview	34 to 36	
	102-41	Collective bargaining agreements	Human Capital Review	110	
	102-42	Identifying and selecting stakeholders	Overview	33-36	
	102-43	Approach to stakeholder engagement	Overview	33-36	
GRI 102: General Disclosure 2016	102-44	Key topics and concerns raised	Overview	34 to 37	
	102-45	**Reporting Practice** Entities included in the consolidated financial statements	Overview	8	
	102-46	Defining report content and topic boundaries	Overview	37 and 38	
	102-47	List of material topics	Overview	37	
	102-48	Restatements of information	No material restatements made	9	
	102-49	Changes in reporting	Overview	9	

GRI Standards	Disclosure number	Disclosure title	Related Disclosure /Disclosure Remarks	Page reference	If omitted, reasons
	102-50	Reporting period	1st April 2017 to 31st March 2018	N/A	
	102-51	Date of most recent report	31st March 2017	9	
	102-52	Reporting cycle	In annual cycle's	N/A	
	102-53	Contact point for questions regarding the report	Overview	9	
	102-54	Claims of reporting in accordance with the GRI standards	Overview	8	
	102-55	GRI Content Index	GRI standards Content Index booklet	8 and refer the supplimentary Booklet	
	102-56	External assurance	Overview	8	
GRI 103: Management Approach 2016	103-1	Explanation of the material topics and its boundary	Overview	37 and 38	
	103-2	The management approach and its components	Overview Management Approach for each material topic is page referenced with impact (28 topics altogether) Grievance mechanism	37 96	
	103-3	Evaluation of the management approach	Overview Evaluation of the Management Approach for each material topic is page referenced with impact (28 topics altogether)	37	
GRI 200: ECONOMIC PERFORMANCE 2016					
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	Economic Impact Report	70	
	201-2	Financial implications and other risks and opportunities due to climate change	Natural Capital Report	114	
	201-3	Defined benefit plan obligations and other retirement plans	Financial Statements	284-285	
	201-4	Financial assistance received from government	Social and Relationship Capital Review	87	
GRI 202: Market Presence 2016	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Human Capital Review	110	
	202-2	Proportion of senior management hired from the local community	Human Capital Review	104 and 105	
GRI 203: Indirect Economic impacts 2016	203-1	Infrastructure investments and services supported	Economic Impact Report	75	
	203-2	Significant indirect economic impacts	Economic Impact Report	70	
GRI 204: Procurement Practices 2016	204-1	Proportion of spending on local suppliers	Social and Relationship Capital Review	89	
GRI 205: Anti- corruption	205-1	Operations assessed for risks related corruption	Social and Relationship Capital Review	95 and 96	
	205-2	Communication and training about anti-corruption policies and procedures	Social and Relationship Capital Review	95, 96 and 108	
	205-3	Confirmed incidents of corruption and actions taken	Social and Relationship Capital Review	95 and 96	
GRI 206: Anti- competitive behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	Social and Relationship Capital Review	95	

