A PROFOUND JOURNEY

Mercantile Investments and Finance PLC

Integrated Annual Report 2018/19

A PROFOUND JOURNEY

Every journey is different and with over five decades in the making, our journey has been nothing but eventful, optimistic and stellar. While we elaborate on our performance this year, we also reflect on our journey as a business, as a trusted companion to our customers, a valued partner to our stakeholders and an unmistakable vanguard in social consciousness.

Our success has been in part to exceptional leadership which guided us to where we are right now and the strategy that helped us reach our milestones. As we journeyed, we journeyed together which is indicative of our endurance through team work and also extending it towards our clientele with the sincere need to make a difference in the standards we uphold... It's been a profound journey... and we journey on...

Contents

Our Journey

This main section gives a quick preamble to the Company's purpose and value statements, history, style of management and business frontiers. It provides information about MI's business and success over five decades, together with future plans and insights to showcase the journey we have traveled thus far and hope to pursue.

Management Discussion and Analysis

This section provides the reader a comprehensive commentary about how we created stakeholder value, strategy and the performance results achieved through our capital management efforts. As sub disclosure sections of this main section, we provide an overview of our value chain, key business segment results and our impacts to the wider economy, society and environment.

Stewardship

As safe keepers of public funds in a highly dynamic finance industry, our leadership upholds effective governance and directs business in a prudent manner, adopting best risk management practices. This good governance approach and risk dynamics in a nutshell is explained in this "Stewardship" section.

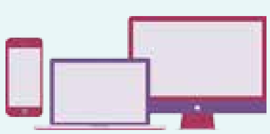
Financial Reports

The financial reporting section provides readers with an in-depth view about MI's financial results for the period under review together with the independent audit report. The profitability and the accumulated wealth over the fifty plus years of successful business journey is displayed from the strong balance sheet capital position and supportive numbers and graphs.

Supplementary Information

This concluding section provides readers other vital information about MI's financial progress, investor information and guidance to the book in reading this year's annual report.

The electronic version of this year's Integrated Annual Report is available in the MI website, http://www.mi.com.lk. Mobile users can view the report electronically using the QR code



Web Content

Our web page enriches stakeholders with a wider array of information supporting this year's Annual Report as follows.

About Our Integrated Report

This report is prepared in accordance with the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework and provides our stakeholders with a concise and transparent evaluation of our ability to utilise our financial expertise, to the best of our ability, to create sustainable value.

Reporting Parameters

GRI | 102-4, 102-5 and 102-45, 102-46 and 102-52

Reporting Period

Mercantile Investments and Finance PLC's (MI) Integrated Report is produced and published in annual cycles. The report provides material disclosure about the strategy undertaken and MI's unique business model, operating context, stakeholder expectations, performance, governance and prospects, for the financial period 1st April 2018 to 31st March 2019, building on the 2017/18 report, while emphasising on the key takes from our over 50-year successful business journey. Any material events after 31st March 2019 and up to the Board approval date of 19th June 2019 have also been incorporated.

Reporting Scope and Boundary

The report covers primary activities of Mercantile Investments and Finance PLC, which include its business segments and support services that impact the organisation and MI's stakeholders, within the 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, in keeping to Sri Lanka accounting standards, we consolidate our associate company, Nuwara Eliya Hotels Company PLC, for purpose of preparing the financial statements. However, we do not provide detailed reporting of the activities of the associate, as MI has only a 26.12% minority stake.

Reporting Extent

The report extends beyond the presenting of statutory annual financial statements, to include non-financial performance, opportunities, challenges, risks and impacts that are relevant to our stakeholders, which materially influences our ability to generate value.

Target Audience

Whilst our report is primary directed at addressing the information needs of our investors (shareholders and other funding providers), we also report on how we created value for our other stakeholders, which include our clients, staff, regulators and society.

Key Concepts

Integrated Philosophy

This involves the visionary thinking process adopted by MI's Board and Management, to facilitate stakeholder value creation in our business journey. Decision making is driven by a collaborated thinking process which involves the efficient management of our capitals, to meet various expectations of stakeholders by the creation of value over time.

Value Creation

Value creation is a result of how we apply and leverage our capitals towards sound financial performance (Outcomes) and to generate both tangible and intangible value for the benefit of our stakeholders (Outcomes and outputs), while making trade-offs. Our value creation process is engraved in our corporate goals (page 10) and is a fundamental component of our integrated thinking and corporate planning process, and forms an integral part of our business model on pages 32 and 33.

Materiality

GRI | 102-48 and102 -49

We adopt the principles of materiality to analyse what information should be included in our integrated report. (Material matters highlighted on pages 50 to 55, influence the Company's strategy and prospects, and lays down the content to this report). This approach ensures that the report focuses only on the matters that are important to both Mercantile Investments and its key stakeholders, to understand how well the Company has progressed in terms of generating sustainable stakeholder value over the short, medium and long term. (Our Journey on pages 7 to 28 and page 46). No significant changes were observed to the scope, boundary, and reporting basis since the last reporting date of 31 March 2018 except for the changes identified in material topics from last year to this year (pages 50 to 55) and the application of the Sri Lanka Financial Reporting Standards SLFRS 9 (pages 340 to 342) in the financial statements. Restatements of opening balances have been carried out in accordance with SLFRS 9.

Reporting Protocols

GRI | 102-12, 102-54 and 102-56

Regulations and Frameworks

Our integrated reporting process and contents of this report are guided by the principles and requirements of the International Integrated Reporting framework, Sri Lankan Accounting standards (LKAS/ SLFRS), Central Bank of Sri Lanka's Corporate Governance Direction No. 03 of 2008 and related amendments and the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). Our report is also prepared in accordance with the "Comprehensive" option of the Global Reporting Initiative (GRI) Standards. MI being a listed and authorised Finance Company in Sri Lanka, has aligned its reporting to comply with the Colombo Stock Exchange (CSE) and Securities Exchange Commission (SEC) listing and disclosure requirements, the Sri Lankan Companies Act No 07 of 2007 and the Finance Business Act No 42 of 2011.

Assurance

We apply a combined assurance process to review and assure various areas of our business and reporting. This includes assurances provided by the MI Board and management, internal audit division and external assurance by the internal auditor's PriceWaterhouseCoopers and external auditors Ernst and Young Chartered Accountants, who also provide limited assurance on adherence to the regulator's corporate governance directions and selected sustainability information. Further, Fitch Rating Sri Lanka provided the Company's BBB- rating while Sri Lanka Climate Fund (Pvt) Ltd. provided the greenhouse gas emission status.

For additional information about the scope of the services performed by the respective external assurance providers, and their findings, refer to the following:

Area assured	External Assurance Party	External Assurance Reports/ Certifications/ Assurance statements
The Audited Financial Statements	Messrs. Ernst and Young, Chartered Accountants	Audit Report (Pages 275 to 277)
Sustainability Reporting	Messrs. Ernst and Young , Chartered Accountants	Limited Sustainability Assurance Report (Page 154)
Greenhouse gas emission extent	Sri Lanka Climate Fund (Pvt) Ltd.	Greenhouse Gas Emission Certificate (Page 144)
Compliance with Central Bank Corporate Governance Directions	Messrs. Ernst and Young, Chartered Accountants	Assurance Statement on Corporate Governance Direction Compliance (Page 233)
Directors' Statement on Internal Controls Accuracy	Messrs. Ernst and Young, Chartered Accountants	Limited Assurance Report (Page 274)

Navigation Through the Book

Our report this year has been structured under five separate sections called “Our Journey”, “Management Discussion and Analysis”, “Stewardship”, “Financial Reports” and “Supplementary Information”. These main sections and their subsections have been depicted with page number reference as follows for the reader’s easy navigation.

Navigation Icons

Capitals Utilised

Our current and future success as a finance company and our ability to create long term value are connected and are materially dependent on the six forms of capital available to us (Inputs – given below), how we utilise them (Refer Capital Management pages 56 to 106 and resource distribution pages 44 to 45), our impacts on them and the value we deliver (Refer Impact Report pages 125 to 147 and outputs and outcomes in our business model pages 32 to 33).

	Financial Wealth: Shareholders' equity and funding received from clients and borrowings obtained from Banks and financial intermediaries that are used to support our business.
	Alliances: The valued strong corporate relationships and the bonds we have with our stakeholders, and with communities in which we operate as a business and the financial system, and the role that we play as a responsible corporate citizen to build a sustainable society.
	Human Strength: The combination of our culture, and the individual as well as collective workforce skills and experience that enable us to deliver our solutions in a competitive manner to the satisfaction of our clients.
	Intellect: The MI brand, our accumulated know-how and gained reputation thus far.
	Infrastructure: The business structure, our products and the operational processes in place, together with the physical infrastructure and the information technology which provides an effective platform and system of how we do business and create value.
	Nature: The utilisation of natural resources in business and the resultant impact on scarce resources and the wider environment, occurring due to our business operations and activities.

Business Segments

	Lending Business Segment: Our core business of granting credit to our borrowers
	Investments Segment: Placing of money in financial instruments to obtain a specified return either as interest, dividends or capital appreciation
	Insurance Segment: Insurance referral services provided by the Company as an ancillary supporting service to our vehicle backed lending clients
	Workshop Segment: Motor vehicle repair services that support our motor backed lending, own motor fleet and outside clients

Stakeholders

	Shareholders: Our equity providers
	Staff: Our permanent and probationary employees
	Clients: Our credit and other customers, depositors, suppliers, business partners and lending Institutions such as banks and financial intermediaries
	Regulators: The Central Bank of Sri Lanka, the Colombo Stock Exchange, the Department of Inland Revenue and other similar regulatory bodies applicable to our industry
	Society: The local communities and the wider society we interact with

Availability of the Annual Report

In accordance with the prescribed period of notice under the Companies Act No. 07 of 2007, copies of the Annual Report have been circulated to all shareholders, prior to holding the Annual General Meeting. The report has also been 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 | 102-53

Contact point for comments or queries regarding this report;

Contact and Address

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

Board Approval for the Report

GRI | 102-32

The Board acknowledges its responsibility of ensuring the integrity of this integrated report, which in the opinion of the Board, addresses all the concerns that are material to the Company's ability to create sustainable value and reflects a fair presentation of the integrated performance of Mercantile Investments and Finance PLC. This report was approved by the Board of Directors of the Company on 19th June 2019.

On behalf of the Board;

Deva Anthony
Chief Financial Officer/
Senior General Manager

Shermal Jayasuriya
Finance Director

Our Journey

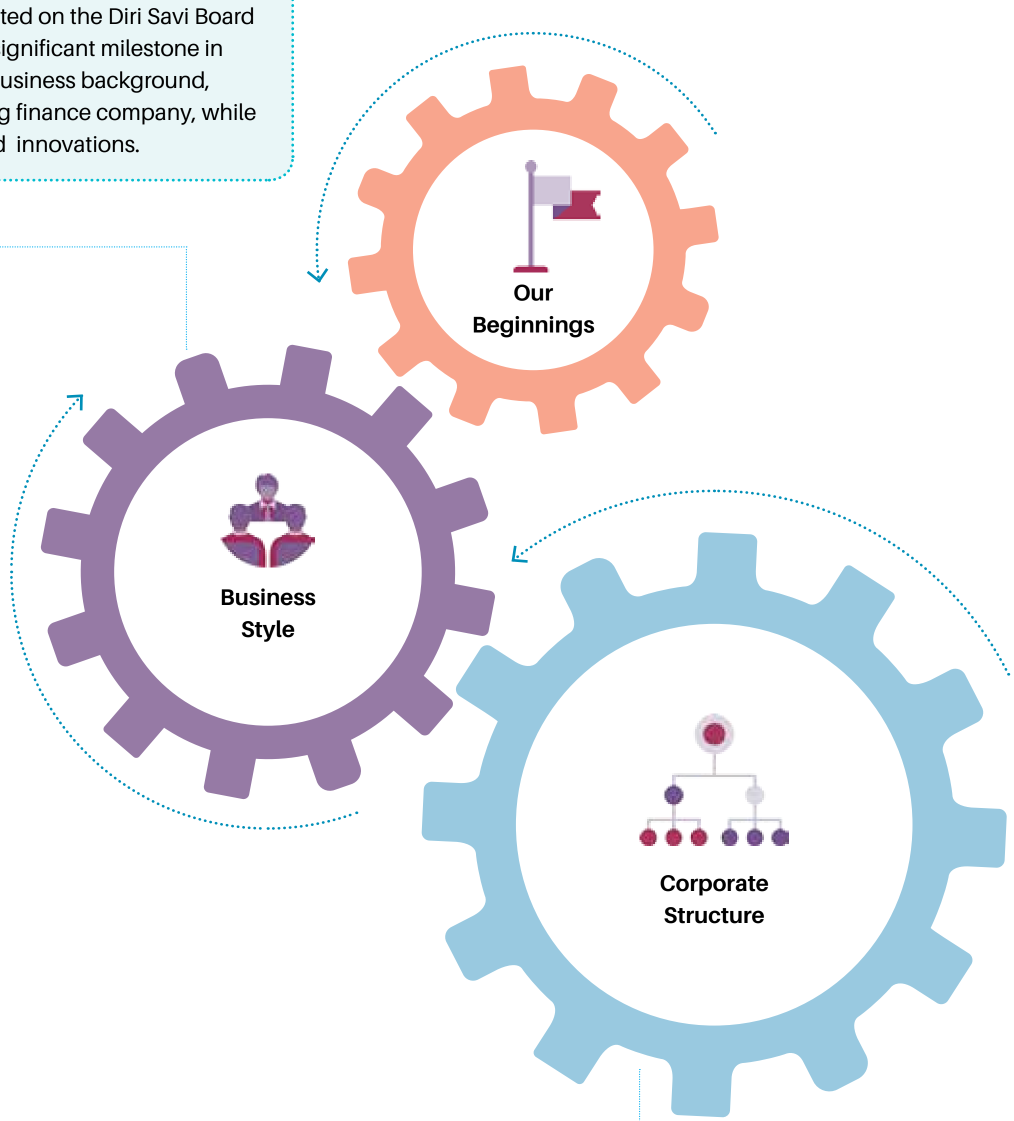
Journeying towards Aspirations

This main section gives a quick preamble to the Company's purpose and value statements, history, style of management and business frontiers. It provides information about MI's business and success over five decades, together with future plans and insights to showcase the journey we have travelled thus far and hope to pursue.

Main Section Index

How We Journeyed

Our history begins in 1964, a gradual journey towards a highly successful enterprise nurtured with the visionary leadership style of our late founder Chairman, George Ondaatjie, who catered to untapped market segments of the country through people friendly financial services, eventually making a significant contribution towards the Sri Lankan financial sector and economy. From the inception, our financial solutions, which include financing and deposit mobilisation, touched the hearts of many citizens by aiding them to fulfil their dreams and ambitions. In 2011, MI was listed on the Diri Savi Board of the Colombo Stock Exchange, marking another significant milestone in our journey. With this solid foundation and sound business background, today we stand strong among our peers as a leading finance company, while continuing to grow in market reach, technology and innovations.



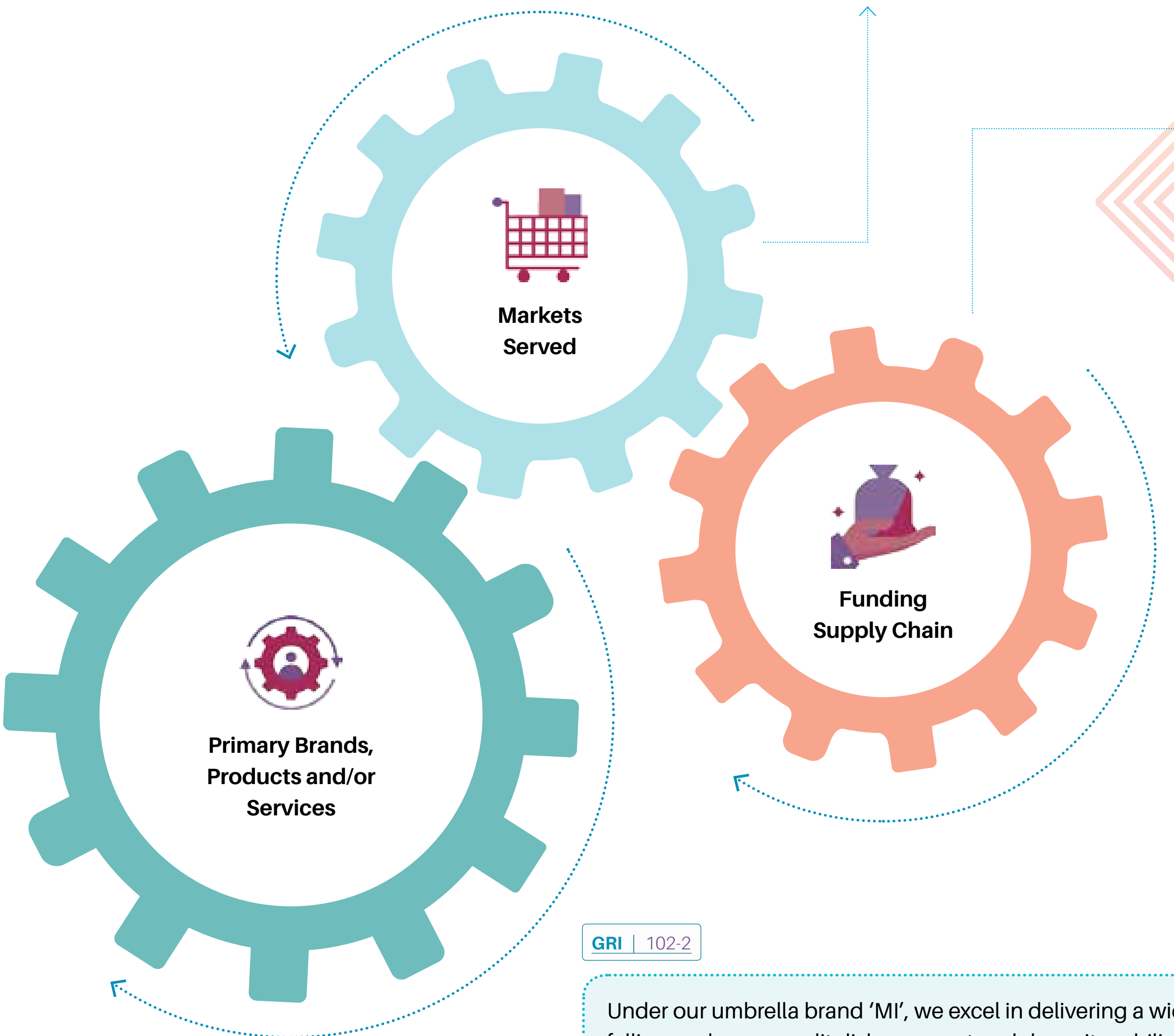
The MI Board and management have maintained a conservative business approach, but remains aggressive where potential lies. The way we govern business extends beyond financial means, towards sound corporate values, ethics and culture that forms a solid foundation for us to strike a balance between attaining financial and non-financial aspirations for our stakeholders. In doing this, our Board and senior management provide the visionary leadership at the top, setting the tone for all staff levels at all locations. As a result of our good governance practices, today, we have become a pioneer in setting market trends and a reputed finance company in the country that offers secure investment opportunities and financial support.

MI holds 26.12% of its associate, the Nuwara Eliya Hotels Company PLC, which is a quoted public company. MI's ownership is closely held by a few large investors and no parent-subsidiary relationship exists as at the balance sheet date. A clear organisation structure is in place within the company, delegating the authority and responsibility to the corporate management and their supporting staff.

Corporate Structure

GRI | 102-6

We expanded our geographical footprint by opening three new locations this year. Through Our presence in different locations, we present various financial solutions to people with diverse needs and aspirations. Our target market for all spheres of business comprise people from all strata of society and communities. (Refer Infrastructure section on page 98).



Our funding is sourced from investor capital, customer deposits and borrowings from banks and other reliable sources. We understand the significance of diversifying the funding options and do not materially depend on any single individual or corporate funding line. Except for new partnerships developed with funding providers this year, there were no material changes to the funding providers or to the funding mix.

GRI | 102-2

Under our umbrella brand 'MI', we excel in delivering a wide array of products, primarily falling under our credit disbursement and deposit mobilisation activities. With the aim of serving different market segments, we have diversified our lending products going beyond traditional lease financing to term-based lending, such as personal and corporate loans, pledge loans, property mortgage loans and microfinancing.

Deposit mobilisation is primarily driven by fixed deposits, while the proposed technological advancements that are planned would drive MI's savings portfolio and other services exponentially to a new level. (refer Business Segment Overview and Performance on pages 117 to 124).

Purpose, Vision, Mission, Values and Principles

GRI | 102-16

Purpose Statement

Creating meaningful value that exceeds peoples' expectations.

MI's Vision

To be a top of the mind financial service provider committed to excellence with a deep sense of corporate responsibility towards building of a sustainable nation.

MI's Mission

Deploying resources effectively to bring innovative financial solutions that will enrich our business partners, whilst assuring profitable investor returns by staying ahead in our sphere of business and going forth to create a sustainable future for our employees and society.

Our Sustainability Pledge

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

"As a corporate envisioning the building of a solid sustainable nation, we reoriented our thinking process and aligned our thinking towards commercial goals with wider people oriented economic, social and environmental goals. (UN Sustainability Development Goals).

By doing so, we gained a deeper understanding of people's, communities' and societal needs to support their wellbeing through our products and services, operations and corporate social initiatives."

SUSTAINABLE DEVELOPMENT GOALS

MI Products and Services

1 NO POVERTY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
13 CLIMATE ACTION
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

MI Operations

5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
10 REDUCED INEQUALITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

MI Corporate Social Initiatives

2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
6 CLEAN WATER AND SANITATION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
4 QUALITY EDUCATION
17 PARTNERSHIPS FOR THE GOALS
1 NO POVERTY
11 SUSTAINABLE CITIES AND COMMUNITIES

In the route to our vision, we uphold
Our Principles

- Fulfil our customer needs beyond expectations
- Create lasting and positive impressions in our people
- Deliver a world class customer service at all levels
- Ensure business practices complement our core values

This journey emphasises on generating value to **Our Key Stakeholders**, through which we expect to reach our visionary destinations

- Shareholders
- Clients
- Staff
- Society
- Regulators

Our Values

- **Empathetic:** Proactively being sensitive to customer expectations
- **Respect:** Recognising and encouraging employee efforts with acknowledgement and reassurance
- **Collaborative:** Collective and united team efforts in any aspect of work
- **Integrity:** Uncompromisingly standing up for what is right
- **Prudence:** Creating value for stakeholders in all aspects by being conscious of costs and revenues
- **Competitive:** Being fair but aggressive in competition
- **Ethical:** Being socially responsible and ensuring all actions are ethical
- **Friendly:** The " Friendly Specialist" in Finance, bringing happiness through financial solutions and superior service

Reflecting Moments in Our Profound Journey

We can reflect back proudly with many memorable moments that made our journey profound. For us, our journey continues with vigour towards our much broader aspirations and is looked at as the past, present and future. Accordingly, we highlight these three phases, reflecting our upward trajectory in total assets growth, revenue and accumulating shareholder wealth whilst taking a moment to acknowledge some of the efforts that contributed to our successful journey.

Rs. Billion

50 — 40 — 30 — 20 — 10 — 0 —

1964 | 1970 | 1980 | 1990 | 2000

1964 Established

1964
Establishment of MI by our founder late George Ondaatjie

1968
Established Mercantile Motors

Mercantile Investments and Finance PLC

1989
Launched the MI logo

1993
Moving to our current Head Office Colombo 03 premises

2004
Late founder George Ondaatjie launched the first MI branch at Negombo

2008
Extended services to Sabaragamuwa

2009
Expanded to Southern Province

Sri Lankan Economic Milestones/ Events					
	Adoption of nationalisation policies	Adoption of open market and liberalisation policies in 1977	1983 start of the civil war in Sri Lanka	1995 Sri Lanka became world largest tea exporter with a 23% share of global tea exports	Tsunami disaster in 2004 2009 end of the civil war in Sri Lanka

2010

2012
Listed on the Dirisavi Board of CSE

2015

2015
Established the Micro Finance unit

2020

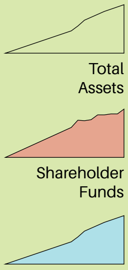
Projected upward growth trajectory

Future Expectations

- Anticipated returns from technology and digitisation
- Development of a highly geared productive workforce
- Product Innovation
- Total assets to grow above Rs. 50 Billion and revenue to surpass Rs. 10 Billion mark
- Reduce carbon footprint towards carbon neutrality

2017
MI was placed within Sri Lanka's top 25 best companies to work for by the Great Place to Work Institute.

Became a catalyst in building sustainable communities, nature and wildlife conservation



Continuously recognised for corporate reporting

Expanded our presence to 39 locations with three new branch openings in 2018/19

2014
Reached 50 successful years in business

Post-war development era of Sri Lanka

Political transformation led changing macro-economic landscape

Anticipated economic resurgence and political stability

Financial Highlights

GRI | 102-7

For the year ended 31 March	Achievement			Financial Goals	
	Actuals 2019 Rs.'000	Actuals 2018 Rs.'000	Change %	Budgeted 2019 Rs.Million	Forecasted 2019/20** Rs.Million
Financial Wealth					
Results for the year					
Gross Income	7,638,497	6,984,093	9.37	> 7,500	> 9,000
Interest Income	7,436,054	6,564,038	13.28	> 7,400	> 8,800
Interest Expenses	3,861,878	3,703,776	4.27	< 3,800	< 4,800
Profit before Tax	786,653	858,771	(8.40)	> 900	> 1,000
Provision for Taxation	328,580	344,706	(4.68)	< 400	< 550
Profit after Tax	458,073	514,065	(10.89)	> 600	> 700
Financial Position at the year end					
Shareholders' Funds (Stated Capital and Reserves)	8,672,864	8,683,087	(0.12)	> 8,900	> 9,200
Deposits from Customers	21,176,433	20,073,010	5.50	> 21,000	> 25,000
Loans & Advances, Leases and Hire Purchases (Gross)	34,204,719	33,149,318	3.18	> 32,000	> 38,000
Total Assets	41,354,565	40,355,948	2.47	> 42,000	> 48,000
Investors					
Gross Dividend	-	45,090	(100.00)	> 50	> 50
Earnings per Share (Rs.)	152.39	171.01	(10.89)	> 180	> 200
Dividends per Share (Rs.)	-	15.00	(100.00)	> 15	> 15
Net Assets per Share (Rs.)	2,885	2,889	(0.11)	> 2,900	> 3,000
Ratios					
Return on Shareholders' Funds (%)	5.28	5.92	(0.64)	> 10	> 10
Return on Average Assets (%)	1.12	1.32	(0.20)	> 2	> 2
Interest Cover (Times)	1.20	1.24	(0.04)	> 1.5	> 1.5
Dividend Cover (Times)	-	11.40	(11.40)	>10	>12
Equity: Assets (%)	20.97	21.52	(0.54)	> 25	> 25
Debt: Equity (Times)	3.50	3.42	0.08	<3.5	< 3.5
Dividend Payout Ratio (%)	0.00	8.77	(8.77)	> 4	> 4
P/E Ratio (Times)	16.93	15.09	1.84	> 15	> 15
Non-Performing Loans Ratio (%)	9.62	7.58	2.04	< 6	< 6
Total Asset Growth (%)	2.47	7.64	(5.16)	>10	>10
Advance Growth (Gross) (%)	3.18	12.04	(8.85)	> 10	> 15
Deposit Growth (%)	5.50	17.95	(12.46)	> 10	> 15
Operating Profit Margin (%)	9.25	11.22	(1.97)	> 10	> 15
Value Added per Employee (Rs. '000)	7,421	7,444	(0.31)	> 7,500	> 7,500
Interest Spread (%)	8.02	7.33	0.69	> 8	> 8
Net Interest Margin (%)	10.04	8.76	1.28	> 10	> 10
Statutory Ratios					
Liquid Assets (%)	14.77	11.4	3.37	> 12	> 12
Core Capital Ratio (%) - Minimum Required 6%	14.98*	16.24	(1.26)	>15	>15
Total Risk Weighted Capital Ratio (%) - Minimum Required 10%	16.69*	17.36	(0.67)	>17	>17

** Calculation was based on the new capital adequacy framework issued by CBSL w.e.f. 1st July 2018.*

*** In keeping to the next three year corporate plan approved by the Board in March 2019.*

Rs. 7.6 Billion
Gross Income grew by 9%

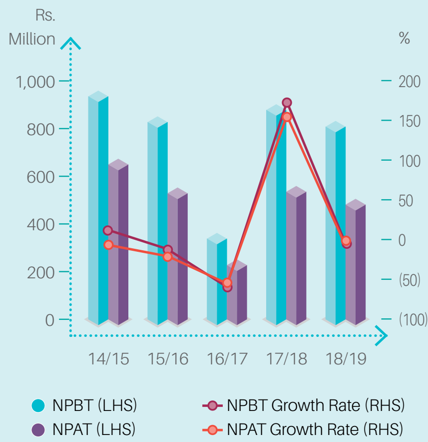
Rs. 3.6 Billion
Net Interest Income grew by
25%

Rs. 41.4 Billion
Total Assets grew by 2.5%

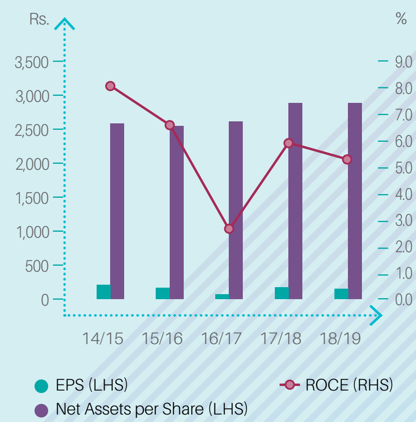
Core Capital Ratio
14.98% (Minimum 6%)

Total Risk Weighted Capital Ratio
16.69% (Minimum 10%)

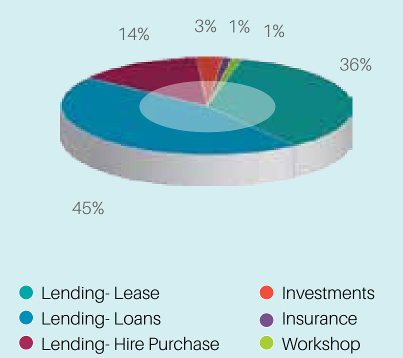
Profitability



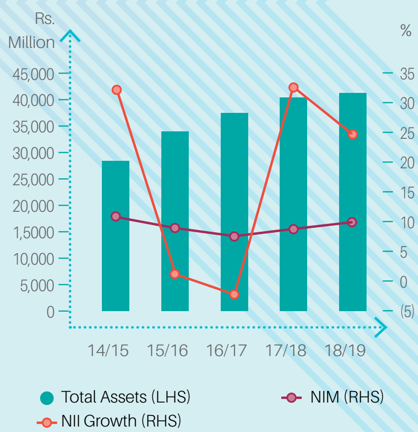
ROCE, EPS and NAPS



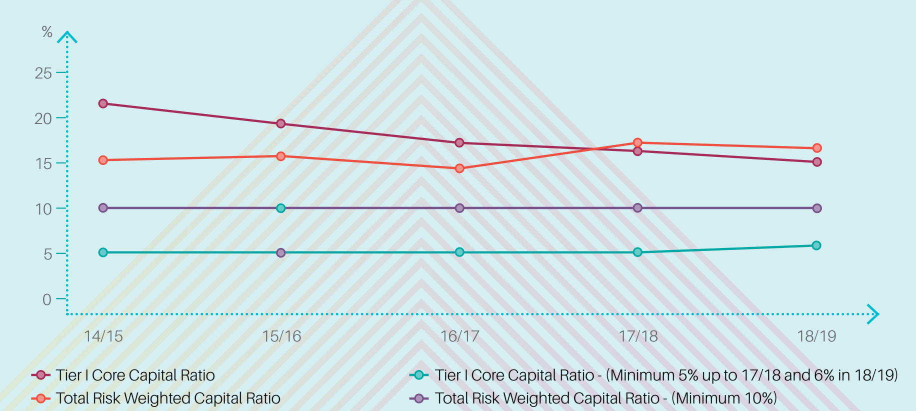
Segment Revenue 2018/19



Total Assets, NII and NIM



Capital Adequacy



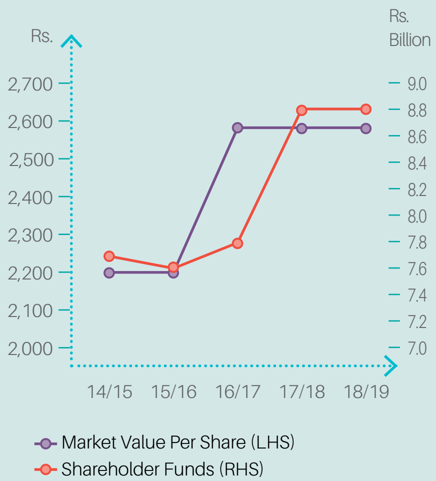
Operational Highlights

GRI | 102-7

GRI Standard		2019	2018	Variance
	Alliances			
413-1	Total clientele	>65,000	> 60,000	Approx. 8%
413-1	New customers (Number)	>25,000	> 25,000	No significant change
	New products/ product variants launched(Number)	3	-	3 new products
204-1	Percentage of purchases from suppliers: Head office, Colombo (%)	55	58	(3%)
	Other locations of Sri Lanka (%)	45	42	(3%)
419-1	Significant fines for product/service (Rs. '000)	-	-	-
413-1	Number of CSR Beneficiaries	113	1,958	(94%)
205-2	Training on anti money laundering (number)	80	131	(39%)
419-1	Significant fines for violation of laws/regulations (Rs. Million)	-	-	-
413-1	Community Investment cost (Rs. '000)	2,351	3,586	(34%)
413-1	Staff volunteered time on CSR (hours)	447	518	(14%)
	Human Strength			
102-8	Total workforce (Number)	1,040	951	9%
102-8	Female Representation (%)	20	16	4%
401-1	Recruitments for the year (Number)	436	321	36%
202-2	Local hiring of senior managers (%)	88	89	(1%)
401-1	Attrition rate (%)	35	26	9%
401-3	Retention rate after parental leave (%)	67	67	0%
403-2	Number of injuries	11	5	120%
403-2	Number of lost days	257	115	123%
403-2	Absenteeism in days	32	70	(54%)
404-1	Training hours per participant as an average (Hours)	9.9	7.5	32%
404-3	Employee performance appraisal as a percentage of total workforce (%)	65	85	(23%)
103-2	Employee grievances reported and resolved (Number)	-	3	(100%)
201-3	Employee benefit liability- (Rs. '000)	238,114	183,477	30%
	Intellect			
	Brand Expenditure (Rs. Million)	103	68	51%
	Market Share (%)	2.90%	2.90%	0%
	Infrastructure			
201-1	Number of new business locations launched	3	-	3 branches
	Investment in fixed assets (Rs. Million)	258	89	190%
	Investment in IT (Invested/ to be invested in Rs. Million)	>6	>50	(88%)
	Nature			
302-1	Electricity consumption (KWh)	1,352,395	1,365,581	(1%)
	Electricity consumption in value (Rs. '000)	34,834	35,622	(2%)
302-1	Total fuel usage (Liters)	979,426	903,144	8%
	Fuel Costs (Rs. '000)	94,103	77,253	22%
303-1	Water consumption (Units)	12,325	14,692	(16%)
	Water consumption in Value (Rs. '000)	3,620	3,493	4%
306-2	Paper recycling (Kg)	1,394	1,126	24%
307-1	Significant environmental fines (Rs. '000)	-	-	-
	Environment protection expenditure (Rs. '000)	1,293	1,661	(22%)
305-1, 305-3	Total Carbon footprint (Tonnes)	3,168	3,132	1%

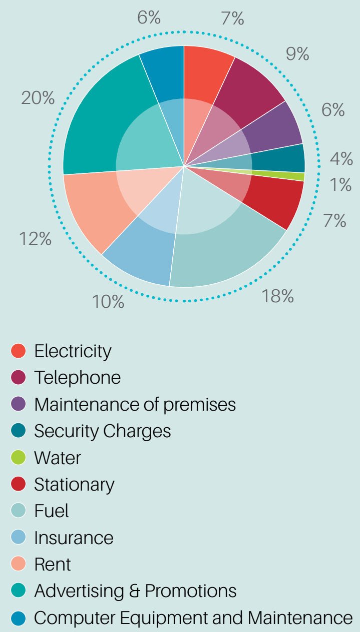
Value Created Towards the Investors

Investor Returns



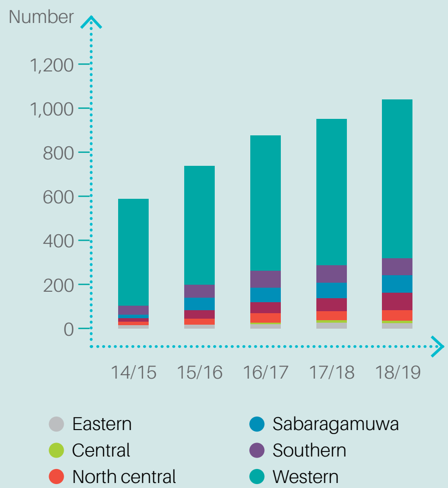
Value Created Towards the Clients

Spending on Suppliers



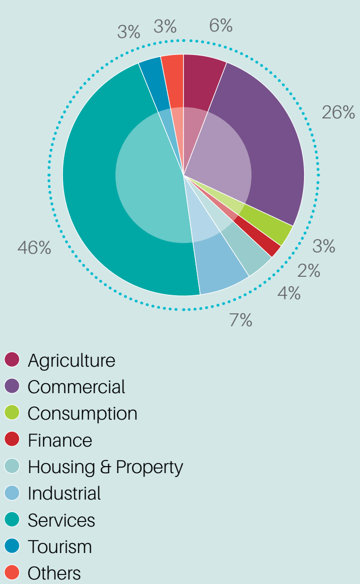
Value Created Towards the Staff

Employment Creation



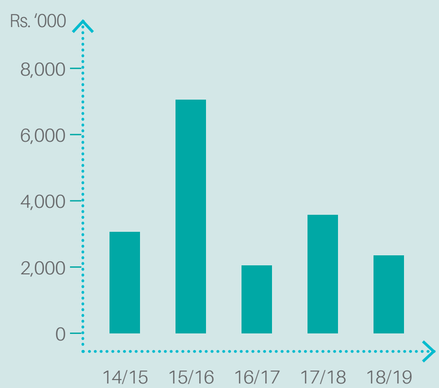
Value Created Towards the Economy

Credit Support to Various Sectors



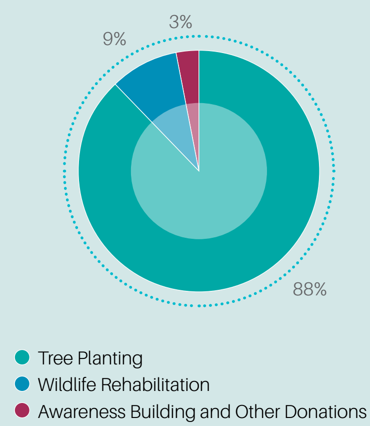
Value Created Towards the Society

Community Investment



Value Created Towards the Environment

Environmental Volunteerism



OUR JOURNEY'S MILESTONES 2018/19

July 2018

MI's Annual Report was recognised amongst the top 10 best integrated Annual Reports produced in 2018, by the CMA Institute

Quarter 1 | Quarter 2 | Quarter 3

April 2018

Launched a fully fledged staff performance management system

December 2018

MI's Annual Report won the 'All Island bronze award' for the best business model in Integrated Reporting and the silver award in Finance company sector at the CA Sri Lanka awards 2018

March 2019

The Company expanded its operations with three new branches opened in Ja-ela , Puttlam and Malabe

March 2019

Planting of 500 trees along the Southern Expressway with the participation of staff and the Road Development Authority.

Quarter 4

January 2019

With the participation of the Directors and Corporate Management, devised the next three year strategic plan for the financial periods of 2019/20 to 2021/22 for the company.

March 2019

MI engaged with an external IT solution provider to implement industry best practices in technology and information systems.

Chairman's Message

GRI | 102-14

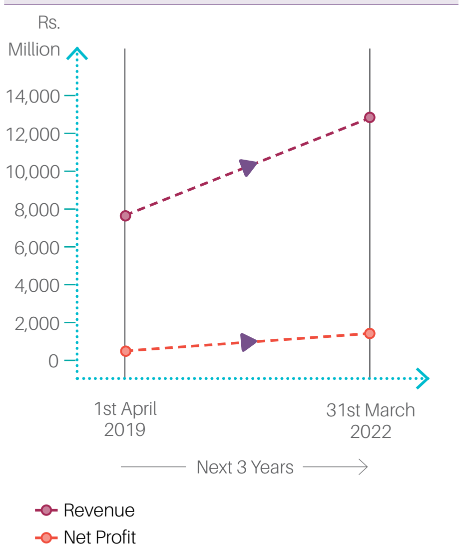
"We continued our focus on enriching various facets of our core business, making timely strategic revisions to our plans to manoeuvre and stay on course when the industry and the macro-economic environment showed constant volatility."

My Dear Stakeholders,

Despite somewhat challenging business conditions, I am pleased to announce yet another noteworthy year of sound performance for Mercantile Investments (MI). Though profitability remained below targeted levels, efforts in creating greater regional presence and the strategic focus towards consolidating business across the branch network, augured well in reaching out to a much wider market spectrum, boosting core revenue commendably.

In keeping to the revised three year corporate plan, we continued our focus on enriching various facets of our core business, making timely strategic revisions to our plans to manoeuvre and stay on course when the industry and the macro-economic environment showed constant volatility. While branch expansion remained minimal this year, greater investment was made in building workforce capabilities and planting the seed for advanced technology to improve operational performance, re-shaping how we do business in future with increased flexibility and effectiveness.

Sustainable Growth Trajectory



Though we pursued our aspirations with a clear plan and commitment, changing industry dynamics and the volatility stemming from the macro-economic front, slowed our progress somewhat.

Industry Fundamentals

The sluggish vehicle sales market, which remained somewhat hampered due to the continued high import duty, was further impacted by more stringent government credit policy measures being imposed on the sector this year. The Loan-to-Value ratio maximum percentages introduced on various vehicle categories and the imposition of a 200% margin to import motor vehicles decelerated demand somewhat for vehicle trade financing. Furthermore, the Leasing Finance Credit sector as a whole witnessed deterioration in collections from borrowers, mainly on account of economic volatility and political instability arising during the latter part of the year.

While interest rates moved up and remained high on account of the tight government monetary policy stance exercised to restrict credit growth, the sector's average credit growth slowed further to 7.6%, having already fallen below the 10% in December 2017. Towards the end of the year, market liquidity levels remained contracted, fuelled by increased government borrowings and the volatile political climate which impacted investor sentiments.

From October 2018, the imposition of a Debt Service Levy of 7% on value addition was a further burden, resulting in the sector's effective tax rates staying significantly high at above 50%. Though this burdened the industry bottom line, the sector contribution towards national revenue and employment creation and resultant positive effect on national development continued to expand.

In spite of the said challenges, the finance company sector outlook remained positive during the period under review, fuelled by the on going economic development activity taking place and its cascading effect propelling demand for credit and investment options. The pick-up witnessed in specific industries, like the services and the construction sector, continued to have a resounding impact on finance industry product demand.

Financial Results

MI's total revenue stood at Rs. 7,638 million, up steadily by 9%, above the Industry average growth levels of 5%, keeping MI's revenue based market share secured at 3% similar to the targeted levels. However, against the backdrop of the said challenging business conditions, total assets advanced relatively slower at 2% when compared to the past five years average growth of 14%, and amounted to Rs. 41,354 million, held back by the constricted loan growth this year.

We were unable to maintain anticipated Post Tax Profits to enhance investor wealth due to high impairment charges and taxation, though I am pleased to announce a satisfying Net Profit Before Tax (NPBT) of Rs 787 million, and a Net Profit After Tax (NPAT) of Rs. 458 million, which reflects an 8% and 11% year-on-year respective decrease for the period under review. Though core margins improved by 10% from a year before, increased impairment charges totalling Rs. 682 million, put off chances of reaching much higher optimistic profitability targets. As a result, the Return on Capital Employed (ROCE) stood lower at 5.2%, behind projected above 10% levels.

In the backdrop of the rising market interest rates and the repricing effect taking place due to the short term nature of the deposit base, funding cost for the company escalated by 4% year-on-year. At the same time, owing to the tight market liquidity conditions during the latter half of the year, the deposit base growth remained moderate at 5 %, amounting to Rs. 21,099 million while total borrowings obtained, declined by 5% to Rs 9,143 million.

Operational expansion, which includes the investment in human resource development, combined with the annual inflationary effects, drove overhead costs upward by 11% year-on-year. Personnel costs being the main expenditure went up by 9% on account of salary revisions, performance-based rewards and the increased training budget, from the year before.

Business Segment Performance

Lending Business Segment

The gross lending book expanded marginally by 3% to Rs. 34,204 million held back by the explained macro-economic credit policy restrictions, aggravated further by the rising trajectory of market interest rates and the over 20% devaluation in the Sri Lankan rupee impacting vehicle costs leading to reduced demand for vehicle based credit. The deteriorating economic conditions and creditworthiness of specific borrowers too, compelled us to lend conservatively towards certain lending products and sectors deemed riskier.

However, in contrast to marginal loan book growth, total interest Income from the lending business segment rose commendably by 13% and stood at Rs 7,243 million, propelled by the sound yields derived through the traditional lease financing portfolio and higher yielding term based lending, the portfolios of which grew by 6% and 9% respectively. However, the average yields reduced moderately in the backdrop of the competitive market rates offered and due to the 35% micro finance interest rate ceiling introduced by the government, to relieve drought affected micro borrowers during the latter part of the year. The relatively modest lending yields enjoyed coupled with the increase in funding costs kept core business spreads at 8%, up 10% from a year before.

Other Segments

Other key segments showed encouraging results with the treasury based investment segment recording a Rs. 192 million in revenue, which include interest income derived from government securities, increasing by 10%, while in contrast the equity investment returns from dividends declined by 31% and moreover, the sluggish performance of the stock market led to no realised equity gains being enjoyed unlike previous period (FY 2017/18 – Rs. 219 million).

By referring insurance business of lending clients, MI's Insurance commission income stood at Rs. 94 million this year, reflecting a marginal 6% increase from a year before. In contrast, the workshop service and repair unit recorded a revenue decline of 3% year-on-year with total revenue at Rs. 72 million.

Gearing Staff for Future

As consolidation of business took precedence over expansion this year, net increase in staff cadre stood at 89, up by 9% year-on year which resulted in MI's staff strength going beyond the 1000 mark. Moreover, emphasis was placed on enhancing staff skills and all round knowledge through training and development, to gear staff for future industry sophistication and challenges. In house training sessions were primarily geared in boosting leadership qualities of senior staff and also focused on soft skills development, mainly targeting the frontline staff. These efforts and the increase in external training sessions attended by back office staff, revolving mainly around technical topics, increased total training hours per employee from 7.8 to 9.9 in just 12 months.

The human resource department itself was significantly strengthened to provide the necessary platform for effective human resource management to meet increasing demands. We obtained the expertise of an external HR consultancy firm to enhance our Staff Performance Management system, aligning staffs work duties, required competencies and behavioural expectations with MI's vision, mission and values system.

Moreover, the implementation of a comprehensive human resource policy, effective from the concluded financial year, and the efforts to enhance employee standards and skills, I believe, have set the tone towards building a contented, productive workforce well-geared for the future. Structural changes were also proposed to take effect from the new financial year, especially to enhance credit and operations oversight.

Extra security measures were taken by the company, in order to protect employees and customers arriving to head office and branches, considering the security threats and the prevailing security situation of the country.