GRI Standards	Disclosure number	Disclosure title		Related Disclosure /Disclosure Remarks	Page reference	If omitted, reasons
GRI 300: ENVIRONMENTAL TOPICS 2016						
GRI 301: Material 2016	301-1	Materials used by weight or volume		Natural Capital Review	116 and 117	
	301-2	Recycled input materials used		Natural Capital Review	116 and 117	
	301- 3	Reclaimed products and their packaging materials		Natural Capital Review	116 and 117	
GRI 302: Energy 2016	302-1	Energy consumption within the organization		Natural Capital Review	117	
	302-2	Energy consumption outside of the organization		Natural Capital Review	117	
	302-3	Energy intensity		Natural Capital Review	117 and 118	
	302-4	Reduction of energy consumption		Natural Capital Review	117	
	302-5	Reductions in energy requirements of products and services		Natural Capital Review	117	
GRI 303: Water 2016	303-1	Water withdrawal by source		Natural Capital Review	118	
	303-2	Water sources significantly affected by withdrawal of water		Natural Capital Review	118	
	303-3	Water recycled and reused		Natural Capital Review	118	
GRI 304: Biodiversity 2016	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		Natural Capital Review	120	
	304-2	Significant impacts of activities, products, and services on biodiversity		Natural Capital Review	120	
	304-3	Habitats protected or restored		Natural Capital Review	115	
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations		Natural Capital Review	120	
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions		Natural Capital Review	119 and 120	
	305-2	Energy indirect (Scope 2) GHG emissions		Natural Capital Review	119 and 120	
	305-3	Other indirect (Scope 3) GHG emissions		Natural Capital Review	119 and 120	
	305-4	GHG emissions intensity		Natural Capital Review	119 and 120	
	305-5	Reduction of GHG emissions		Natural Capital Review	119	
	305-6	Emissions of ozone-depleting substances (ODS)		Natural Capital Review	119 and 120	
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		Natural Capital Review	119 and 120	
GRI 306: Effluents and Waste 2016	306-1	Water discharge by quality and destination		Natural Capital Review	119	
	306-2	Waste by type and disposal method		Natural Capital Review	119	
	306-3	Significant spills		Natural Capital Review	119	
	306-4	Transport of hazardous waste		Natural Capital Review	118	
	306-5	Water bodies affected by water discharges and/or runoff		Natural Capital Review	119	
GRI 307: Environmental compliance 2016	307-1	Non-compliance with environmental laws and regulations		Natural Capital Review	114	
GRI 400: SOCIAL TOPICS 2016						
GRI 401: Employment	401-1	New employee hires and employee turnover		Human Capital Review	104, 105 and 107	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		Human Capital Review	110	
	401-3	Parental leave		Human Capital Review	109	

GRI Standards	Disclosure number	Disclosure title	Related Disclosure /Disclosure Remarks	Page reference	If omitted, reasons
GRI 402: Labor/Management Relations	402-1	Minimum notice periods regarding operational changes	Human Capital Review	110	
GRI 403: Occupational Health and Safety	403-1	Workers representation in formal joint management–worker health and safety committees	Human Capital Review	109	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Human Capital Review	109	
	403-3	Workers with high incidence or high risk of diseases related to their occupation	Human Capital Review	109	
	403-4	Health and safety topics covered in formal agreements with trade unions	Human Capital Review	110	
GRI 404: Training and Education	404-1	Average hours of training per year per employee	Human Capital Review	107	
	404-2	Programs for upgrading employee skills and transition assistance programs	Human Capital Review	107	
	404-3	Percentage of employees receiving regular performance and career development reviews	Human Capital Review	108	
GRI 405: Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	Human Capital Review Corporate governance report	104 to 106 142	
	405-2	Ratio of basic salary and remuneration of women to men	Human Capital Review	110	
GRI 406: Non discrimination	406-1	Incidents of discrimination and corrective actions taken	Human Capital Review	111	
GRI 408: Child labour	408-1	Operations and suppliers at significant risk for incidents of child labor	Human Capital Review	111	
GRI 409: Forced or compulsory labour	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	Human Capital Review	111	
GRI 410: Security Practices	410-1	Security personnel trained in human rights policies or procedures	Human Capital Review	111	
GRI 412: Human rights Assessment	412-1	Operations that have been subject to human rights reviews or impact assessments	Human Capital Review	111	
	412-2	Employee training on human rights policies or procedures	Human Capital Review	111	
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Human Capital Review	111	
GRI 413: Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	Social and Relationship Capital Review	90	
	413-2	Operations with significant actual and potential negative impacts on local communities	Social and Relationship Capital Review	90	
GRI 416: Customer Health and Safety	416-1	Assessment of the health and safety impacts of product and service categories	Social and Relationship Capital review	86	
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Social and Relationship Capital review	96	
GRI 417: Marketing and Labelling	417-1	Requirements for product and service information and labeling	Social and Relationship Capital review	86	
	417-2	Incidents of non-compliance concerning product and service information and labeling	Social and Relationship Capital review	96	
	417-3	Incidents of non-compliance concerning marketing communications	Social and Relationship Capital review	96	
GRI 418: Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Social and Relationship Capital review	87	
GRI 419:Socio economic compliance	419-1	Non-compliance with laws and regulations in the social and economic area	Social and Relationship Capital Review	96	

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