Community Engagement

By deploying resources to key regional hubs, and extending our service through an expanding vibrant product range, we managed to broad our client base commendably above 65,000 clients. The increased reach helped us to serve those beyond the Western Province, in the remotest areas to meet their financial requirements. Through small ticket lending from our micro financing unit, we continued to empower less privileged women improve their lives and livelihoods, helping them to pursue their entrepreneurial aspirations. Moreover, our core business of lease financing and term based lending, combined with the branch deposit mobilisation campaigns significantly helped us build strong bonds with people across various strata of society with new relationships.

In keeping with our aspirations of building a sustainable society, the social support extended to the poor and the needy, through the non-commercial initiatives of the Sustainability Governance Committee too, were quite noteworthy. The special sessions organised in December 2018, jointly with the Sahanaya team, to help over 40 individuals in rehabilitation at the Gampaha drug addicts rehabilitation centre, was one such worthy community engagement, carried out during this phase.

A Robust Governance Framework

The Board and I remained committed towards upholding and further strengthening the existing governance framework, with special focus on enhancing risk management systems, in the light of market volatility. We continued to comply with the regulator's corporate governance requirements and voluntarily embraced the Chartered Accountants of Sri Lanka Corporate Governance Guidelines issued in December 2017. Considering the rapid changes observed in the industry and market conditions, we emphasised stringent credit evaluation measures for higher risk credit businesses, and expanded the role of risk management, prior to specific credit disbursements.

The Compliance Unit in coordination with key business divisions of lending and deposits introduced a comprehensive Customer Protection Framework, in keeping to the regulator instructions.

As people being the driving force in pursuing our long term aspirations, we invested significantly in human resource development, whilst enhancing the HR policy as a means of gearing human capital towards future business challenges. As trustees of depositor money, we expect utmost diligence and ethical behaviour from our workforce at all times, through these initiatives.

In Remembrance of the Founder Chairman

We would like to take a moment to recognise and honour our founder Chairman, Deshabandu George Lawrence Ondaatjie, upon his demise this year. As the founder and Chairman, his unparalleled efforts and guidance since 1964 has made Mercantile Investments a strong and stable financial institution in the Industry. The foundation that he laid is embedded in MI's ethos and ideologies and is reflected in the vision and aspirations of the organisation and its leadership.

Business Outlook

Prevailing security concerns since Easter Sunday tragedy and the economic uncertainty will remain a huge challenge for the new financial year, especially with the imminent elections. In the midst of national debt repayments falling due in the short term, and the recent national rating downgrade, will continue to pose challenges for the economy. Headwinds predicted in the immediate future with the recent terrorist threats to the country will be a catalyst to the downfall of tourism industry at least in the short term, which will have a direct effect on rupee value and a cascading impact on other interlinked industries. Until the nation's foreign reserves improve with greater Foreign Direct Investments, we can expect the rupee devaluation to continue, adding further pressure on domestic economic fundamentals. We can expect the tight monetary policy to continue in the short term with interest rates remaining on the high side, while credit expansion will remain flat at current levels.

Inflation is expected to remain at lower single digit levels with the recent easing of world oil prices and the government's effective inflation management. National level developments and the ongoing, as well as planned large scale ventures taking shape, such as the Port City Project entering the next phase of development, is bound to offer opportunities for the business community. These national level initiatives are expected to stimulate the overall economy, which includes rejuvenation of underdeveloped regions, igniting fresh business opportunities for the Finance Industry.

The budget proposals of March 2019 is bound to bring mixed results for the Finance Company sector, which is saddled with additional tax outflows due to the Debt Service Levy introduced last year and the proposed significant increases in luxury vehicle taxes. However, the proposed exclusion of the 200% margin and the forward looking economic policy should provide the required impetus to the vehicle sales market, increasing demand for vehicle financing. I feel, to stay competitive and improve core margins, the industry will continue to rapidly move away from traditional lease financing towards greater term based lending, which should shift industry dynamics towards complexity.

In these challenging conditions, our continued focus on human resource development and technology enhancement will lend us the competitive edge and agility to remain in the forefront of the industry. I am confident that our increased presence and expanding operational capabilities will continue to afford our customers wider choices, thus paving the way for new business ties, while securing our existing clientele.

I am hopeful that we are well on course with our planned sustainable growth trajectory that will help us surpass the optimistic Rs. 10 billion-mark in gross revenue by 2022.

Appreciations and Concluding Remarks

I take this opportunity to thank my fellow members of the Board for their invaluable knowledge and guidance to the Board and members of the corporate management team to manoeuvre the company towards greater heights.

At the same time, I wish to recognise the contributions made by the MI team and their dedication towards achieving organisational goals. I thank the corporate management and their support staff for maintaining the required benchmarks in service excellence for all functional areas.

I also take this moment to thank the Governor, Deputy Governor, Director Non-Banking Supervision Department and to all staff at the Central Bank of Sri Lanka for their continued guidance and support.

I wish to also thank all our customers, agents and other business partners, for their continued loyalty. You have remained with us as your trusted partner, all this time. We are inspired by your trust and will continue to uphold best practices to enrich our valued stakeholders.

My gratitude is finally extended to our long standing investors, who have placed immense faith in the Board in both good and challenging times. As the Chairman, I wish to reassure you that Mercantile Investments is geared to pursue future aspirations. Despite the imminent economic headwinds that we foresee in the immediate future, our continued investment in staff, technology and other facets will further solidify Mercantile Investments' standing, creating the path for future success, and to reach greater heights.

Saro Weerasuriya
Chairman

19th June 2019

Managing Director's Review

"We were able to maximise customer satisfaction by affording broader options and tailored financial solutions that suit a wide array of our customer needs, and also by making it easier to do business at branch level."

The Company posted noteworthy progress in the year under review, despite challenging industry conditions. In spite of the economic headwinds, key business segments were reinforced by enhancing effectiveness of processes with the support of technology solutions and nurturing the workforce towards greater efficiencies. We maximised our expanding branch network to attract new customers and at the same time emphasised customer retention by training both front line and back office staff across the branch network.

Increased emphasis on the decentralising of operations and focused brand development, helped build customer loyalty. This supported the branch consolidation efforts, helping to create a strong regional presence across key hubs. We were able to maximise customer satisfaction by affording broader options and tailored financial solutions that suit a wide array of our customer needs, and also by making it easier to do business at branch level. Even under the challenging business conditions, these efforts bolstered core business revenues.

Economic Situation

For the Sri Lankan economy, 2018 was a challenging period due to uncertainty in the political climate and policy shifts of dominant global economies, which impacted Sri Lankan international trade. Foreign reserves depleted in managing liquidity in the market and government debt repayments. The rupee depreciated by almost 20% in the face of significant foreign outflows and two national level downgrades, pushing up cost of imports. These, and other underlying domestic factors, curbed external sector growth keeping the 2018 national real GDP growth at a modest 3.2%, below the previous calendar year's 3.4%.

In addition to the volatile economic conditions, Finance companies were subjected to further increased taxation with the introduction of a debt repayment levy of 7% on value addition. This increased the already high sector effective tax rate beyond 55%, adversely impacting the Industry's post tax profitability levels. The vehicle sales market remained flat due to heavy import tariffs and the rapid devaluation of the rupee by within a 12 month period, which caused vehicle import prices to soar. On top of these drawbacks, the maximum loan-to-value (LTV) limits imposed on various motor vehicle categories and the 200% margin requirements imposed during 2018, curtailed credit growth in the sector.

Whilst credit disbursements contracted, the challenging economic conditions also reduced repayment ability of borrowers. Hence, the industry asset quality declined during the year. The average industry non-performing loan levels stood above 7%, resulting in the industry having to bear higher impairment charges than last year.

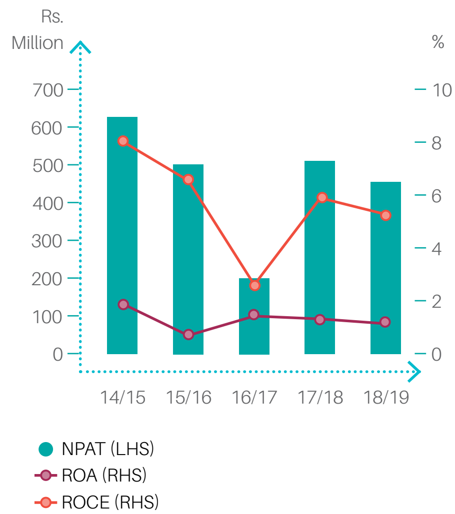
Despite these challenging conditions, the industry remained positive and resilient, capitalising on immerging business opportunities, moving boldly towards more non-traditional forms of lending and new, innovative business. The Industry as a whole continued to embrace technology for efficient cost effective financial solutions and customer convenience.

In this challenging backdrop, Mercantile Investments was receptive to market changes and took a proactive approach, taking steps to curtail immerging risks, whilst making necessary strategic manoeuvres towards longer term organisational goals and aspirations. Although industry competition was high, the Company ensured high standards in service excellence as a means of sustaining repeat business. As we continued to generate wealth for our investors, we kept our focus on achieving much broader national economic, social and environmental milestones, towards the well-being of the people of Sri Lanka.

Financial Performance

MI's financial results remained modest, impacted by the challenging market conditions with both pre and post-tax profits dipping from a year before and remained behind targeted. Net Profit Before Tax for the financial year 2018/19, stood at Rs. 787 million, down 8% year on year while Net Profit After Tax decreased by 11% to Rs. 458 million. Although we recorded a creditable gross revenue growth of 9% and a commendable net Interest Income growth of 25%, propelled by a steady 13% interest income growth mainly driven by lending revenue, the challenging industry conditions stifled demand for credit pegging back revenue growth prospects.

Earnings Performance



Volatile conditions combined with heightened industry competitiveness, kept both the gross loan book and deposit base growth at modest 3% and 5% respectively, behind MI's last three-year moving averages of 18% and 14% for the two portfolios. Lending book asset quality deteriorated from a year before with the gross non-performing lending (NPL) ratio moving up by 31% to 9.62%. However, a significant percentage of this NPL comprises a few large accounts, fully collateral backed by prime collateral. Prudential provisions made in the past two years for these accounts, kept the net of provision NPL ratio lower at 4.46% with the provision coverage ratio standing comfortably at 60%.

Additional impairment charges of Rs. 375 million was accounted to previous year profits to comply to the new SLFRS – 09 impairment "catch up" adjustments while credit deterioration significantly increased the impairment charges accounted to the income statement by 60% and amounted to Rs. 682 million.

In the back drop of the robust post tax profits and low asset growth, MI continued to maintain its strong prudential capital adequacy ratios well above the revised Tier 1 regulatory minimum limit of 6% and the total risk weighted capital ratio of 10%, at 14.98% and 16.69% respectively, further reaffirming the company's growing balance sheet capital strength and financial stability.

Segment Results

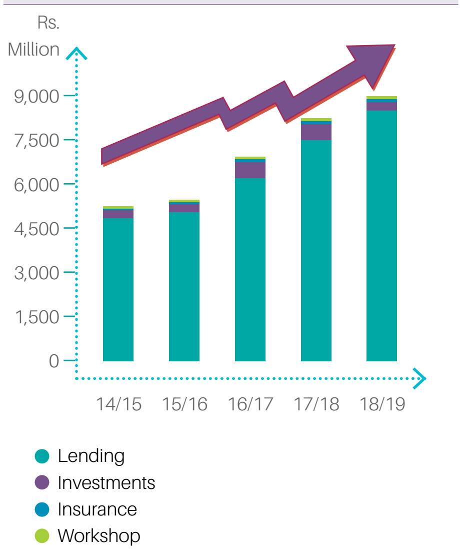
Lending Portfolio

The Loan to value restrictions on credit and the adverse impacts on vehicle prices due to higher duty costs and the significant devaluations of the rupee impacted this primary segment, with the loan book growth remaining marginal. Traditional lease financing revenue was up 23% with its net portfolio growth remaining satisfactory at 6%. Moreover, term based loans and receivables net portfolio growth remained the highest at 9% boosting related revenue by a pleasing 18% from a year before. In contrast, hire purchase revenue fell by 15% in the backdrop of a rapid drop in the net portfolio by 38%, with management's decision to curtail related business focus since the tax changes in 2015.

Taking a cautious approach to widening credit risk, we resorted to stringent credit review policies especially to manage non-traditional term based lending, which included property mortgage lending that declined marginally by 3%, personal loans which declined by 41% while vehicle backed loans showed an impressive increase of 42% year on year. Against the backdrop of weather disasters and government micro policy measures, MI's budding micro-financing business too was promoted with caution, resulting in a negative portfolio growth of 17% (2017/18 – 49% growth).

Increased island wide marketing efforts and management focus on maintaining sound average yields, particularly non-traditional business, helped us to sustain a steady lending revenue growth of 13%. The total interest income reached Rs. 7,243 million, out of which, 32% was derived from outside the western province. As a result of the increasing yields, we were able to maintain the Net Interest Margin above 10% which reflected a 15% upward movement from a year before.

Gross Segmental Revenue



Treasury Management

Efforts by the Treasury Department to optimise fund management played a pivotal role this year in securing fresh funding and in making attractive investments. With market liquidity remaining constricted for most of the year, we resorted to greater deposit mobilisation whilst curtailing borrowings which declined by 5% to Rs. 9,143 million. In keeping to the treasury strategy, Money market and short term borrowings remained the key borrowings, steeply rising by 83% to Rs. 4,219 million while long term borrowing declined by 32% to Rs. 4,924 million to bridge the less-than-one-year assets and liability mismatches.

From an investment standpoint, we recorded a 3% growth in interest income from government security investments and from deposits placed in banks to maintain statutory liquid assets and park excess funds. In the back drop of a sluggish stock market performance, no realised capital gains were made this year from equity investments compared to Rs. 219 million enjoyed last year. A total of Rs. 276 million was also charged to the Other Comprehensive Income Statement, to account for the fall in fair value of equity prices, in line with accounting standards.

Insurance Referral Services

For the convenience of our lending clients, we partnered with the Insurance brokering company to offer a speedy convenient service under one roof. Through the client referrals made, we received a total sum of Rs. 94 million as commission income, which reflected a marginal growth of 6% year-on-year, pegged back by the lower loan book growth.

Workshop Repair and Services

A total of 1,822 workshop repairs were carried out in the year under review,while vehicle servicing was modest at 1,577. Total workshop repair and servicing revenue totalled Rs. 72 million, which reflected a marginal decline of 3% from a year before. Although revenues increased, the extreme competitiveness of the vehicle repair and servicing market kept margins squeezed, thus adversely impacting the divisional bottom line which remained at breakeven levels.

Deposits Mobilisation

On the face of a highly competitive market and the environment for deposit mobilisation remaining highly price sensitive, deposit base growth slowed to 5%, lower than the previous period growth of 18% and the five year moving average growth of 15%. However, by the balance sheet date, we surpassed the Rs. 21 billion deposit base mark, by offering attractive returns and special rates through deposit drives executed during the last quarter of the financial year. Continuing to provide attractive returns and driving on MI's financial solidity, we managed to keep deposit retention levels at 74% and same time attracted new depositors during the year. The on-going deposit operation decentralisation improved lead times and afforded easy accessibility to our depositors, who were able to enjoy our legendary personalised service from our expanding branch network.

Governance for the Future

Being part of the industry transformation that is taking place, we understand the need for greater innovation, technology advancement, skills enhancement and adoption of effective processes. Therefore, the MI Board and the corporate management revisited corporate goals and strategies, laying the platform towards future excellence from various facets of our business, looking towards 2022 as the next major milestone. The Board maintained unwavering leadership, oversight and guidance to all business segments to meet both immediate corporate goals as well as setting the tone for future competitiveness and success.

After extensive evaluations of few external core IT systems, we tied up with a renowned IT services provider to migrate from the in-house tailor made system, to a new platform for selected core modules which is planned to be completed within the next financial year. We plan to rollout this migration to other key functions, once the first phase of the project is completed. The intention is to enhance IT capabilities to better serve our clientele and meet future information demands.

Equal emphasis was placed on nurturing human capital to improve productivity, in the light of increasing work demands and sophistication. Accordingly, our investment in training and development activities went up rapidly by 133% year-on-year, setting the tone for a more future oriented workforce. Through the Human Resource Department, a comprehensive HR Policy was introduced, backed by clear corporate procedures for effective people governance.

Outlook

The unexpected Easter Sunday events that unfolded and the security concerns immerging is bound to hamper the economy's progress unduly in the medium term. Further, as Sri Lankan politics head towards uncertainty with elections on the cards this year and in 2020, we can expect further headwinds against the economy. Though rapid deprecation of the rupee has reversed by a 4% appreciation within the first quarter of 2019, the impending high government debt repayments for the next few years and the slow pace nature of FDI inflows further aggregated by the security concerns is bound to lead to exchange rate and interest rate pressures. The tight monetary policy stance nonetheless will be eased to stimulate growth with downward interest rate trends. This easing will be further propelled by improving government revenues, from the on-going fiscal consolidation and effective fiscal management.

At least in the shorter term, the challenging economic conditions are bound to persist with the country moving to restabilize and tourism influx remaining lower. However, the outlook for the business community looks promising from a longer horizon. Apart from the improving international trade deals, the completion of the Colombo Port City project, as well as other large scale public and private ventures of high economic importance, will play a vital role in stimulating future economic activity. Though tourism would remain hampered, the on-going infrastructure development activities and the uptick in export market since post conflict times will be key platforms for the private sector to tap into new opportunities.

Despite the continued sluggishness of the vehicle sales market and the economic headwinds, the Licensed Finance Company (LFC) sector will remain resilient. As a financier offering a wide range of credit solutions, the industry will continue to capitalise on the progress of various other industries, ranging from construction industry to small and medium enterprises and individual start-ups. Growth in per capita income levels and savings of the public, will also fuel deposit mobilisation for LFCs. To sustain business volumes, technology and innovation will play a vital role in the LFC sector. To stay ahead of competition, the sector will expand its product lines, offering wider customer choices, tailor made, with a higher degree of convenience than before.

In this challenging phase, Mercantile Investments meanwhile, will stay focus on rolling-out the plans to complete the branch decentralisation, enabling a firmer grip on business beyond the western province. Technology upgrades and process rationalisations will allow our customers to enjoy much wider product choices and speedier payment platforms. The migration of our key IT modules to the new software system will facilitate the decentralisation process and will also reduce transaction times.

A Note of Thanks

I thank the staunch commitment displayed by the MI team towards the noteworthy performance of the Company during the year under review. My appreciation goes out to all staff members, for staying dedicated towards achieving each one's immediate goals, to eventually attain broader organisational targets.

I extend my gratitude to the Directors for their invaluable support and guidance towards me and the corporate management. Their advice continues to be an invaluable source of strength for the organisation's future success.

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

I would like to take a moment to thank our valued customers for selecting MI as their trusted business partner. The trust placed in us by you, continues to inspire us to strive for excellence. I also extend a word of thanks to our shareholders for their encouragement and faith in our Board and management.

Your Board will lead from the front, to create increasing stakeholder value and to maintain competitive advantage through business excellence. Building on our rich heritage and the solid foundation of human capital and technological capabilities that are being set forth, I am certain that MI will journey toward greater success in the years to come.

Gerard G. Ondaatjie
Managing Director

19th June 2019

Management Discussion and Analysis

Journeying in Stakeholder Value

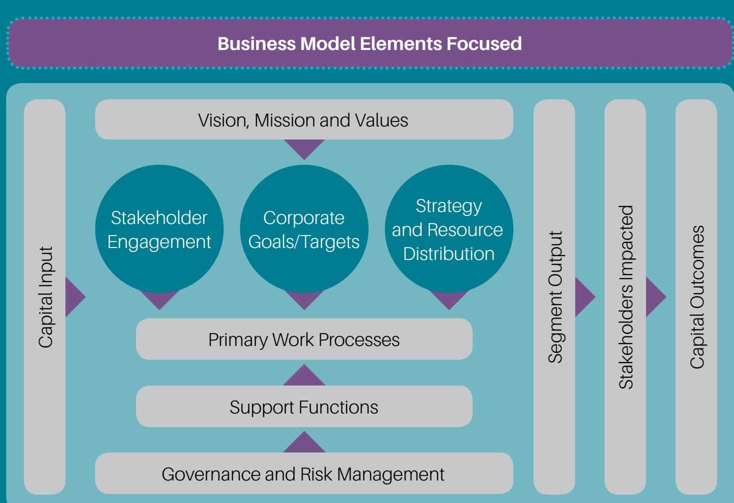
This section provides the reader a comprehensive commentary about how we created stakeholder value, strategy and the performance results achieved through our capital management efforts. As sub disclosure sections of this main section, we provide an overview of our value chain, key business segment results and our impacts on the wider economy, society and environment.

Main Section Index

Value Creation

This sub section takes the reader through MI's unique business model that transforms capitals to bring greater value to our stakeholders. Taking inputs from the stakeholder engagement process, we have provided commentary about the strategy adopted this year in gaining competitive advantage, reaching business excellence and eventually creating a wider systematic footprint.

The management approach taken towards material concerns and the resultant value transformation that takes place is explained through a step-by-step strategic process bringing context to all other sections of the Annual Report.



Sub Section Index

How We Create Stakeholder Value

MI is one of the most trusted finance companies in Sri Lanka, holding a strong position in the industry for more than five decades. Today we operate from seven provinces across the country, employing over 1,000 employees committed towards creating wider value for the people, the economy and the environment.

Whilst promising consistent and sustainable returns to our investors, we have always been a source of strength for our customers who have sought our assistance in meeting their financial needs. We build trusted relationships through our strong engagement with them and our broad expertise across our products and business operations. Beyond value to our investors and clients as an employer and taxpayer, as well as through various corporate social initiatives, we strive to contribute to the country's economic, social and environmental well-being.

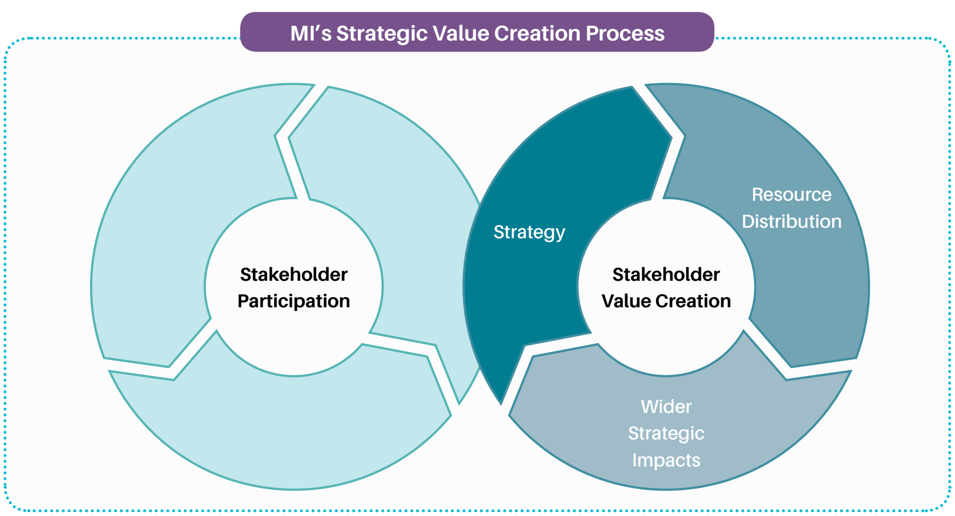
Our business model depicted in the next two pages encapsulates our vision, mission and corporate strategy, well-integrated and geared towards fulfilling our corporate goals and wider responsibilities and influenced by trends and challenges in our business environment as well as stakeholder expectations. We have a well-defined strategic process (refer pages 31 to 34) which facilitates strategy formulation (refer page 34) to pursue our short-, medium- and long-term corporate objectives (refer pages 35 to 44).

We depend on a number of resources in the form of capitals which include financial wealth, infrastructure, a skilled and diverse workforce, our brand strength, ability to innovate, initiate and adopt change, good relationships with our clients and society and a favourable natural environment. These resources are routed through various business activities which enable us to generate revenue from our four business segments (refer Service Value Chain Report pages 107 to 124). Our strategy aligned to our business activities transforms those resources into business results and impacts (refer Capital Management Report pages 56 to 106 and Impact Management Report pages 125 to 147), which we call "value" that is sustainable with longevity.

Strategic Value Creation Process

Our stakeholders' expectations and needs drive our value creation process, based on which we devise our business strategy, the best route to reaching our intended destinations. We adopt a systematic approach annually starting from strategy formulation until stakeholder concerns are met (depicted below). Knowing our desired outcomes and how to achieve them has made us optimally allocate our resources across different business activities and business segments, resulting in better value for our stakeholders. The value we created is reflected through business results (refer Service Value Chain Report on page 107 and Financial Wealth Report on page 58) and impacts (refer page 125 for Impact Management) which are measured, monitored and well-managed (refer Capital Management Report on page 56) to better fulfil stakeholder expectations.

> "What we mean by 'value' is not only the monetary value, but also our alliances, social responsibility, employee wellbeing and respect for the environment."



Our Business Model

Capital Input

Capital Management Report *(Refer Pages 56 to 106)*

Financial Wealth
(Refer Pages 58 to 68)

- Shareholder Funds - Rs. 8.7 Billion
- Deposit Base
  Fixed Deposits - Rs. 20 Billion
  Savings - Rs. 59 Million
- Borrowings
  Institutional Borrowings - Rs. 9.3 Billion
  Debentures - Rs. 200 Million

Alliances
(Refer Pages 69 to 79)

- Clientele - >60,000
- Relationship Management Team
  Employees - >400
- Social Investment - Rs. 1.1 Million

Human Strength
(Refer Pages 80 to 91)

- Number of employees - 951
- Investment on training - Rs. 7.2 Million
- Work life balance Spending - Rs. 5.1 Million

Intellect
(Refer Pages 92 to 95)

- Industry expertise - 55 years
- Financial professionals with over 10 years of experience - 275
- Credit Rating - BBB-(ika) (stable outlook)

Infrastructure
(Refer Pages 96 to 101)

- Branch network - 36 Branches
- Total Property, Plant and Equipment - Rs. 2.8 Billion
- IT investment - Rs. 6.2 Million

Nature
(Refer Pages 102 to 106)

- Water consumption - 12,325m^3
- Energy consumption - 1,352,395 kWh

Service Value Chain

Service Value Chain Report *(Refer Pages 107 to 124)*

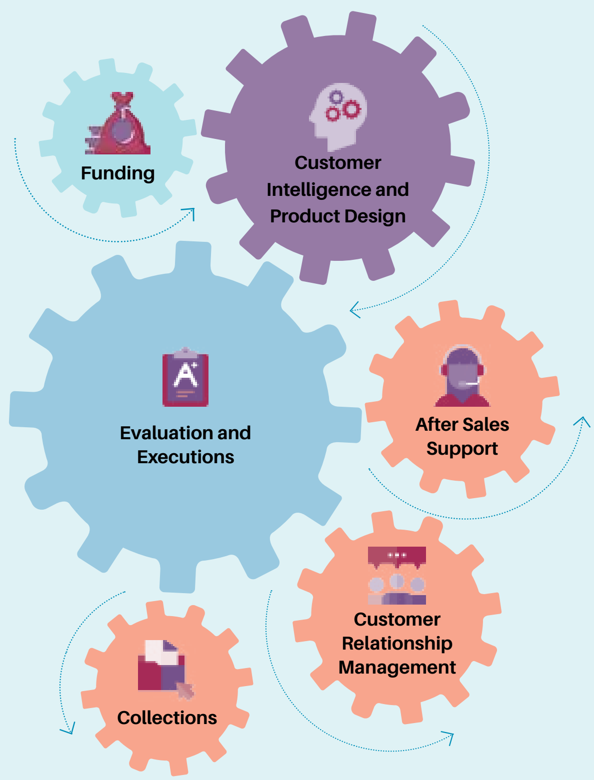
Vision, Mission and Values

Stakeholder Engagement *(Refer Page 48)*

Corporate Goals/Targets *(Refer Pages 10 to 11)*

Strategy and Resource Distribution *(Refer Pages 34 to 44)*

Primary Work Processes *(Refer Pages 107 to 124)*



Support Functions

Corporate Planning and Monitoring | Human Resource Management | Marketing and Communications | Information Technology Services | Audit and Control | Sustainability Management | Finance and Accounting | Administration

(Refer Capital Management Report Pages 58 to 106 and Service Value Chain Report Pages 107 to 124)

Governance and Risk Management
(Refer Pages 166 to 250)

Segment Outputs

Service Value Chain Report *(Refer Pages 107 to 124)*

Lending
(Refer Pages 120 to 121)

- Lease Granted - Rs. 6 Billion
- Hire Purchased Granted - Rs. 741Million
- Loans and Other Advances Granted - Rs. 15 Billion

Investments
(Refer Page 122)

- Investments Segment Revenue - Rs. 240 Million
- Investment Income Growth - 10.5%

Insurance Services
(Refer Page 123)

- Number of Insurance Policies Referred - 28,022
- Commission Income - Rs. 94.9 Million

Workshop
(Refer Page 124)

- Number of Customers/ Partnerships > 550
- Workshop Revenue - Rs. 72 Million

Stakeholders Impacted

Impact Management Report
(Refer Pages 125 to 147)

Shareholders
(Refer Pages 129, 135 & 140)

Clients
(Refer Pages 129, 135 & 140)

Staff
(Refer Pages 129, 135 & 140)

Regulators
(Refer Pages 129, 135 & 140)

Society
(Refer Pages 129, 135 & 140)

Capital Outcomes

Capital Management Report *(Refer Pages 56 to 106)*

Financial Wealth
(Refer Pages 58 to 68)

- Net interest income - Rs. 3.6 Billion
- Profit after tax - Rs. 458 Million
- Return on Equity - 5.3%

Alliances
(Refer Pages 69 to 79)

- New customers - >34,000
- No of beneficiaries of social initiatives - 113
- Customer survey score - 85% satisfied customers

Human Strength
(Refer Pages 80 to 91)

- Employee training hours - 10,330
- Attrition rate - 34.9%
- Diversity profile - 20 women: 80 men
- Employee volunteerism - 649 hours

Intellect
(Refer Pages 92 to 95)

- Credit rating unchanged
- New policies and procedures developed and adopted

Infrastructure
(Refer Pages 96 to 101)

- New branches - 3
- New IT projects initiated
- Investment in fixed assets - Rs. 258 million

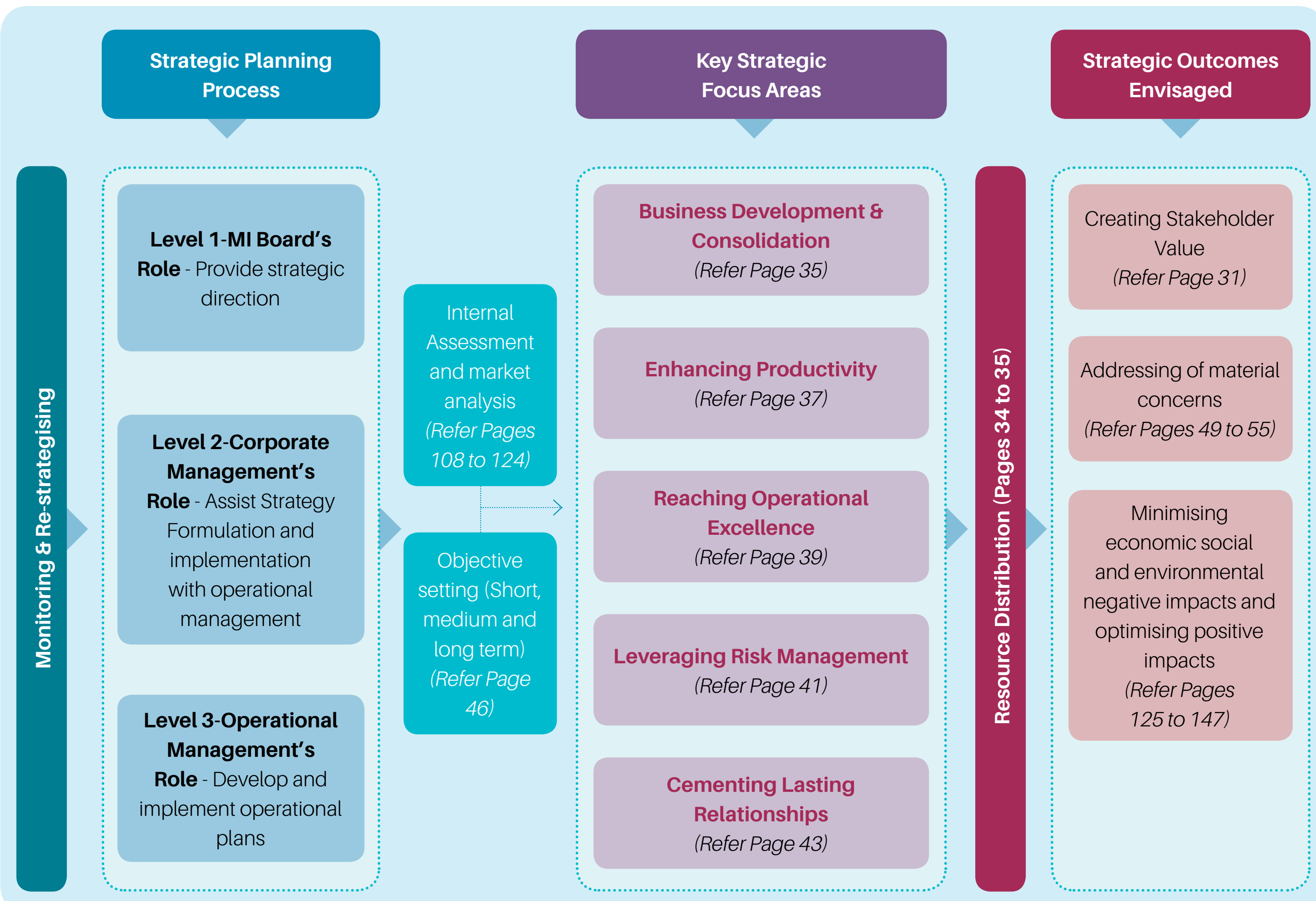
Nature
(Refer Pages 102 to 106)

- Carbon Footprint - 3,168 tCO_2e
- Green Lending
- Number of trees planted - 500

Strategy

MI's overarching corporate strategy is aligned towards MI's vision to be a top-of-the-mind financial service provider, and to also sustain a deep sense of corporate responsibility towards building a sustainable nation. In pursuing our vision, we were mindful of the governing principles and stakeholder expectations which form the foundation of all strategies and initiatives. Thus we have devised our strategy addressing the material concerns (refer pages 50 to 55) by setting short, medium- and long-term objectives with the ultimate objective of maximising our stakeholder value. Our strategic approach has been carefully designed with our integrated thinking and considers our internal strengths and weaknesses whilst focusing on maximising the opportunities prevalent in the external environment and same time taking measures to counter possible challenges, risks and negative impacts.

Strategy Formulation



Strategic Focus Areas

Business Development and Consolidation

GRI | 102-15

Being a company operating in a fiercely competitive market, we strived to maximise our stakeholder value through our Business Development and Consolidation Strategy, which focuses on expanding our product offering, regional presence and brand image.

Current Industry Trends	Industry Opportunities/Risks
Sluggishness in vehicle sales market	Evolving customer expectations
Volatile interest rates	Price sensitivity
Exchange rate depreciation	Fierce competition and pressure on interest margins
Stricter financial regulations	Increased credit risks and lowered collection

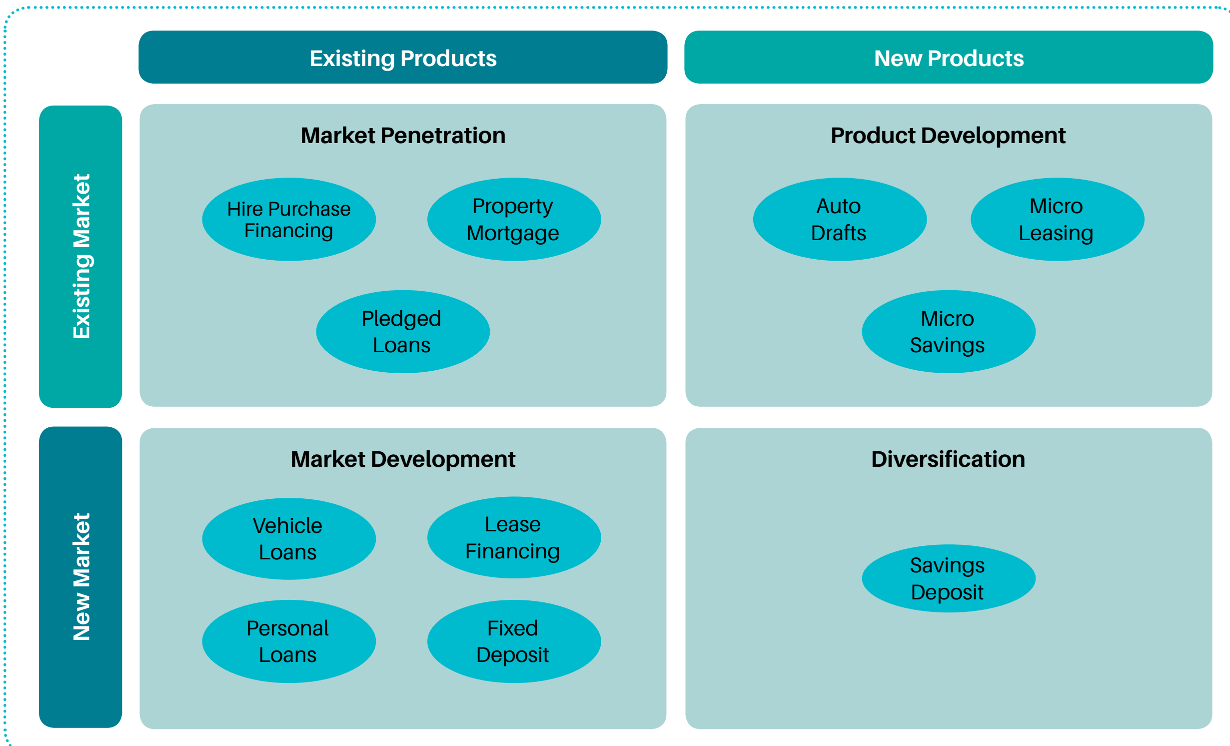
Strategic Actions Towards Desired Results

Focus Area	Action Towards Strategy	How We Geared Competitive Advantage
1. Product Mix Management		
Strategic Priorities ◈ Introduce tailored innovative financial solutions ◈ Optimise revenue targets through product mix management	◈ Expanded the MI product range tailoring to customer budgets and provide personalised financing. ◈ New products launched during the year included, Micro Leasing and Micro Savings, while we tailored existing products to suit our customer needs. ◈ Maintained an optimal lending product mix to achieve targeted yield levels. ◈ Offered total one-stop-shop experience through sister company synergies. ◈ Promoted cross selling between business lines.	◈ We have satisfied evolving customer expectations through our innovative financial solutions. ◈ We have been able to offer unparalleled customer service beyond customer expectations through our personalised customer service and tailored solutions.
2. Expanding Regional Presence		
Strategic Priorities ◈ Afford greater accessibility and convenience ◈ Market development	◈ Expanded business presence in markets with higher growth potential. ◈ Widened customer outreach by setting up dedicated deposit structures and providing broader omni-channel customer engagement platforms.	◈ Reach in radius and convenience has expanded our customer base. ◈ Higher branch volumes contributed to regional portfolio growth (Refer page 364 on province vice statistics).
3. Brand Building		
Strategic Priorities ◈ Building a distinct brand image ◈ Top-of-the-mind recall	◈ Intensive brand building and customer awareness through diverse marketing and promotional campaigns. ◈ Elevated our brand to drive our long standing financial stability. ◈ Broad-based use of new technology, social networks and multimedia.	Brand development was initiated mainly through constant advertising and promotion campaigns which helped bolster MI's brand across the island. (Refer page 95 for Marketing and Promotions)

Product Market Lending Strategy

Based on our optimal product mix and considering where they stand in MI's product Life Cycle together with the market segments identified, management adopted various product-market strategies as given.

Whilst we nurtured new products introduced and penetrated existing and new markets with our attractive traditional and non-traditional product range, we made plans to diversify into new markets based on product potential such as our savings through the use of technology.



Strategic Outcomes Derived Towards Wider Corporate Goals

	Actual 2018/19	Planned 2018/19	Past 2017/18	Targeted 2021/22
* Portfolio Growth				
- Lending	3%	>10%	12%	>15%
- Deposits	5%	>10%	18%	>15%
* Growth in Total Customer Base	> 65,000	>66,000	> 60,000	> 85,000
* New Branches Opened	3	3	-	>5
* New Product Innovation	2	2	-	>6

Material Concerns Addressed

- Created monetary value
- Beat intense competition
- Built clientele value

Enhancing Productivity

GRI | 102-15

As a company dedicated to improving the efficiency and effectiveness of the overall service value chain, we emphasised heavily on enhancing greater productivity of our human resources. This involved enhancing talent and knowledge base and maximising resource outcomes through planned management.

Current Industry Trends	Opportunities/Risks
◈ Evolving employer expectations and industry demands ◈ Expanding job prospects ◈ Use of Emotional Intelligence (EI)	◈ Ability to retain experienced and talented individuals ◈ Lack of highly-skilled, experienced, agile, efficient and creative workforce

Strategic Actions towards Desired Results

Focus Area	Action Towards Strategy	How We Geared Competitive Advantage
1. Employee Productivity		
Strategic Priorities ◈ Inspire our workforce to achieve their best	◈ Inclusion of a Purpose Statement from this financial year. ◈ Introducing Core Values, Core Competencies and Behavioural Competencies. ◈ Enhance skills of the workforce to manage change effectively. ◈ Stringent performance management culture. ◈ Robust rewards mechanism. ◈ Greater employee Empowerment. ◈ Continuous training and development focused on building an agile, efficient and creative workforce. ◈ Career development and advancement opportunities. ◈ Protecting and promoting employee wellbeing.	◈ Creation of an extraordinary workplace to attract and develop the best people. ◈ Have a comprehensive Employee Value Proposition (EVP). ◈ Creating a unique employee brand with a rich tapestry with diversity and inclusiveness at its core.
2. Deploying of Resources Optimally		
Strategic Priorities ◈ Use of minimum resources to maximise desired outcomes	◈ Limited branch expansion seeking viable market segments. ◈ Reinvigorating the cost conscious culture. ◈ Determining the optimal mix between long-term funds and short-term funds.	◈ Through effective business strategy, policy and fundamentals, we were able to create a sustainable platform with the use of limited resources to maximise our future potential.

MI's People Strategy

Recruitment & Retention	Talent Management	Reward	Thriving and inclusive community (culture)

Performance Drivers

Right People Right Place	Capability Development	Seen as Valued	Employee Engagement

- High Performance Work Culture
- Positive Employee Value Proposition
- Engaged Workforce
- Our People - Our Pride

Strategic Outcomes Derived towards wider Corporate Goals

	Actual 2018/19	Planned 2018/19	Past 2017/18	Targeted 2021/22
Training Hours per Employee	10 Hrs	>10	7.5 Hrs	>10
Attrition Rate	35%	< 20%	27%	<20%
Total Employee Benefits	Rs. 923 million	> Rs. 900 million	Rs. 845 million	> Rs. 1,200 million
Process Automation	2	>2	-	>6
Return on Assets	1.12%	>2%	1.32%	>2.5%
Cost to Income Ratio	63%	<55 %	63%	<55%

Material Concerns Addressed

- Groomed a productive workforce.
- Created strong employee motivation and increased welfare.
- Kept pace with the technology boom and dependence.

Reaching Operational Excellence

GRI | 102-15

We devoted our resources, time and effort in analysing and understanding changing customer behavioural trends and their rights and the ways and means of differentiating ourselves through value offerings. We utilised best technologies, practices and analytical information to exceed customer expectations through operational excellence, maximising our value proposition.

Current Industry Trends	Opportunities/Risks
• Introducing more sophisticated transaction platforms • Digitalisation of operational processes • Use of Artificial Intelligence for strategic and operational decisions • Product differentiation through service excellence.	• Gathering information via business analysis tools for strategic advantage • Technological advancement easing lead times • Inherent exposure to cyber risk

Strategic Actions Towards Desired Results

Focus Area	Action Towards Strategy	How We Geared Competitive Advantage
1. Extending Service Beyond Expectations		
Strategic Priorities • Creating value and delightful customer experiences that exceed client expectations to become the financial partner of choice	• Deployed a customer-centric business approach. • Actions to expand customer outreach. • Personalised customer service, offering value accretive customer propositions. • Brought the One-stop-shop experience with our array of service available under one roof. • Introduced service standards and inter-department service agreements for front end processes.	• Increased speed of processing times and cut down lead times to improve service standards. • Fund transfer platforms such as SLIPS and on-going projects to broad-base payment platforms for wider customer payment choices.
2. Embracing Innovation and Leveraging Digital Transformation		
Strategic Priorities • Drive MI through digital fast lane to be more digital, agile and competitive	• Process simplification and enhanced automation of operational processes. • Transform and digitise the core operations to be ongoing. • Providing business platforms and right technology support to cater to varying demands.	• By commencing the migration of selected core business functions to an advanced platform, MI will be in a position to offer faster and wider custom-made solutions.

Focus Area	Action Towards Strategy	How We Geared Competitive Advantage
3. Decentralisation		
Strategic Priorities ◈ Improve efficiency of the core business processes through decentralisation	◈ Identified the business/ operational processes to be decentralised to improve efficiency. ◈ Allocated required resources needed for the decentralisation and commenced activities.	◈ Having presence in seven provinces with 39 location, the decentralisation of all core activities will afford our customers major convenience and ease in transacting.

Strategic Outcomes Derived Towards Wider Corporate Goals

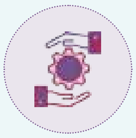
	Actual 2018/19	Planned 2018/19	Past 2017/18	Targeted 2021/22
⁎ Customer Care Training Hours	3,684	>3,500	3,580	>4,500
⁎New Processes Automated (Nos)	2	3	1	>3
⁎Planned Investment in Automation (Rs. Million)	> 30	-	> 50	>68

Material Concerns Addressed

- ◈ Built clientele value
- ◈ Kept pace with the technology boom and dependence
- ◈ Faced competition firmly

Business promotion through direct customer contact.

"Riya Pola" event in 2019



Leveraging Risk Management as a Competitive Differentiator

GRI | 102-15

MI recognises that a more strategic approach to business risk management is essential in a dynamic business environment in which the impact and speed of changes are unprecedented. Thus we continued to invest in strengthening the robust, resilient and agile Risk Management Framework to respond to the current operating environment appropriately. Our prudent and conservative risk appetites ensured that the risk profile is regularly assessed and managed to gain competitive advantage and counter risks in an ever-shifting internal and external environment.

Current Trends	Opportunities/Risks
Convergence of risk oversight with strategic planning Increasing role of Board in defining risk management strategy Focus on emerging risks Evolution of risk technologies towards improving business success	Increasing risk profiles with deteriorating credit quality and market sentiments Technology becomes a source of risk and an enabler for effective risk management and a performance enabler Increased regulatory compliance requirements

Strategic Actions Towards Desired Results

Focus Area	Action Towards Strategy	How We Geared Competitive Advantage
1. Embedded Risk Management Culture within the Organisation		
Strategic Priorities Introduction of an effective Risk Management Framework that supports business requirements to identify and manage risk proactively.	Strengthened the Risk Management Framework and reporting. Aligned the business strategies with the Risk Management Framework. Enhanced policies in each fundamental area in coordination with the Risk Unit to tackle emerging risks.	Being strong even in turbulent market conditions. Having better risk control mechanism to face future risks and evolving industry dynamics.
2. Adaptation to Market Dynamism and Sophistication		
Strategic Priorities Leverage on technological innovations in risk management.	Use of smarter and more effective tools for risk management. Focus on emerging risks.	Taking a proactive stance helped us to better manage persisting volatile market conditions. (Refer Risk Report pages 234 to 250)

Focus Area	Action Towards Strategy	How We Geared Competitive Advantage
3. Asset Quality Sustenance		
Strategic Priorities ◈ Strong Credit Practices, credit risk review and recovery drive to maintain collection ratio above 90% and bring down the NPL ratio.	◈ Dedicated recovery team with stringent recovery process. ◈ Strengthened credit evaluation process for high risk credit. ◈ Tied up the employee rewarding scheme with the KPIs and KRIs on asset quality.	◈ We were prompt in our recovery actions and collections and controlled rising NPL levels. ◈ Efficient resuscitation and recovery enabled us to minimise credit risk and improve collections.
4. Effective Liquidity Management		
Strategic Priorities ◈ Diversifying the funding sources to ensure steady liquidity at lower rates ◈ Bridging short-term assets and liability maturity mismatches	◈ Identified fresh funding lines on top of existing facilities. ◈ Maintained the liquidity threshold limits.	◈ While minimising the cost of funding, effectively managed the liquidity risk consistently.

Strategic Outcomes Derived Towards Wider Corporate Goals

	Actual 2018/19	Planned 2018/19	Past 2017/18	Targeted 2021/22
New Initiatives on Risk Management	9	5	7	>10
1-Year Maturity (Mismatch)	Rs. (5.7) billion	> Rs. 2 billion	Rs. (4.6) billion	> Rs. 2 billion
Collection Ratio	91%	91.5%	92%	>92%
NPL Ratio	9.62%	<7.5%	7.58%	<4%
Repossessions	<900	<400	<500	<400

Material Concerns Addressed

- Managed risks with the evolving industry landscape
- Overcame regulatory challenges
- Maintained high standards in governance

Cementing Lasting Relationships

GRI | 102-15

Building strong and lasting relationships with stakeholders is fundamental for the long-term success of any business and is one of the most influential driving forces of our Company's value creation process. Acquiring and retaining loyal customers for a service-providing company such as ours is typically a challenge, especially in a dynamic and fiercely competitive business environment.

Capitalising on the existing bonds created over five decades of relationship, we strategised to further strengthen and cement 'Lasting Relationships' on our 'Shared Growth,' propositions to put-through a mutually-beneficial win-win position for our stakeholders and us.

Current Trends	Opportunities/Risks
◈ Business sustenance in the current world is driven by stakeholder relationships	◈ Industry deploying tactics to beat increasing competition ◈ Information age has increased customer bargaining power

Strategic Actions Towards Desired Results

Focus Area	Action Towards Strategy	How We Geared Competitive Advantage
1. Customer Acquisition and Retention		
Strategic Priorities ◈ Exploring avenues to create value accretive customer propositions	◈ Customer-centric business approach. ◈ Personalised customer service. ◈ Offering value accretive customer propositions. ◈ Safeguarding customer privacy.	◈ Maintaining the personalised touch and interaction helped sustain loyalty and retention levels. ◈ Our 50 plus years of stability and sound reputation and resulting loyalty remain overriding factors in a sensitive LFC market. ◈ For loyal customers, afforded special rates during promotions for repeat business.
2. Maintain Win-Win Business Partner Relationships		
Strategic Priorities ◈ Identifying growth opportunities on a long term partnership basis	◈ Creating shared growth opportunities beyond just existing business. ◈ Promote ethical business practices. ◈ Managing expectations.	◈ Strong and mutually-beneficial relationships have been a key factor in our business success. (Refer Alliances in pages 69 to 70)
3 Creating Sustainable Communities		
Strategic Priorities ◈ To be one of the most admired socially-responsible finance companies ◈ Building a strong legacy position as a company committed to the development of society	◈ Extending financial support to satisfy unmet needs of the poor and lesser privileged. ◈ Supporting small business success. ◈ Social assistance beyond business. ◈ Inculcating cultural and ethical attributes.	◈ Deep sense of corporate acceptance and bonding has enriched our brand image and contributed towards development of sustainable enterprise and communities.

Strategic Outcomes Derived Towards Wider Corporate Goals

	Actual 2018/19	Planned 2018/19	Past 2017/18	Targeted 2021/22
Deposit Retention	74%	>75%	75%	>80%
New Customers Attracted	> 30,000	>30,000	>29,000	> 40,000
Financial Assistance Provided in Rural Areas	> Rs. 1,900 Million	> Rs. 2,000 Million	> Rs. 1,800 Million	> Rs. 2,500 Million
Social Investment	Rs. 1.3 Million	> Rs. 1 Million	Rs. 2.2 Million	> Rs. 1 Million

Material Concerns Addressed

◈ Created sustainable communities

Resource Distribution

The six capital resources we utilise are distributed to business segments based on the strategy adopted and passed down through our value chain business activities associated with the main segments. By taking a bird's eye view of the critical functions involved and strategy, we were able to optimally allocate these scarce resources and deliver the anticipated results and impacts.

Business Segments Catered	Funding	Customer Intelligence and Product Design	Evaluation and Execution
Lending Business	Critical	Critical	Critical
Investments	Moderate	Not Required	Critical
Workshop	Moderate	Moderate	Moderate
Insurance	Moderate	Moderate	Moderate

Business Activities Affected

Key Resources Mobilised	Funding	Customer Intelligence and Product Design	Evaluation and Execution
Financial Wealth	Deposits Borrowings Accumulated funds	Staff Development Cost	Staffing cost Staff Development cost
Human Strength	Deposits team Treasury team	Front end evaluation teams Product design teams	Payments team Credit teams/branch staff
Alliances	Depositors Banks Other lenders Investors	Customer relationship	No significant resources were allocated
Infrastructure	Branch Network Core IT System	Customer database	Internal IT solutions Online payment platform enabling system
Intellect	Finance professional expertise Brand Strength Rating	Experienced and skilled officers Customer track records	Branch network collaboration Operational processes
Natural Resources	Consumables Stationery Utilities	Consumables Stationery Utilities	No significant resources were allocated

Our business segments were identified based on the guidance provided by Sri Lanka Accounting Standards, taking revenue generation as the driver. The business activities associated with these segments are either specific to the segment or common, but their criticality to each business segment may vary with the levels of importance, reliance and dependency. Different business activities required different types and amounts of resources, as depicted and were allocated either during the budgetary preparation and strategic review process or as and when the need arose.

Collections	After Sales Support	Customer Relationship Management	Support Services
Critical	Moderate	Critical	Moderate
Moderate	Moderate	Critical	Moderate
Critical	Critical	Critical	Moderate
Critical	Critical	Critical	Moderate
Staffing cost Staff development cost	Staffing cost Staff development cost	Staffing cost Staff development cost	Staffing cost Staff development cost
Recoveries team Business specific marketing staff	Workshop staff Business specific marketing Staff	Marketing team Other field staff	Support staff
Ongoing relationships	Ongoing relationships	Continuous relationship building Social relationships	Interpersonal relationships Teams Committees
IT-based monitoring support	Tools and equipment	Customer database Brach network Workshops	IT systems Office workspace
Legal and recoveries expertise	No significant resources were allocated	Brand strength Reputation	Efficient work processes Functional expertise
No significant resources were allocated	No significant resources were allocated	Consumables Stationery Utilities	Consumables Stationery Utilities

Wider Strategic Impacts

Corporate Impacts

	Short-Term Targets		Medium-Term Objectives			Long-Term Goals	
	Gross Revenue Growth > 20%	Net Interest Margin (NIM) > 8%	Asset Quality (NPL) < 4 %	Net Profit After Tax > 600 Million	Growth in Customer Base > 15%	Market Share > 3%	Asset Base > 10%
Current Year Performance FY 2018/19	**9%**	**10%**	**9.62%**	**Rs. 458 Million**	**>8%**	**3%**	**2%**
Past 3-year average FY 2015/16-FY 2017/18	**18%**	**8.37%**	**5.9%**	**Rs. 407 Million**	**>15%**	**5%**	**13%**
Future Goal FY 2021/22	**>15%**	**>8%**	**<4%**	**> Rs. 1 Billion**	**>10%**	**>5%**	**>10%**

Capital Impacts

Financial Wealth

- Net Interest Income grew by 25%
- Total asset base reached Rs. 41 Billion
- Profit After Tax declined by 11%
- Shareholder funds declined by 0.1% to Rs. 8.7 Billion

Alliances

- Reached over 65,000 customers
- Rs. 2.3 Million spent on corporate social initiatives

Human Strength

- Rs. 7.2 Million spent on staff development
- Workforce recorded a growth of 9.4%
- 149 staff got internally promoted

Intellect

- 7.5 years of average employee tenure
- Rs. 103 Million invested in brand development

Infrastructure

- Expanded our geographical footprint by opening 3 new branches
- Rs. 6.2 Million spent on technology advancements

Nature

- Carbon footprint stood at 3,168 tCO_2e
- 8% growth in hybrid and electric vehicle financing

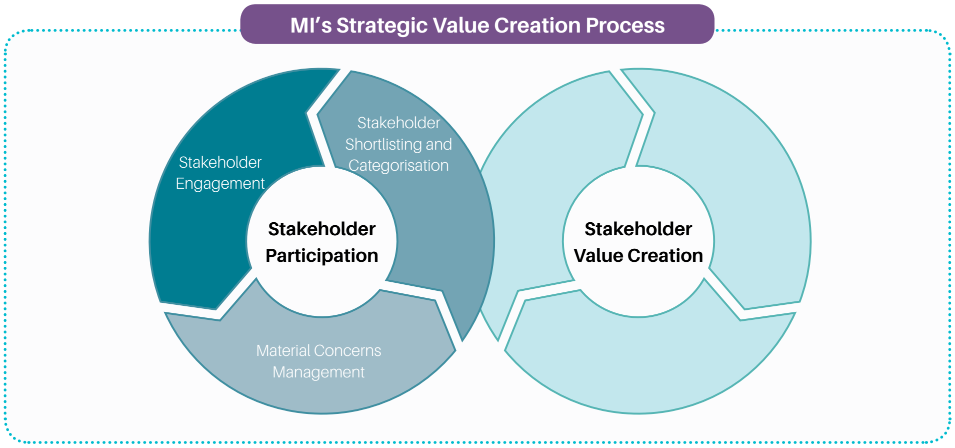
Stakeholder Participation

GRI | 102-42

The strategic value creation process we undertake is an annual exercise, commencing with the stakeholder participation and expectation gathering efforts that place on an on-going basis. This includes a focused three-dimensional approach of stakeholder shortlisting and categorisation, stakeholder engagement, and material concerns management.

Stakeholder priorities drive the corporate planning process and eventually our decision making. Understanding stakeholder expectations and what matters to them the most directly influences our priorities and is vital for shaping the strategy and future corporate policies, which help us to better adopt to the dynamism in the business environment. Hence, stakeholder participation continued to propel our overall value creation process and the resultant impacts enriched the entire participation process, creating anticipated stakeholder values this year.

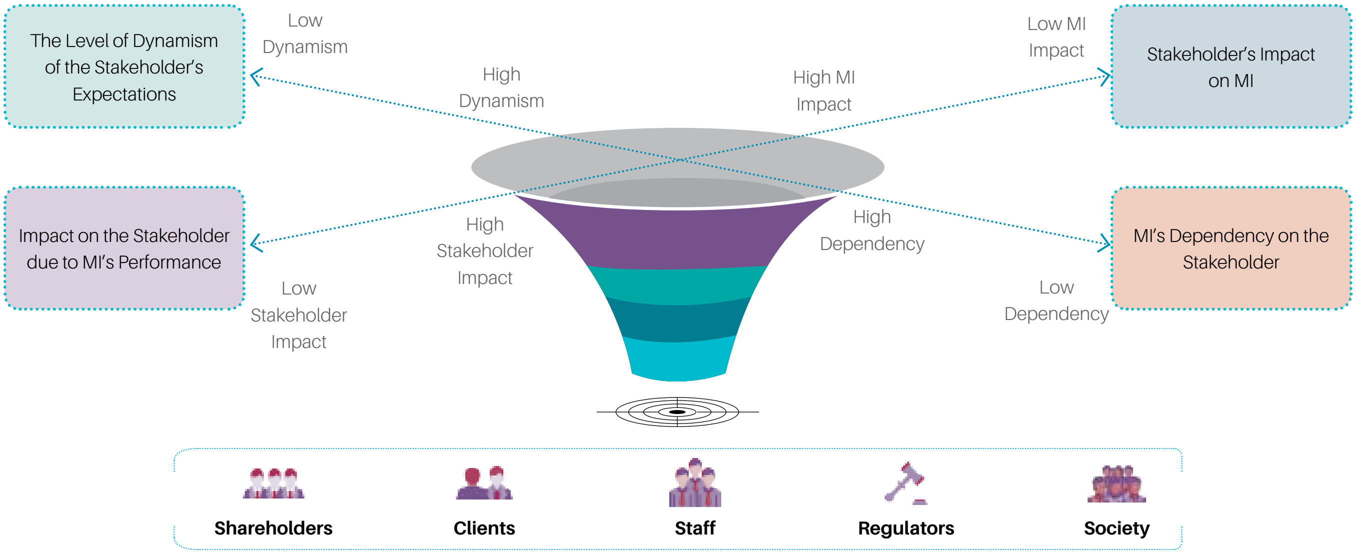
Strategic Value Creation Process



Stakeholder Shortlisting and Categorisation

GRI | 102-40, 102-42

As we witnessed our business expanding during the last decade, our economic, social and environmental footprints too extended exponentially, resulting in an increase in the number of stakeholder groups interested in our operations. This led to the designing of a formal mechanism to identify the key stakeholders who are impacted by our operations or whose actions may materially affect our business. Elaborating on this, we developed a unique four-way stakeholder filtering mechanism which allowed the Company to remain focused on the most important and relevant stakeholders.



Through the filtering process, we were able to shortlist a handful of key stakeholders and group them under five broad stakeholder categories, which allowed us to better cater to their needs, deploying resources towards strategic priorities and actions where it matters.

Stakeholder Engagement

GRI | 102-43, 102-44

As our value-creating business activities affect stakeholders in numerous ways, we recognised the importance of engaging in honest and constructive dialogue with people, to better understand their needs and expectations. We identified and assessed relevant and sensitive issues through regular and effective communication with stakeholders using various engagement methods. By doing this, we derived our material concerns to set up required monitoring mechanisms and strategy, so that such concerns can be addressed over time and reported annually (Refer Capital Management on pages 56 to 106). To fulfil expectations of our five main stakeholder groups, we were able to deploy various strategies (Refer Strategy Formulation on pages 34 to 43) to create value and measure and manage (Refer Impact Management Report on pages 125 to 147) them on an ongoing basis.

Five Key Stakeholder Groups	Engagement Style	Needs and Expectations Expressed	How Value Was Created
Shareholders Ordinary shareholders and prospective investors	- Shareholder meetings/ Annual General Meeting – Annual - Annual Report Feedback form – Annual - One-on-one meetings – On a regular basis	- Growth in Net Asset Value - Sustainable Growth Strategy - Experienced Management - Sound governance - Transparent reporting and disclosure	- Maintaining a strong financial position - Increasing net asset value and return on equity (Refer Financial Wealth on pagse 58 to 68)
Clients Over 65,000 customers from different age categories and corporates. Also our suppliers, including banks, financial institutions and depositors.	- Inquiries, discussions and site visits undertaken by either party as necessary, usually once a year with key parties - Direct customer feedback at MI's service points/ suggestion boxes - Customer surveys	- Excellence in customer service - Competitive financial solutions - Availability of sufficient information on products and pricing - Safety of deposits - Repayment of loans	- Safeguarding deposits with effective risk management and a strong capital base - Enabling financial inclusion through geographical expansion - Developing financial solution to suit various customer needs - Supporting the economy through provision of credit (Refer Alliances on pages 69 to 79)
Staff 1,040 Employees 80% Male 20% Female	- '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 - Departmental review meetings – Monthly - Management meetings – Weekly	- Employee recognition, competitive remuneration and benefits and fair performance management - Career development opportunities - An environment that embraces diversity and inclusivity - Challenging work and clear performance objectives	- Rewarding staff with a fair performance appraisal and compensation system - Creating job opportunities as we expand - Developing the skills of our employees for increased efficiency and quality whilst enabling career progression - Facilitate employment equity and gender equality (Refer Human Strength on pages 80 to 91)
Regulators Central Bank of Sri Lanka, Inland Revenue Department and Financial Intelligence Unit. We also comply with various other regulatory bodies to ensure compliance with labour regulations, human rights and other environmental and social regulations	- Issue of regulations and directions by regulators - Training programs/ workshops with regulatory bodies - On-site and off-site reviews by CBSL and other regulatory bodies – Annual - Other discussions with the Board and Senior Management	- Compliance with legal and regulatory requirements - Active participation in the industry - Fulfilment of tax obligations	- Contributing to government budgets through our tax contributions - Adhering to regulatory requirements which ultimately enable a safe and stable financial system for Sri Lanka (Refer Corporate Governance report on pages 166 to 233)

Five Key Stakeholder Groups	Engagement Style	Needs and Expectations Expressed	How Value Was Created
 **Society** Citizens of Sri Lanka and Non-Governmental Organisations. The environment which facilitates the wellbeing of the citizens.	◈ Media ◈ Public events ◈ Interacting with segments of society by direct correspondence and meetings	◈ MI's use of resources in managing business operations and building a sustainable environment ◈ Partnering on common social and environmental issues ◈ MI's wider impact on society and environment	◈ Ensuring financial inclusivity through our products and branch network ◈ Sustainable management of the use and impact of natural and human resources in our operations ◈ Contributing back to society through various corporate social initiatives (Refer Social Alliances on pages 76 to 79 and Nature on pages 102 to 106)

Material Concerns Management

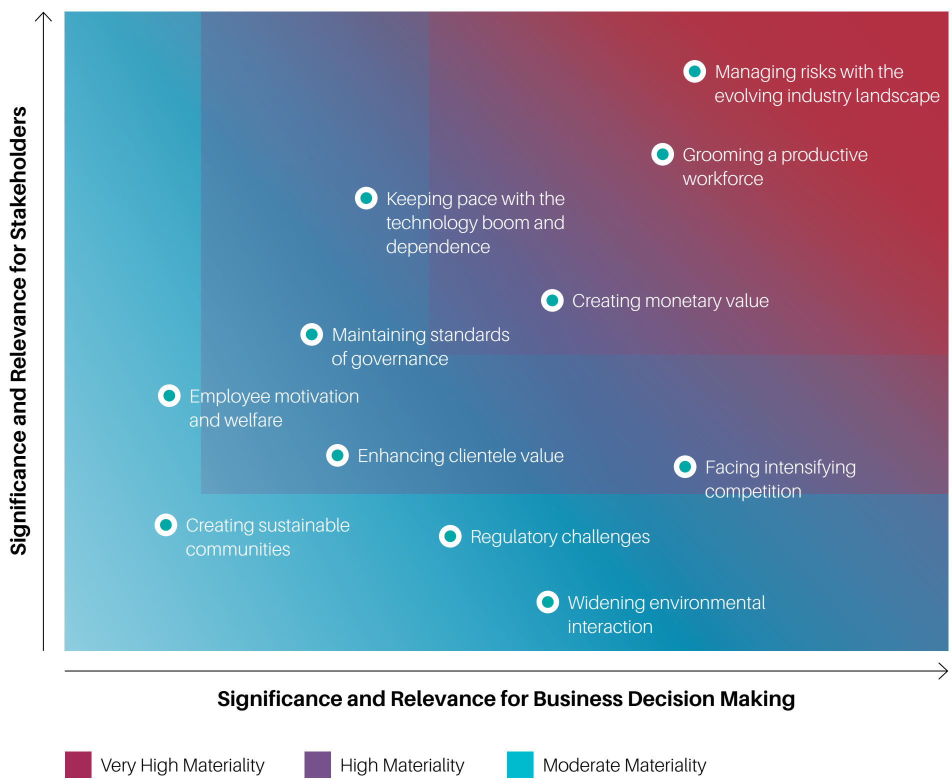
GRI | 102-46, 103-1

Our year-round engagement with key stakeholders provided the necessary feedback to the Directors and Corporate Management about their concerns and expectations and as well as potential areas for improvement. This set the stage to decide on the material concerns that are priorities for the Company during this period, based on the relevance and applicability of such concerns for both MI and key stakeholders.

In this process towards material concerns identification and management, we used the IIRC (International Integrated Reporting Council), GRI standards (Global Reporting Initiatives) and UN SDs (Sustainability Development Goals) as guidance which focused our attention towards 11 broad business and social concerns which were deemed priority to compete in our dynamic industry (refer diagram). Whilst we exercised this approach at the commencement of financial year 2018/19, through our on-going monitoring process, we are also able to identify and capture the emerging concerns as the year unfolded.

These material concerns addressed 23 GRI impact topics and also matters specific to MI, beyond the topics stated by the framework. The stewardship of this full exercise came under the Sustainability Governance Committee which reassessed 2017/18 concerns by evaluating the stakeholder feedback and comparing them with business, industry and country specific factors and narrowed down the list of GRI impact topics to 23 from 28 monitored last year. Our list of material business concerns and their covering impact topics may change in the future as per future assessments, resulting in possible changes in the level of importance with material concerns being added, adapted or eliminated.

Having collaborated and deliberated the final outcomes of our stakeholder participation process, our strategy and this year's reporting were significantly influenced by the material concerns summarised in the Materiality Gauge Matrix depicted below.



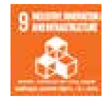
Material Concerns, Approach and Coverage

GRI | 102-46, 102-47, 103-1, 103-2, 103-3

The below table summarises the relevant GRI impact topics associated with the shortlisted material concerns stated in the Materiality Matrix and the Management approach executed by the Company to address them.

Material Concerns with Reasons for its Selection		Stakeholder affected/ Topic Boundary (Navigation icons)	Linked SDG	Linked GRI Standard	
Creating monetary value With an over Rs. 41 billion asset base and having a large workforce with growing market presence across the country, we evaluate and strive to enhance investor wealth constantly whilst remaining an entity with systemic importance to the industry and the economy.	Very High Materiality	Investor Staff Society		201: Economic Performance	
				203: Indirect Economic Impacts	
Facing intensifying competition New entrants to the NBFI sector coupled with the already-competitive industry and challenging market conditions requires market differentiation and brand strengthening.	High Materiality	Investors Clients Regulators		N/A	
Enhancing clientele value Each year we emphasise on the importance of satisfying our customers, depositors, lenders, financial intermediaries and suppliers beyond their expectations. In this context, maintaining their trust and loyalty is of paramount importance.	High Materiality	Clients		N/A	
				204: Procurement Practices	
				417: Marketing and Labelling	
Managing risks in the evolving industry landscape The finance industry is becoming highly-sophisticated and competitive. Having introduced complex products and entered sophisticated markets, our stakeholders are very keen on knowing how we manage industry risks and remain prudent.	Very High Materiality	Investors Clients		N/A	
Keeping pace with the technology boom and IT dependence Technology remains in the forefront of product innovation and is a platform for the industry to derive competitive advantage. Quality of IT systems and Cyber security are some of the material concerns focused upon.	High Materiality	Clients		418:Customer Privacy	

	Materiality Considerations	Management Approach to Concerns	Disclosure Reference
	Materiality increased With the scale of business expanding	Through an effective corporate strategy, we drove our core business lines to achieve optimistic revenue targets. This process ensured that we created adequate investor wealth and also increased our contribution to the economy as well.	Economic Impact Management on pages 129 to 134
	No significant change	We created employment and upheld financial inclusiveness in our business strategy which benefited the general society, Finance Company sector and the economy.	Economic Impact Management on pages 129 to 134
	New material concern specific to MI In keeping to the revised corporate plan, maintaining competitive edge was ranked a concern of high importance with higher resource allocation made.	Made changes to business strategy to take advantage of evolving customer preferences and market dynamics. Made necessary operational and technological improvements and geared the workforce to face a challenging business environment. Simultaneously invested in promoting the MI brand effectively across the country.	Capital Management – Intellect on pages 92 to 95 Capital Management – Alliances on pages 69 to 79
	New material concern specific to MI	Greater emphasis was placed on building future partnerships, creating greater value through innovation and improvising and making changes operationally to enhance service delivery and customer convenience.	Capital Management – Intellect on pages 92 to 95
	No change in materiality	Clear policy and procedures have been established in the areas of borrowing and purchasing. We partner with various funding providers and consumable suppliers driving on the shared value concept to create a win-win position for all parties.	Capital Management – Alliances on pages 69 to 79
	Materiality increased With the implementation of the Customer Finance Protection Framework, the importance of keeping information accurate and transparent was deemed high priority.	As an organisation reputed for transparency, we are committed to upholding strong practices to communicate accurate product information responsibly. With the introduction of the Finance Customer Protection Framework, we have formalised this process with a board approved policy, customer information documents and clear agreement formats and displaying.	Capital Management – Alliances on pages 69 to 79
	No change in materiality	Through the adoption of a formal Risk Management Framework, the MI Board is able to identify and analyse risks on an on-going basis and take prompt measures to eliminate or mitigate risks. We exercise the industry's best review techniques to stay ahead of potential risks and have the right mechanism and controls to detect and rectify issues then and there.	Corporate Governance Report on pages 166 to 233 Risk Management Report on pages 234 to 250
	Materiality increased	We abide by strict data protection policies and ensure that effective IT systems and support teams are in place to maintain data, quality, integrity and comprehensiveness. A high-level IT steering Committee is responsible for reviewing existing IT capabilities and proposing world-class technological standards in IT governance and implementation.	Capital Management – Alliances on pages 69 to 79

Material Concerns with Reasons for its Selection		Stakeholder affected/ Topic Boundary (Navigation icons)	Linked SDG	Linked GRI Standard	
Maintaining standards of governance How we conduct our affairs and our business practices and our standing in the corporate circle and society are key focus areas that our clients and regulators look at to assess our professionalism, prudency and ethical conduct.	High Materiality	Clients Regulators	 	N/A 205: Anti-Corruption	
Grooming a productive workforce While establishing an effective rewarding system, we plan to nurture a productive workforce and provide a suitable work environment for them to prosper in their careers with required training and development.	Very High Materiality	Staff Society		401: Employment 404: Training and Education 403: Occupational Health and Safety 202: Market Presence	
Employee motivation and welfare As a people-driven enterprise, we are mindful of our obligations towards our workforce. Our recruitment strategy touches the lives of people from varying communities and hence not only our workforce but society in general is concerned about how we look after our people.	Moderate Materiality	Staff Clients Society	  	402: Labour Management Relations 405: Diversity and Equal opportunity 406: Non Discrimination 410: Security Practices 412: Human rights Assessment	

Materiality Considerations	Management Approach to Concerns	Disclosure Reference
No change in materiality	Through a strong Governance Framework, we maintain an effective business enterprise and governance culture, with checks and balances and constant high-level oversight and independent review. We practice both regulatory and also voluntary industry best practices to safeguard stakeholder interest.	Governance Report on pages 166 to 233
No change in materiality	A zero tolerance approach against corruption again was upheld with the introduction of a revised formal Fraud and Whistleblowing Policy which provided the foundation to manage malpractices, backed by effective internal controls and audit to detect and prevent related concerns.	Capital Management – Alliances on pages 69 to 79 Capital Management – Human Strength on pages 80 to 91 Economic Impact Management on pages 129 to 134
Materiality increased Driving on the need for a productive workforce, a revised HR policy was implemented and a higher training and development budget was assigned this year. Moreover, we foresee the need of placing greater importance on training and education going forward.	The Human Resource Policy which includes the Recruitment and Retention Strategy was aimed at attracting, retaining and nurturing the right talent for future business progress. Part responsibility lies with the head of HR to implement the policy requirements while heads of divisions/branches are expected to play a coordinating role to develop staff and keep them content.	Capital Management – Human Strength on pages 80 to 91
No change in materiality	Employee health and safety, particularly of the workshop operation, is deemed key due to the machinery and work set-up involved and therefore we adopt sufficient safety standards to protect our people from work hazards.	Capital Management – Human Strength on pages 80 to 91
No change in materiality	Through the HR Policy, we ensure that our people are remunerated non-discriminatively in keeping to required labour regulations. Our hiring approach places importance on people having local expertise and supporting individuals to find employment within the community itself.	Capital Management – Human Strength on pages 80 to 91
No change in materiality	We adopted an Open Door Policy to ensure there is effective two-way communication between management and the workforce, without inhibitions. Operational changes impacting employees were carried out in keeping to the HR Transfer Policy, and business requirements at the management's discretion.	Capital Management – Human Strength on pages 80 to 91
No change in materiality	The HR Policy was designed to uphold workforce diversity and allows employees equal opportunity, without bias. The rewarding mechanism reflected employee performance and did not favour any party due to gender, race, religion, caste or creed.	Capital Management –Human Strength on pages 80 to 91 Corporate Governance Report on pages 166 to 233
Materiality increased	Dealing in money and when threat against security has increased due to recent tragic events, we continued to adopt strong security practices to curtail risks of theft and entry and ensure safety of people. Security personal recruited by our outsourced partner give due recognition and instructions to treat our employees and customers in a humane manner, without infringing on their human rights.	Capital Management –Human Strength on pages 80 to 91
No change in materiality Introduction of the Customer Finance Protection Framework and revised soft skill training agenda cater strongly towards humane treatment of our customers.	Organisational policies and practices were further aligned to ensure basic human rights are protected. We trained staff to treat our employees and business partners in a humane manner and obtained staff acknowledgment to abide by all fair practices.	Capital Management – Human Strength on pages 80 to 91

Material Concerns with Reasons for its Selection		Stakeholder affected/ Topic Boundary (Navigation icons)	Linked SDG	Linked GRI Standard	
Regulatory challenges Being in a highly-regulated industry, we are bound by various laws and regulations. Recent changes to key Acts and imposition of new regulations and amendments to prevailing laws have impacted MI's flexibility towards business. Our stakeholders including regulators are focused on how well we adapt to these challenging requirements.	Moderate Materiality	Investors Clients Staff Society Regulators	16 Peace, Justice and Strong Institutions	307: Environmental Compliance 419: Socio Economic compliance	
Creating sustainable communities Our expanding presence and vision to empower communities to live sustainable lives have brought us closer to people than ever before. Having a presence in seven regions, people are interested in learning about our plans to make this broader aspiration a reality.	Moderate Materiality	Society	2 Zero Hunger 3 Good Health and Well-Being 6 Clean Water and Sanitation 11 Sustainable Cities and Communities 4 Quality Education 17 Partnerships for the Goals	413: Local Communities	
Widening environmental interaction Having expanded our presence, our exposure to the environment and use of resources is gradually growing and becoming an area of focus.	Moderate Materiality	Society Regulators	12 Responsible Consumption and Production 13 Climate Action 14 Life Below Water 15 Life on Land 17 Partnerships for the Goals	301: Material 302: Energy 303: Water 304: Bio Diversity 305:Emissions 306: Effluents and Waste	

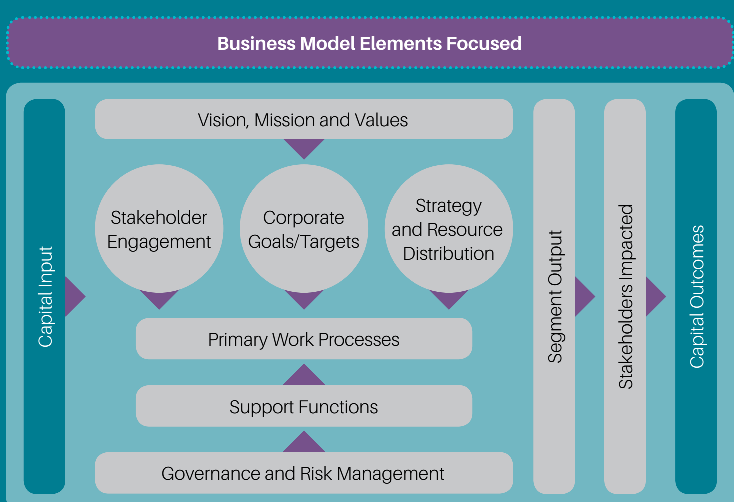
**Below 4 GRI topics which were considered as material topics in the previous financial year have been eliminated during the FY 2018/19.

1. 416: Customer Health and Safety: As we have set up the required safety measures and our business does not create any hazardous situations to customers, this aspect was deemed insignificant.
2. 206: Anti-Competitive Behaviour: The industry has widened with many players and no entity has displayed monopolistic tactics, hence deemed immaterial to the sector.
3. 408: Child Labour: The finance industry's exposure to child labour in Sri Lanka is insignificant as it is highly regulated and MI's chain of supply is limited to other mainly regulated funding providers and suppliers.
4. 409: Forced or Compulsory Labour: In a highly-regulated environment and having a higher percentum as permanent employees, the risk of forced and compulsory labour utilisation is deemed non existent or very low.

	Materiality Considerations	Management Approach to Concerns	Disclosure Reference
	No change in materiality	In combination with the Compliance Unit and the Legal team, we monitored, advised and implemented laws including statutory requirements in relation business, the environment and socio economic compliance. Core and support divisions were guided towards smooth transition to new regulations and changes to existing laws, as intended by the regulatory bodies.	Capital Management –Nature on pages 102 to 106 Corporate Governance Report on pages 166 to 233
	No change in materiality	MI's Board has entrusted the Sustainability Governance Committee to work closely with the core business divisions to identify untapped social needs. Through financial inclusiveness and efforts to bridge social disparities, we strive to bring relief to those most in need and be a supportive medium that creates sustainable communities.	Capital Management – Alliances on pages 69 to 79 Social Impact Management on pages 135 to 139
	No change in materiality	Despite being a service organisation and consuming a lesser quantity of natural resources for direct business use, we were passionate about the sparing use of utilities, consumables and other material in our operations. Through the Sustainability Governance Framework we initiated environmental protection programs and with the support of heads of divisions/branches we strive to implement evolving green practices.	Environmental Impact Management on pages 140 to 147
	Materiality decreased Existing branches and the three new branches opened this year do not infiltrate any biodiversity earmarked locations and are at least three km away. Hence as a service organisation our focus on this area was reduced.	We remained conscious about the bio-diversity conservation of our country and we contribute to this through the Sustainability Governance Committee. A separate "Wild Life Fund" created, contributes to the safeguarding of the wild life.	Capital Management – Nature on pages 102 to 106 Environmental Impact Management on pages 140 to 147
	No change in materiality	Despite minimal direct emissions to the environment, we have established strict procedures and a periodic monitoring process to evaluate and keep our emission levels minimal.	Environmental Impact Management on pages 140 to 147
	No change in materiality	Our day-to-day waste which mainly comprises garbage and e-waste was disposed of in a methodical and safe manner under the supervision of the Maintenance Department using best practices that are not harmful to the environment.	Environmental Impact Management on pages 140 to 147

Capital Management Report

This section of our integrated report provides a holistic picture about the contribution of our six capitals towards the value creation process. We provide a combination of quantitative and qualitative information of the six capitals that we have deployed in our business segments, and the level of performance of them against the objectives and targets for the year under review.



Sub Section Index

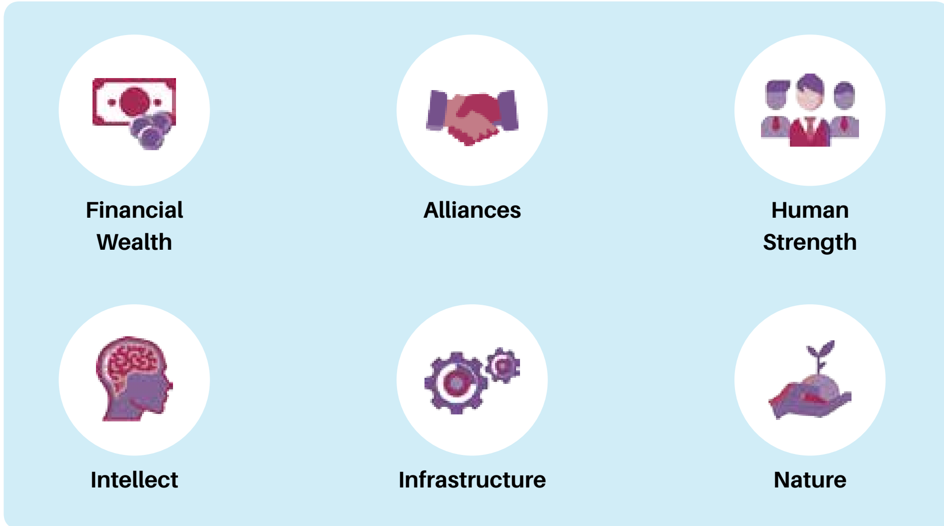
Capital Management

In our journey towards creating value for stakeholders, our business operations utilised various capitals as input resources and for us, this mainly comprised of capitals in form of financial wealth, human strengths, alliances, intellect, infrastructure and natural resources, which also contributed to the well-being of the wider economy, society and environment that we operate in. Our business operations resulted in transformation of such resources, either by increasing or decreasing their value, thus urging the need to manage their trade-offs and identify optimal ways of enhancing their value over-time.

Our wider visionary aspirations and integrated thinking has allowed us to establish an efficient process of managing capitals by connecting and utilising these tangible and intangible assets to create and preserve value for MI and its stakeholders in the short, medium and long term.

The re-imagination of our future business picture provided us the needed impetus to accelerate into a new era of financing solutions with advanced technology and lean business models. It helped us to reshape our capital management approach to better cater to the future needs of the business, industry, economy and the society as a whole.

Six Capitals Deployed



Capital Management Approach

Our capital management approach focuses on three phases that direct capitals towards their enrichment and ultimate sustenance of stakeholder value. After sourcing the required capitals, we take great effort in developing the limited resources we possess towards building competitive advantages in the industry. Significant investments were made to develop and nurture these core capital whilst emphasising protecting and preserving the invaluable capital resources, instilling industry best practices, ideologies and feedback mechanisms.

Phases of Capital Management

Capital Sourcing	Capital Development and Balancing Trade-Offs	Capital Preservation
Key stakeholder resources management Credit rating Brand development Unblemished reputation	Cost benefit assessment Resource distribution Systems and technological advancements Learning and development Operational improvements	Governance, ethics and culture Stakeholder satisfaction Risk management Grievance handling Audits and controls

Enrichment and Sustenance of Stakeholder Value

Financial Wealth

http://mi.com.lk/reports/financial-wealth.pdf

Role of Financial Wealth in Driving Competitive Edge and Investor Returns

GRI | 103-2 and 103-3

The strength of our financial wealth resources determines MI's ability to drive towards its strategic directions and generate sound investor returns. Thus we remained committed for the accumulation of a strong capital base to support business expansion, provide a cushion against unforeseen risks, safeguard shareholder wealth and foster investor confidence. Our ability to access cost-effective funding is based on our financial strength, which ultimately affects our competitive pricing. Though faced with numerous industry challenges, we were committed in deploying our financial resources effectively, balancing growth and risk considerations towards growth momentum, performance excellence and stability.

Value Creation

For us, financial wealth creation primarily revolves around the accumulation of steady investor returns, maintaining financial soundness with adequate flexibility, prudential requirements and host of other financial goals. With optimistic bottom-line targets set forth, we direct our financial and treasury management effectively towards improved revenue, whilst in tandem emphasising on cost optimisation and budgetary controls as means of controlling expenditure towards a robust bottom line.

Short-Term Goals

- Gross Revenue Growth > 20%

Medium-Term Goals

- Net Interest Margin (NIM) > 8%
- Maintain > 20% annual growth in PBT and PAT
- Increase Return on Capital Employed (ROCE) > 10%

Long-Term Goals

- Market Share > 3%
- Growth in Asset Base > 10%

Capital Inputs

- **Shareholder Funds**
  Rs. 8,673 Million.
- **Deposit Base**
  Fixed Deposits - Rs. 21,099 Million.
  Savings - Rs. 77 Million.
- **Borrowings**
  Institutional Borrowings - Rs. 9,143 Million.

Key Financial Management Activities

- Treasury Management
- Cost Optimisation Programs
- Budgetary Controls

Outputs for MI

Positive Side

- **Revenue grew by 9%**
- **Achieved a sound Net Interest Income growth of 25%**
- **Less than 1 year liquidity gap restricted to Rs. 5.6 Billion**

Negative Side

- **Profitability of Rs. 458 Million behind targeted**
- **Constricted asset growth of 2%**
- **Deterioration in asset quality by 2% YOY**

Value Adding Outcomes for Financial Wealth

- **Sustainable investor earnings (Earnings per Share Rs. 152)**
- **Growth in prudential Capital Adequacy Ratios(CAR)**
  Tier 1 14.98
  Tier 2 16.69
- **Return on Capital Employed (ROCE) 5.28%**

Impact on Other Capitals

- Created a deep sense of corporate acceptance and Bonding
- Gained public trust through financial stability
- Increase in mutually-beneficial relationships - Customer retention ratio increased to 74%

- Increased learning and development Opportunities
- Enhanced employee morale and productivity
- Employee satisfaction

- Enhanced brand strength
- Increased efficiency in internal processes through 3 new key automations

- Increase in branch footprint - 3 branches opened
- Increased branch facilities
- Optimised operational efficiency

- Cost consciousness led to preservation of limited resources.
- Controlled usage of stationary costs and consumables reflected a 12% cutback.

Capital Trade-Offs: Though we routed greater financial resources towards nurturing staff and embracing advanced technology, we are confident that anticipated long-term benefits will improve business volumes, leading to further increase in financial wealth resources we possess, and thus will in turn cascade towards growth of all the other capitals we deploy.

Though the financial markets were volatile and posed challenges for the industry, we delivered satisfactory numbers, upholding investor promises.

Deva Anthony
Chief Financial Officer

Financial Wealth Highlights

For the year ended 31 March	Achievement			Financial Goals	
	Actuals 2018/19 Rs.'000	Actuals 2017/18 Rs.'000	Change %	Budgeted 2018/19 Rs. million	Forecasted 2019/20 Rs. million
Earnings Highlights and Ratios					
Gross Income	**7,638,497**	6,984,093	9.37	> 7,500	> 9,000
Net Interest Income	**3,574,176**	2,860,263	24.96	> 3,500	> 4,200
Total Overheads	**1,984,982**	1,786,340	11.12	< 2,000	< 2,300
Impairment	**681,648**	426,353	59.88	< 650	< 830
Profit before Tax	**786,653**	858,771	(8.40)	> 900	> 1,000
Provision for Taxation	**328,580**	344,706	(4.68)	< 400	< 550
Profit after Tax	**458,073**	514,065	(10.89)	> 600	> 700
Net Interest Margin	**10.04**	8.76	1.28	> 10	> 10
Interest Spread	**8.02**	7.33	0.69	> 8	> 8
Operating Profit Margin (%)	**9.30**	11.20	(1.90)	> 20	> 20
Cost to Income (%)	**63.23**	63.10	0.13	< 55	< 55
Interest Cover (Times)	**1.20**	1.24	(0.04)	> 1.5	> 1.5
Return on Shareholders' Funds (%)	**5.28**	5.92	(0.64)	> 10	> 10
Return on Average Assets (%)	**1.12**	1.32	(0.20)	> 2	> 2
Financial Position Highlights and Ratios					
Total Assets	**41,354,565**	40,355,948	2.47	> 42,000	> 48,000
Loans & Advances, Leases and Hire Purchases	**34,204,719**	33,149,318	3.18	> 32,000	> 38,000
Deposits from Customers	**21,176,433**	20,073,010	5.50	> 21,000	> 25,000
Other Borrowings	**8,957,478**	9,327,958	(3.97)	> 9,500	> 9,500
Shareholders' Funds (Stated Capital and Reserves)	**8,672,864**	8,683,087	(0.12)	> 8,900	> 9,200
Non-Performing Loans Ratio (%)	**9.62**	7.58	2.04	< 6	< 6
Total asset growth (%)	**2.47**	7.64	(5.17)	>10	>10
Net Assets per Share (Rs.)	**2,885**	2,889	(0.00)	> 2,900	> 3,000
Debt: Equity (Times)	**3.5**	3.42	0.08	< 3.5	< 3.5
Liquid Assets (%)	**14.77**	11.40	3.37	> 12	> 12
Core Capital Ratio (%)	**14.98**	16.24	(1.26)	> 13.5	> 13.5
Total Risk Weighted Capital Ratio (%)	**16.69**	17.36	(0.67)	> 15	> 15
Market /Shareholder Information					
Market Value per share (Rs)	**2,580**	2,580	-	> 2,500	> 2,500
Earnings per Share (Rs.)	**152.39**	171.01	(10.89)	> 180	> 200
Dividends per Share (Rs.)	**-**	15	(100.00)	> 15	> 15
P/E Ratio (Times)	**16.93**	15.09	12.19	> 10	> 10

FINANCIAL WEALTH CHALLENGES FACED

SLFRS 09

With the adoption of SLFRS 09 -Financial Instruments Standard, MI absorbed Rs. 375 million to retained earnings and Rs. 682 million for the year ended 2018/19 in the statement of comprehensive income. MI worked closely with Ernst and Young Chartered Accountants, to develop effective policies, procedures and an impairment model.

Rating

MI's rating of –BBB (lka) (stable outlook) was reaffirmed by Fitch Rating Lanka Limited, in the backdrop of the economic slowdown impacting credit quality, MI's capital strength remained fundamental to the reaffirmation of the same rating.

New Basel II Capital Adequacy Application

Prepared prudential capital adequacy ratios based on new Basel II prudential capital directions which resulted in a 13.5% increase in total risk weighted assets of the company. However, Capital adequacy ratios were well above the minimum limits and were at least 5% over the thresholds.

"Challenging industry conditions prevented us moving towards optimistic profitability targets, despite our financial performance remaining satisfactory."

Shermal Jayasuriya
Finance Director

Financial Management

To boost Net Interest Margins (NIM) and spreads, a clear direction was given by the Director Board on financial areas needing attention especially to drive core business yields, improve investment returns whilst simultaneously keeping costs minimal through the deployment of cheaper funding and focused overhead management.

Key financial management activities revolved around;

- Treasury management
- Cost optimisation
- Budgetary control

Treasury Management

Effective fund management remained a top priority this period, under the financial wealth creation process, with clear strategic priorities focusing on lowering funding costs, correcting existing assets and liability maturity mismatches and enhance treasury control mechanisms, to improve yields and manage investment risks. The Treasury Division played the leading role in balancing the short-term and long-term funding needs of the Company, while optimising on the available funding sources.

Treasury Management Priorities	Target	Achievement
Generate sound yields from Investments and procure funds optimally to boost NIMs'/ spread above	> 8%	Achieved
Maintain required liquidity levels whilst bridging maturity mismatches	< Keeping below threshold level of Rs. 2 billion.	Not achieved (Refer Risk Note on pages 234 to 250)

Funding Mix

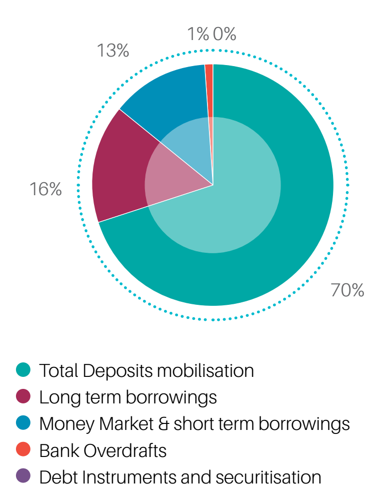
To keep the weighted average cost of funding lower, we maintained the right funding blend between deposits and borrowings. Deposits business remained the largest contributor to the funding mix, with 70%, generating Rs. 21,176 million in funding, while the balance stemmed from borrowings.

Funding Cost

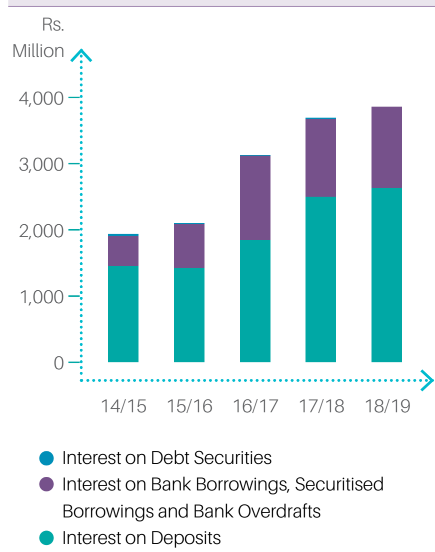
Analysis of Interest Expenses

The revision of deposit rates upward by more than 1.5% in the last quarter of the year and the repricing effect fuelled deposit interest expenses to rise by 5%, reaching Rs. 2,634 million, by the balance sheet date. Borrowing cost rise of 3% was propelled by the upward pricing applied by the banks who sourced funding this period. However total borrowings contracted as we cut down its utilisation, resorting to greater quantum of deposits .

Funding Mix



Analysis of Interest Expense



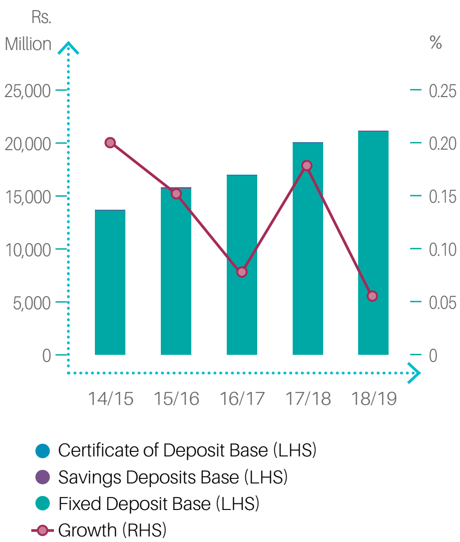
Source of funds

Deposit Funding

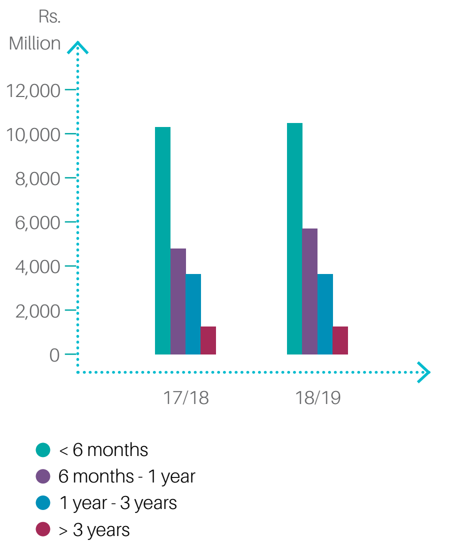
Our unwavering commitment towards the mobilisation of Fixed Deposits being our primary deposit product helped us to surpass Rs. 21 billion in the deposit base, which reflected a modest 5% growth against last year. Fixed Deposits contributed 99% to the total base, growing to Rs. 21,099 million, while savings deposits remained a developing product with a negligible base, but reflected potential growth with the introduction of micro savings.

While affording attractive returns to our customers, we concentrated on improving our overall standards of service across our branch network, especially in terms of the speed of delivery and convenience to depositors. The on-going decentralisation efforts continued to drive greater deposit flow from branch level, with a 9% increase YOY contributing 14%, while head office premises being in the Western Province remained the primary mobilisation point.

Deposit Growth & Mix



Deposit Base Maturity Profile



Fixed Deposits

An aggressive Fixed Deposit campaign targeted greater mobilisation beyond Colombo, focusing on retail deposits and special segments of the market. However, high price sensitivity and competitive market drove total Fixed Deposits up by a modest 5% to Rs. 21,099 million.

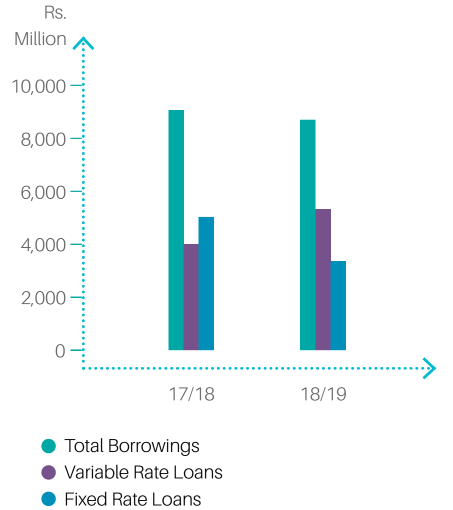
Savings Deposits

MI's savings base which stood at Rs. 77 million showed the potential for growth with a YOY increase of 30%. The on-going IT development is directed at boosting the future savings base to be promoted through MI's 35 plus growing branch network.

Borrowings and Debt Funding

A total of Rs.13,955 million was sourced from MI's longstanding banking partners. However, total borrowings came down by 5% to Rs. 9,144 million, as deposit mobilisation remained the more sustainable and cheaper funding source this period. At the same time, we settled our quoted debenture of Rs. 200 million in November 2018 and did not resort to fresh debt funding there after.

Total Borrowing Fixed vs Variable Rate



Cost Optimisation Programmes

The cost optimisation programme spearheaded by the Managing Director together with the corporate management at the commencement of 2018 was strongly implemented across all departments and branches during this financial year to manage the overhead cost escalation. Corporate managers together with the staff took measures to identify waste and control costs, adopting the "3R" principles.

(Refer controlling the escalation of overhead expenditure on page 65)

Budgetary Control

A close watch was kept on actual expenditure versus budgeted, based on the Board-approved annual budget and periodic reporting of cost variances. Corporate Management and branch heads were able to monitor their business unit costs closely and identify trends towards better budgetary control. A periodic report was tabled by the Finance Director/Chief Financial Officer for review and action by the Board.

Financial Review

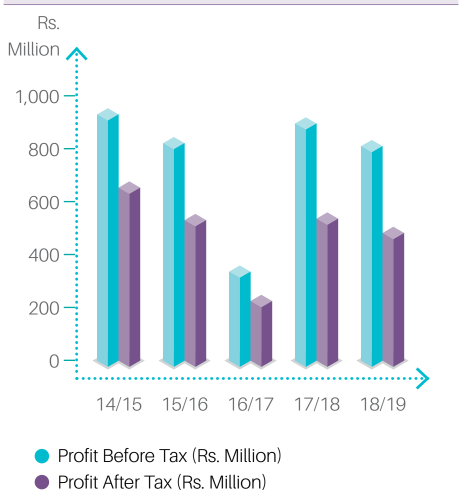
Despite the economic slowdown and persistent instability in the political and macroeconomic environment, we were able to display a satisfactory performance by leveraging on our strategic initiatives and performance-oriented approach. By instilling operational improvements and cost optimisation programs and managing margins and asset quality, we were successful in manoeuvring our business segments of lending, investment activities, insurance and workshop services, each consisting of a broad range of products and services geared to meet the diverse needs of our customers while driving us to achieve our goals and objectives.

(Refer Service Value Chain pages 108 to 124)

Profitability

This year's moderate loan book growth, coupled with higher impairment charges on account of slowed recovery, compounded further by the newly-introduced SLFRS 9 stringent provisioning requirements and the introduction of a new Debt Repayment Levy (DRL) of 7% on value addition, constricted MI from reaching anticipated optimistic profitability growth targets. In challenging conditions, MI concluded the financial year with the pre-tax profit of Rs. 787 million, declined marginally by 8%, while post-tax profits reached Rs. 458 million, reflecting a 11% dip YOY.

Earnings Performance



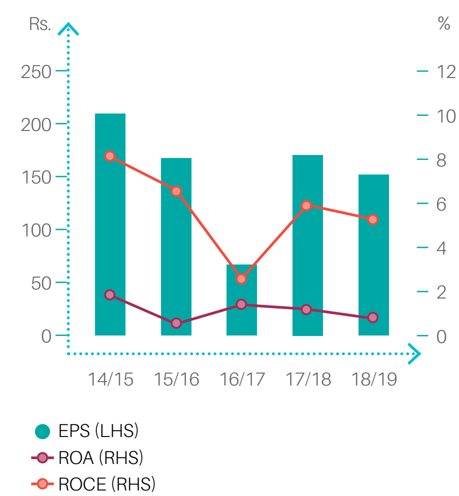
Shareholder Wealth Creation

As a result of the challenging economic conditions, SLFRS 9 impact and modest profitability, Return on Capital Employed (ROCE) marginally dipped by 0.64% to 5.28%, and below the targeted over 10% level.

With the IFRS 9 transitional impact of Rs. 375 million charged to the Retained Earnings and the negative OCI Reserve resultant from the decline in share prices, shareholder funds and Net assets per share remained at Rs. 8,673 million and Rs. 2,885 respectively. However, Earnings per Share stood at its astoundingly high levels at Rs. 152 per share irrespective of the 11% dip.

Refer section on "Investor review" which highlights MI's continuing capital strengths and investor returns trajectory (Refer pages 374 to 377).

ROCE, ROA and EPS

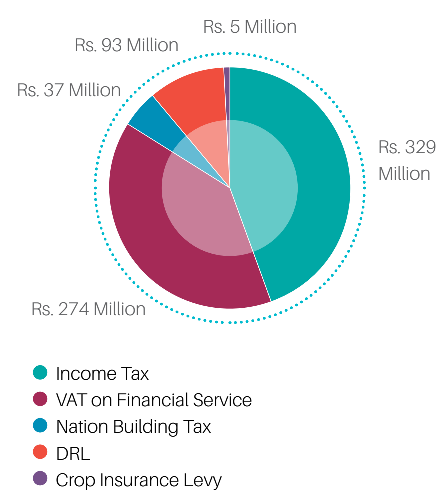


Taxation

With the amendments to the new Inland Revenue Act and the imposition of new taxes (Debt Repayment Levy), total tax expense increased by 17% to Rs. 738 million during the year, while the effective tax rate recorded a marginal decrease to 40.18% compared to 40.83% recorded in the previous year. Out of a plethora of taxes being applied to the industry, corporation taxes remained the highest, with a 5% dip to Rs. 329 million, while VAT on financial services being the other material tax too increased to Rs. 274 million, despite the decline in profitability.

The Debt Repayment Levy which was effective from 1st October 2018 amounted to Rs. 93 million, being the third highest tax component to the total tax expense. (Refer Financial Statement Note 15 on pages 303 to 305).

Total Tax Payments - 2018/19



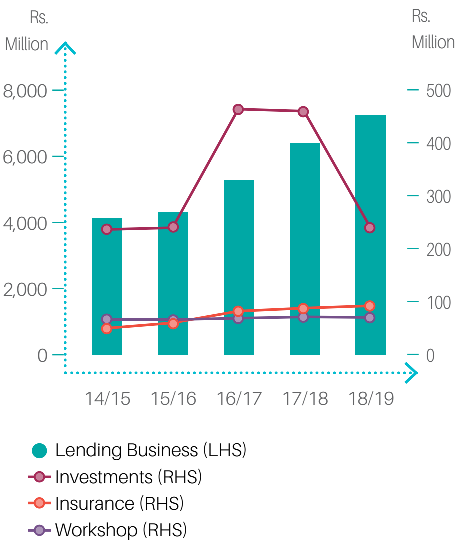
Revenue Growth

Gross Revenue

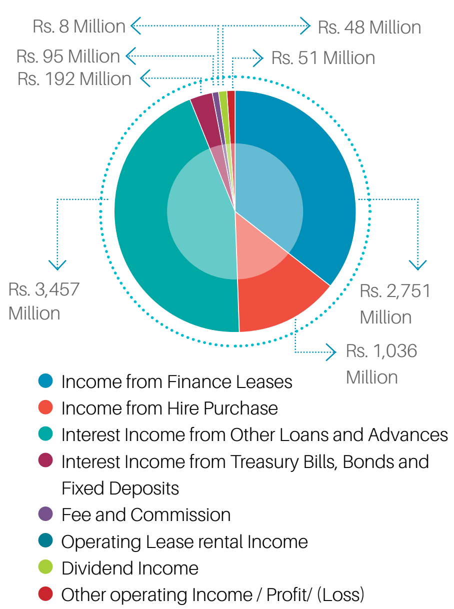
With core business volumes and margins improving, gross revenue grew to Rs. 7,638 million during the year, displaying a moderate growth of 9% against Rs. 6,984 million recorded in previous year. With the deployment of an inclusive strategy, targeting all key business segments and diversifying our business risk both at product and business level, the segments heavily contributed handsomely to the gross revenue growth. (Refer Business Segment Performance on page 111)

Out of the gross revenue, 94.8% was contributed from our core lending segments, while interest income from Treasury activities contributed 2.5%. Non-fee based income derived from insurance, workshop and other fee-based revenue contributed to the balance 2.7%.

Segment Revenue Trend



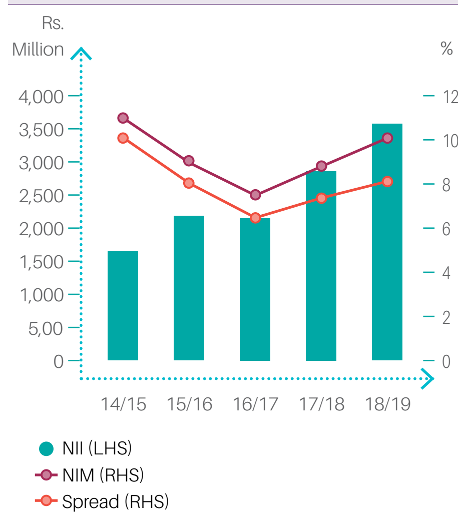
Components of Total Income



Interest Income, Net Interest Income (NII), Net Interest Margin (NIM) and Core Spread

Fund-based interest income being the main contributor to revenue went up by 13% YoY, primarily driven by core lending interest income totalling Rs. 7,244 million. Accordingly, though interest cost rose due to the reprising effect, the relatively higher interest income growth resulted in a sound 25% increase in Net Interest Income which bolstered the NIM of the Company by 1.28% to 10.04% in contrast to the industry average of 8.98%. The improved core margin and spread is well reflected in the graph.

Spread , NIM and Interest Income

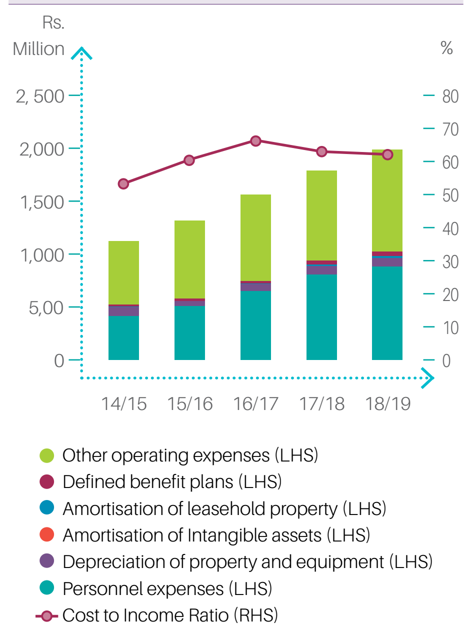


Expenditure Management

Controlling of Overhead Escalation

Total operating expenses increased by 11% to Rs. 1,985 million for the year from a year before. The increase corresponds to the impact from business expansions, salary increments, and general increase in other overhead expenses commensurate with the rate of inflation. Despite the relatively higher growth in operating income compared to operating expenses, the cost to income ratio of the Company remained at 63% mainly due to the new Debt Repayment Levy.

Composition of Operating Expenses Vs Cost to Income Ratio



Capital Expenditure

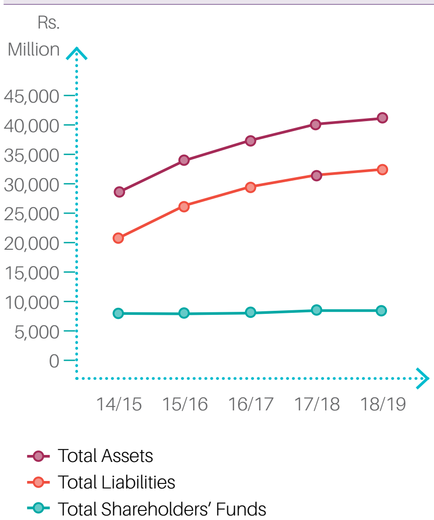
As a company focused on long-term growth sustainability, we invested Rs. 289 million in expanding our branch footprint and operational capabilities. Our policy on greater profit retention gave us flexibility to invest in securing a new system solution for selected business functions. Based on its success, we hope to further invest in external solutions to improve our ICT platform.

Financial Position, Strength, Blend and Efficiency

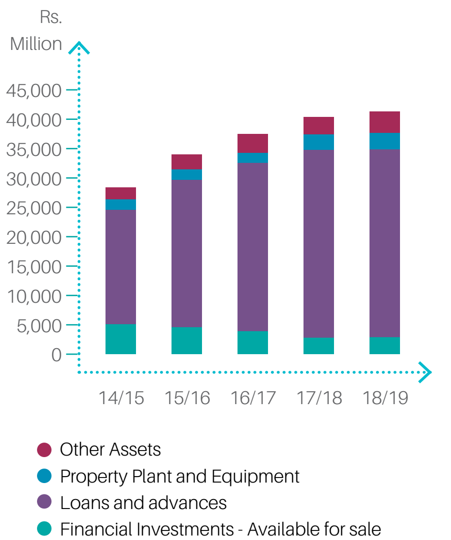
Total Assets Position

Total assets advanced to Rs. 41,355 million, a modest increase of Rs. 999 million in absolute terms and a 2.5% increase, held back by the subdued loan book growth recorded, which remained below the industry average assets growth, recorded of 5.6%, as at 31st December 2018. Loans and advances receivable remained the largest asset component accounting for 77% of total assets.

Total Assets, Total Liabilities and Shareholders Fund



Total Assets Composition



Asset Quality

Reflecting the industry-wide deteriorating asset quality trend, MI too experienced an increase in Non-Performing lendings (NPLs). However, due to the conservative risk profile with moderate risk appetite and the robust Risk Management Framework together with the strengthened recovery initiatives, the Company managed to control rising non-performing contracts through prompt regularisation. Nevertheless, a few large contracts stemming from the past two years though adequately backed by securities kept the 180-day NPL ratio at 9.62 % as at 31st March 2019 (7.38% FY 2017/18).

In addition, the prompt recovery monitoring process adopted ensured that we maintained a healthy overall collection ratio of 91% (FY 2017/18 – 92%) despite the industry collections in general slowing down.

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 the satisfactory collection levels. The specialised Internal Valuation and Disposal Unit located in Maharagama handled ceased vehicle disposals totalling 507 through "Riya Pola" events. The unit played an additional role of ensuring accuracy of asset valuations earmarked as security by borrowers.

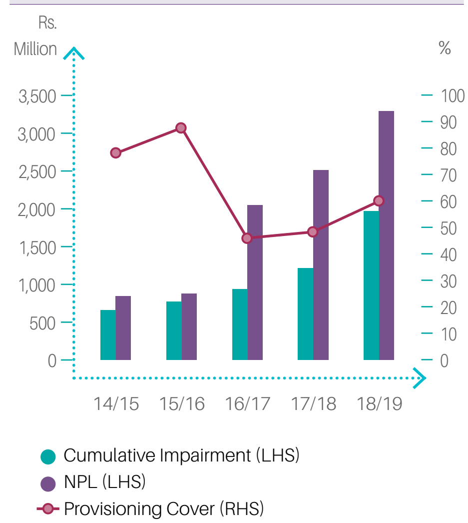
The Legal Department played a key support role to Recoveries, being a vital cog in the bad debt recovery process, expediting the completion of 46 cases successfully during the year.

Impairment Charges

The implementation of SLFRS 9, applicable from the period under review, and the said decline in asset quality, resulted in a notable upward movement in impairment provisions to Rs. 682 million up by 60%. As required by the new standard, a stringent impairment calculation methodology was applied based on a forward-looking expected credit loss model, compared to LKAS 39, which was based on an incurred loss model.

The net Increase in Impairment provision as at 1st April 2018 arising from SLFRS 9, its deferred tax impact there on amounted to Rs. 375 million and was charged against retained earnings. Cumulative impairment provision increased to Rs. 1,970 million as at 31st March 2019, keeping the provisioning cover at 60% compared to last year's 48%. (Refer Financial Statements Note on Impairment from pages 314 to 318).

Cumulative Impairment, NPL and Provision Cover



Capital Strength

Shareholders' Funds

With the IFRS 9 transitional impact of Rs. 375 million charged to the retained earnings, negative OCI equity reserve resulting from the lacklustre share market performance and the modest profitability led to the marginal dip in Shareholders' funds, which moved down from Rs. 8,683 million to Rs. 8,673 million by end March 2019.

Regulatory Capital

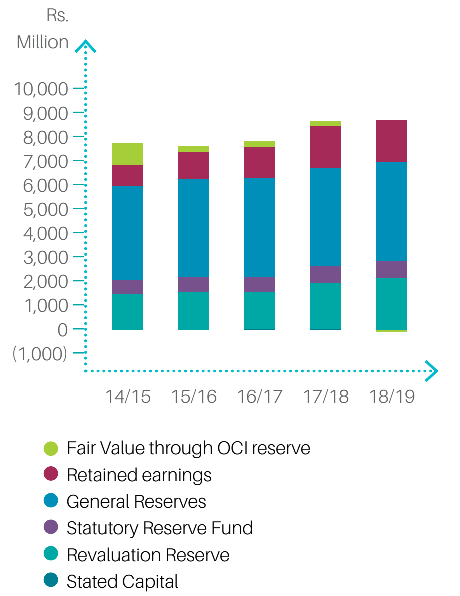
Our core capital remained well in excess of regulatory capital requirement even with the enhanced Basel 11 Capital Adequacy requirements imposed by the regulator, reflecting MI's financial strength and the sufficient cushion that the Company has in place to withstand any unforeseen shocks from the external environment. MI's prudential CARs stood at 14.98% and 16.69% higher than the minimum regulatory limits specified and even above the future 2021 higher requirement of 8.5% and 12.5% respectively.

Regulatory Capital Requirement 2019

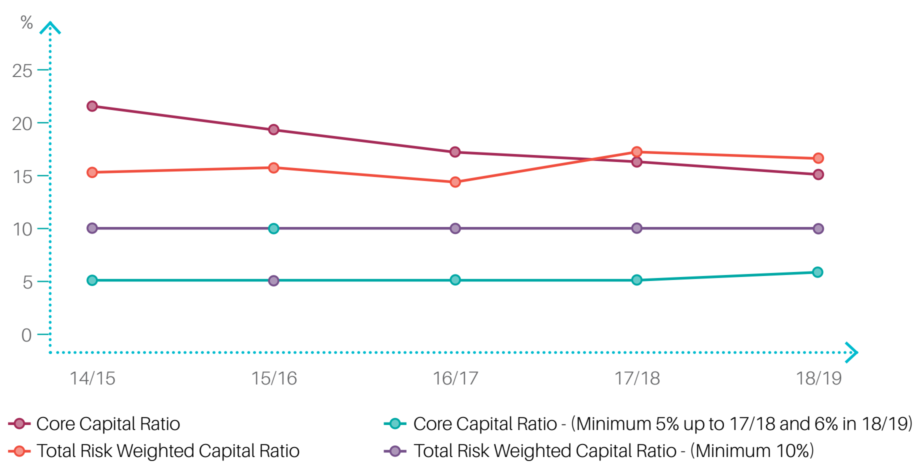
	Capital Adequacy 2019	Capital Adequacy 2018	Capital Adequacy Requirement 2019	Capital Adequacy Requirement 2021
Tier I	14.98	16.24	6	8.5
Tier II	16.69	17.36	10	12.5

* Refer page 370 to 372 in the Financial Statements which gives an overview of the new Basel II regulatory requirements and Capital Adequacy computation.

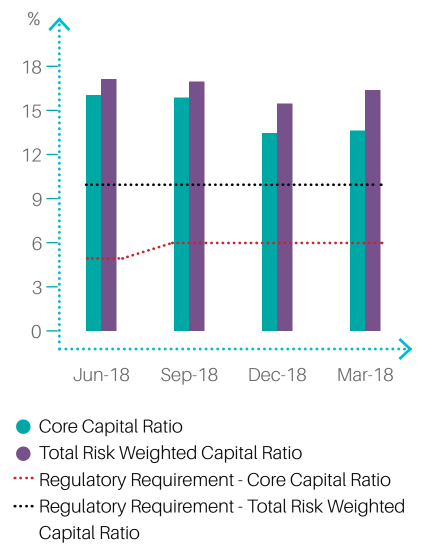
Shareholders' Funds



Capital Adequacy Five Year Analysis



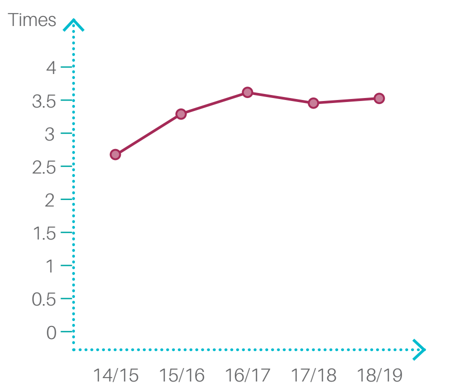
Capital Adequacy Ratio Compliance



Debt to Equity

The composition of debt, which mainly comprised outstanding deposits and borrowings as at the balance sheet date in relation to equity denoted by the Debt to Equity ratio, remained healthy at 3.5 compared to the 3.42 reported in previous year.

Debt to Equity Ratio



Liquidity

MI maintained a healthy liquidity position throughout the year, despite the liquidity shortage that prevailed in the market, especially in the latter half of the year. The Company was mindful of the trade-off between liquidity and profitability and maintained an optimal statutory liquid asset ratio of 14.77% as at 31st March 2019 (11.4 % in 2018) above the regulatory requirement. Our long-term liquidity, though being impacted due to shorter tenors in deposits as opposed to longer duration lending, was somewhat bridged through long-term funding and introduction of shorter loan products.

(Refer Liquidity Risk Management on pages 365 to 367 of the Risk Report.)

Cash Flow Position FY 2018/19

The Treasury Division managed cash flows impeccably to meet both short-term and long-term funding requirements, addressing any concerns related to liquidity and interest rate risks on an ongoing basis. Total cash and cash equivalents as at the reporting date increased from a year before by Rs. 500 million to Rs. 1,010 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 shifted from a negative of Rs. 514 million a year before, to a positive of Rs. 1,097 million as at the reporting date. The inflow of cash from operating activities arose mainly from interest and commission receipts and through the efficient management of operating activities.

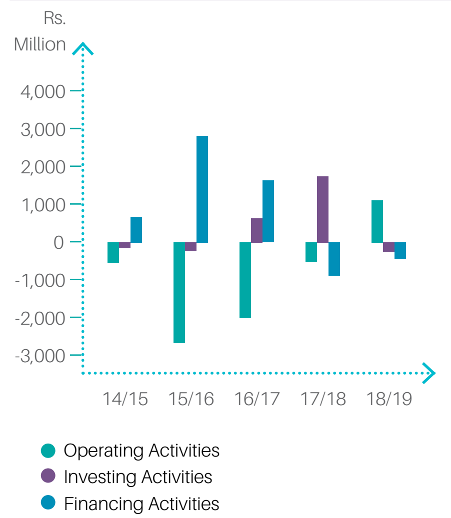
Cash Flow from Investing Activities

MI's cash flow from investing activities reflected an outflow for the period under review amounting to Rs. 226 million, compared to the inflow of Rs. 1,754 million recorded last year. The investment in Property, Plant and Equipment which include intangible assets resulted in the net cash outflow of the current year, whilst no share trading was done.

Cash Flow from Financing Activities

Cash flow from financing activities showed a negative cash inflow totaling Rs. 370 million as at 31st March 2019, compared to a negative cash flow of Rs.882 million recorded during the previous period. The decrease in negative cash inflow was attributable to the relatively lower level of debt repayment undertaken during this period.

Cash Flow Movement FY 2018/19



Outlook

The persisting security concerns and the prevailing economic slowdown would have a cascading negative impacts on the bottom line for the industry. The slow pick up in vehicle trade and linked financing credit requirements is bound to peg back portfolio growth at least in the shorter term. However, the first quarter downward revision of interest rates should improve sector margins, though business volumes are expected to remain behind optimistic targeted levels at least for the next six months.

Emphasis will be placed on on-going recovery actions to regularise default contracts, to improve collections and bring down arrears below the 90 days threshold buckets to keep impairment and NPLs' minimal. We expect reversal of impairment charges in the medium term, concurrently with better management of cost of funding and overhead management.

Alliances

http://mi.com.lk/reports/alliances.pdf

Role of Social and Commercial Alliances in Building Competitive Advantage

GRI | 103-2, 103-3

Strong and mutually beneficial relationships have been expanding and cementing our customer base throughout the past five decades, which continued to act as one of the key factors in deciding our business success. Our Alliances are two types, commercial and social. Here, our approach strives to build lasting relationships through win–win solutions for both MI and the other party, applying our 'Shared Growth' propositions. Our social alliances complement our commercial alliances in our drive towards sustainable business and a better tomorrow for everyone.

Value Principles Upheld

- Creating long lasting bonds and legendary customer experiences
- Ethical business practices
- Trusted and constructive relationships
- Respecting and safeguarding investor rights
- Supporting the fulfillment of social needs

MI's Shared Growth Approach

Alliances Built

Commercial Alliances

- Customer Alliances
- Investor Alliances
- Business Intermediary Alliances

Social Alliances

Commercial Alliances

http://mi.com.lk/reports/alliances.pdf

Role of Commercial Alliances in Driving Business Success

Commercial relationships with our customers, investors and other business intermediaries are deemed pivotal to success and therefore we adopt focused strategies to broad-base our relationships with them over time. The strength and quality of commercial alliances we have built and maintained, enabled us to optimise financial returns, through repeat business, referrals and continued loyalty.

Customer Alliances

We strive to build a loyal customer base and strengthen our relationships with them by acquiring insights about their expectations through market intelligence, delivering an unmatchable service with our innovative solutions. We make effort to build and protect our brand by conducting our business responsibly, whilst we strive to add customer value through experience building.

Investor Alliances

Throughout our history, we have been cementing strong bonds with our investors by fulfilling their expectations, creating financial wealth, and in the process contributing towards the sustainability of the wider economy, society and environment.

Business Intermediary Alliances

We offer shared growth opportunities to our expanding intermediary base which include our networke of agents, suppliers and other business partners. We do not only fulfill our requirements but also add value to intermediaries creating a gratifying bonding.

Short-Term Goals

- Increase customer attractions
- Maintain positive relationships with corporate companions

Medium-Term Goals

- Customer service excellence leading to increased market share
- Capitalise on shared growth prospects

Long-Term Goals

- Enhance customer loyalty
- Partnering with corporate companions towards service excellence.

Capital Inputs

- Existing customer base and business intermediaries
- Customer loyalty and strengthened bonds with business intermediaries
- Customers' and partners' perceptions and inputs
- Employee interpersonal skills
- Corporate culture and relationships

Key Management Activities

Attributable to;

Customer Alliances

- Customer intelligence development
- Innovation and solution tailoring
- Expansion of our customer reach
- Responsible business management
- Creating customer experiences

Investor Alliances

- Investor relationship building

Business Intermediaries

- Creating sustainable intermediary partnerships

Outputs for MI

Customer Alliances
- New customers attracted - **>25,000**
- Maintained a deposit retention level of **74%**

Investor Alliances
- Retained earnings - **Rs. 1.8 Billion**
- Greater investor corporate involvement
- Optimised funding

Business Intermediary Alliances
- Efficient liquidity and gearing management
- Quality consumable products

Impact on Other Capitals

- Revenue from new customers - **Rs. 34 Billion**
- Repeat business revenue - **Rs. 3.9 Billion**
- Newly attracted deposits - **Rs. 1.6 Billion**

- Number of training hours on developing Interpersonal skills - **180 hours**

- Enhancement of the brand name

- New service outlets with parking facilities - **03**

- Green lending for hybrid and electric vehicles

Value Adding Outcomes for Commercial Alliances

For Our Customers
- Affordable Solutions
- Convenience in transacting
- Secured investments and customer privacy
- Lasting trust

For Our Investors
- Wealth enhancement
- Financial stability
- Better decision making

For Our Business Intermediaries
- Shared growth propositions

Trade-Offs: The quality of relationship with customers, investors and business intermediaries impacts the overall value creation process, as most of the resources we utilise as a business are sourced from them. Although we spend large amounts to acquire, retain and nurture these alliances, the accruing long term benefit is deemed much greater.

Alliances have enriched our financial wealth, human resource capabilities and also, infrastructure, intellect and nature in the past and will continue to do so in the future.

> Mercantile Investments has been a great financial partner to my entire family in many of our investments. Their customised services and continuous attention to detail with great staff have always been the reasons me choosing Mercantile Investments.
>
> **Lanthra Perera**

Customer Alliances

Customer Intelligence Development

Material Concerns Addressed

Facing intensifying competition

Being in a highly competitive industry, gathering accurate and timely information on customer insights is essential to satisfy our customer requirements. We emphasise customer intelligence gathering and it remained an integral part of our service value chain (Refer service value chain report pages 107 to 124) of the overall business model.

Customer surveys remained a key tool in acquiring customer information. This direct feedback process, together with formal and at times informal communication channels, provided us valuable customer information on a regular basis. Market intelligence studies conducted concurrently, by the Marketing Division together with IT and Corporate Planning helped us gather large amounts of data. This included technological advancements, changes in micro and macro-economic factors (Refer operating environment section pages 108 to 113), and regulatory framework and wider societal needs that influence and direct customer behavioural patterns and changes in customer expectations. Our effective customer intelligence collection process ensured that we design our products to address emerging customer trends. It also helped us penetrate appropriate market segments which ultimately reshaped our policies on product life cycle management, and our marketing strategies.

Innovation and Solution Tailoring

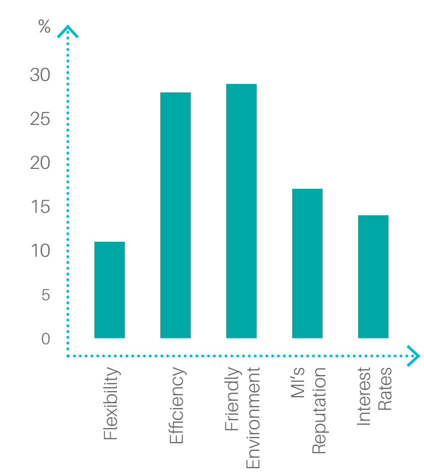
With our accumulated knowledge on markets and customer insights, we were successful in introducing innovative, tailor-made solutions that were aimed at responding more effectively to varying customer needs with greater flexibility and convenience, ensuring service excellence by going beyond customer expectations. By doing this, we were able to differentiate our products in the competitive market by capitalising on the unique features of our products. This year, we launched savings facilities and bicycle and three wheeler financing for micro finance customers, enhancing our market reach through innovation.

Expansion of Our Customer Reach

Our customer alliances were further fuelled by the Company's diversified delivery channels, which extend beyond physical reach. As an established finance company with an island-wide branch network (Refer Infrastructure - branch network page 98), we provide greater accessibility and convenience to our customers, which in turn, helps us to build lasting relationships.

Our mobile sales teams ensure that we provide a personalised differentiated service, which involves direct marketing and close communications. By utilising the latest developments in technology, we were able to allow our customers to execute transactions via digital platforms, such as POS receipts and online payment transfers, providing more flexibility in transaction processing. Focusing more on youth, we increased our reach via social networks, which enabled us to promote our products, maintain contact and receive customer feedback, effectively. Our physical reach was also expanded with the branch network increased by another three branches (Refer Infrastructure page 98) and envisage further, future branch openings around customer dense regions.

Service Attributes Most Appreciated by MI Customers



Source: Customer & Local community satisfaction survey – FY 2018/19

Opening of Malabe Branch in 2019

Responsible Business Management

GRI | 417-1, 417-2, 417-3, 418-1, 419-1

Material Concerns Addressed
Enhancing clientele value

We take responsible business management very seriously as we hold a vast amount of information that is sensitive and confidential and deal with a wide array of customers, offering numerous financial solutions Therefore, we adhere to three key principles to manage our business practices responsibly and to strengthen our business relationships.

1. Product Responsibility
2. Responsible Marketing
3. Information Security and Customer Privacy

As a result of our efforts in the above three areas, 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.

Product Responsibility

Throughout the last five decades, we have enhanced our level of accountability and transparency, which has contributed towards maintaining trust and loyalty in the minds of our customers and the Sri Lankan community. Understanding our responsibilities in the areas of product planning, product designing, marketing and communication, played a significant role in providing responsible financial solutions with accurate and adequate product information, that was promoted through responsible means of marketing.

Both our deposit mobilisation and lending businesses are governed by clear policies and procedures, prepared based on local and international best practices as well as legal requirements. All our new products were subjected to evaluation by the Company's Product Development Team. We launched a 'Digitisation Committee' in February 2019, to further boost product value addition, whilst safeguarding ethical and responsible practices.

New Products/Variants Launched during the Year

- Micro financing facilities for motor bikes
- Three-wheeler micro financing
- 13 month fixed deposit product

Product Responsibility Policy

Responsible Marketing

We abide by responsible marketing practices and fair play and strive to educate our customers through a knowledgeable marketing team about our products and service and underlying principles and procedures, so that both MI, and our customers are informed and protected from unpleasant situations.

During the year, the importance of customer education increased with the introduction of the Customer Protection Framework, which included criteria on terms and conditions and minimum information that should be disclosed and also the information of our main products are available in all three languages, Sinhalese, Tamil and English. We provided training to our front-line staff on educating customers, which helped in improving product transparency and strengthening our relationships with customers.

MI does not deal in or promote banned or disputed products that are subject to stakeholder and public debate. We ensure fairness in our product agreements by incorporating common and industry accepted clauses.

Information Security and Customer Privacy

As customer information is considered highly sensitive, customer privacy continued to be a top priority for us, leading to the deployment of numerous risk mitigating strategies that aim at reducing customer information security risk. In this regard, a Board approved Information Security Policy is in place, which addresses the risks and incorporated data protection guidelines that form an integral part of our operational procedures. Security features are plugged into the systems that control unauthorised access, providing a safety net from cyber-threats and allowed us to maintain backup data which aided us to manage our business without any interruptions in a responsible manner.

We did not receive any complaints regarding breach of customer privacy or loss of customer data during the period under review. We are working closely with the regulator and IT system suppliers to enhance existing security features to face potential threats in the future.

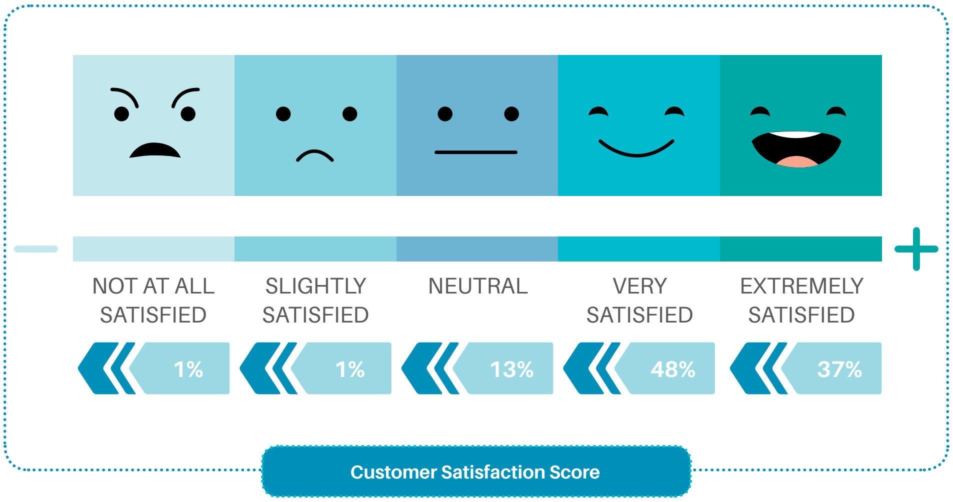
Creating Customer Experiences

We are committed towards extending a unique personalised service to our customers, as promised in our tagline "Service that extends beyond." We strive to continually improve customer satisfaction levels through our speedy, unique and personalised service, to attract and retain a loyal customer base.

Going beyond traditional business relationships, we assisted our customers to select the most appropriate financial solutions that best suit their requirements and repayment capacity. Further, our vehicle sales showroom, insurance and vehicle registration support and after sales services, through our workshops and service centres, provided a one-stop experience in satisfying our customers beyond expectations. As part of strengthening our hassle-free service, we offered one-day service and doorstep services, to promote personal loans and other credit products, which included micro funding.

During the year, our sales and marketing teams attended training programmes that will further improve our customer satisfaction levels in future.

Our depositors were offered discounts to hotels, seasonal promotions and quick withdrawal facilities in emergencies. More significantly, we gained continuous customer loyalty and repeat business because of prudent governance and management practices.

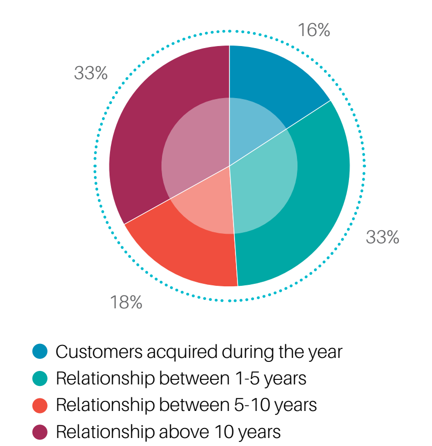


Source: Customer & Local community satisfaction survey – FY 2018/19

As we always value our customers' opinions and suggestions, we regularly followed-up on feedback and complaints from our branch network, through the formal complaint resolution mechanism.

Sales training programs conducted real-life scenarios for better customer experience

Depositor Loyalty Profile



Investor Alliances

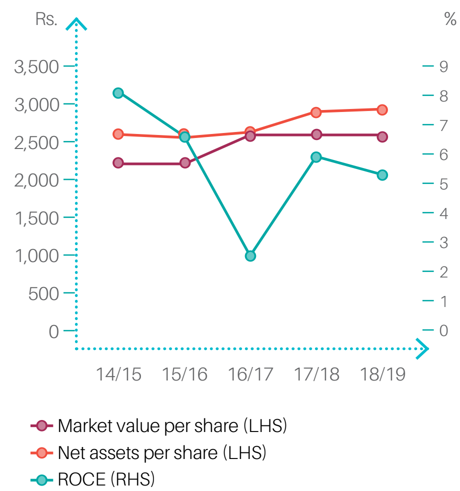
Investor Relationship Building

With a limited investor base, we maintained close relationships with our investors throughout the year. We continued to maintain strong relationships by meeting their expectations, ensuring investor rights and meeting their information demands. Our effective business management style, backed by a committed and capable workforce resulted in favourable financial and non-financial results that are expected to improve in the short, medium and long term. In order to maintain and enhance investor relationships, we also ensured that our staff is well versed on investor rights. The information we provided to our investors met their expectations in terms of accuracy and timeliness. All material information was disclosed to support investor decision making.

As a result of our continuous efforts in meeting shareholder expectations, we were able to generate steady returns for them by way of capital appreciation. Despite challenging economic conditions, caused by fluctuations in the currency exchange rate and other micro and macro-economic factors during the year, our commitment towards creating sustainable value helped us maintain the Company's market value, Earnings Per Share, Return On Capital Employed and dividends. Our investors have enjoyed sound returns over the years though observing a slight decline in MI's net worth growth in the current year.

(Refer pages 374 to 377 for detailed Investor Relations Information)

Investor Value Addition



Business Intermediaries

Creating Sustainable Intermediary Partnerships

GRI | 102-9, 102-10, 204-1

Material Concerns Addressed

Enhancing clientele value

Better understanding of our business intermediaries led MI and our intermediaries to achieve shared success that revolves around growth prospects, trust, stability and longevity in the industry. This has fuelled sustainable business partnerships. Continuous dialogue was maintained with intermediaries to understand expectations and also to address their grievances and misunderstandings. During the year, there were no significant changes to the size and structure of the organisation as well as the supply chain, thus we continued to follow the existing supplier selection and termination processes.

Vendors and other Intermediaries

The growth of our core lending business was supported by sole agents, vehicle sales agents and other intermediaries who promote our products in concurrence with their own products in different market segments. Thus, we continued to build and nurture shared growth prospects with them, recognising their contribution towards value creation. Currently we have joined with over 7000 vehicle sales agents who facilitated us to reach our markets, fuelling our business growth.

Funding Intermediaries

Being a financial institution, our lending capacity and business growth is closely linked to liquidity, which is primarily determined by accessibility to funds. The relationship we maintain with our funding partners, namely; banks, financial institutions and other funding partners helped us to maintain healthy liquidity levels and better serve our customers, which enabled us to offer competitive rates to our customers while maintaining favourable margins. Our long standing relationships helped us source funding at optimal prices. This year, we partnered with a new funding intermediary to broaden our accessibility to low cost funding.

Suppliers

We also placed greater weightage on managing supplier relationships as procurement requirements to support operational activities continued to increase with our expansion. This ensured sourcing of quality products in a timely manner and at reasonable prices which supported smooth flow of work and uninterrupted operations of the Company. In addition to materials suppliers, we also maintained close relationships with our utility providers, consultancy and advisory service providers. During the year, 12 new suppliers joined with us, bringing the total number of suppliers to 57.

Procurement practices and supplier spend

Social Alliances

http://mi.com.lk/reports/alliances.pdf

Role of Social Relationships in Meeting Stakeholder Needs

We strive to stay a pace to the changing requirements of people and to empower them to pursue their goals, uplift living standards and create a more sustainable society. In line with this policy, we broadened our positive impacts on society while mitigating and managing any negative consequences resulting from our business. MI's focused social initiatives touched the lives of numerous people, living in different parts of the island, reaching diverse communities.

As our community interactions increased, MI's Board emphasised the importance of a sustainable strategy that focuses on uplifting communities and securing the well-being of our employees. With these goals in mind, the Sustainability Governance Committee is entrusted to achieve proposed future sustainable development strategy which forms part of the next three year corporate plan.

Value Creation

The value that is created from having social alliances is a result of continuing efforts in financial empowerment, social assistance, corporate culture and community feedback management. This mechanism continues to enrich our brand image and contributed to the ongoing development of sustainable communities and helped uplift living standards of people at national level.

Short-Term Goals

- Empower people towards their immediate aspirations.

Medium-Term Goals

- Strengthen recognition of MI across all strata of society

Long-Term Goals

- Contribute to the creation of more sustainable communities

Capital Inputs

- Social bonds built over 50 years
- Social regulations and obligations
- Societal values and norms
- Human rights

Key Management Activities

- Financial empowerment
- Social Assistance beyond business
- Inculcating cultural and ethical attributes
- Community feedback resolution

Outputs for MI

- **Deep sense of corporate acceptance and bonding**
- **Human resource hiring rate - 43.8%**
- **Social investment - Rs. 1.1 Million**
- **Wider employee contribution towards building social alliances**

Impacts on Other Capitals

- Perceived long term benefits to revenue
- Number of employment opportunities created - **436**
- Improved social awareness among employees
- Lending support for farmers who engage in agricultural activities - **Rs. 1.3 Billion**

Value Adding Outcomes for Social Alliances

- **Beneficiaries from social projects**
- **Development of sustainable communities**
- **Improved quality of life of those supported**

Trade-Offs: Contributing towards wellbeing of society is an ambitious aspiration and requires extensive time, investment and management effort. However, we foresee the intangible positives arising from our social efforts in the longer horizon that will enrich our business. The social alliances that we will create will enrich our reputation, business volumes and market acceptance.

> It is a great pleasure to receive you at our sweet home, Nisansala. I appreciate and thank you for allocating your time to share knowledge with us. We hope to join hands with you in the future with great love. Once again, thank you so much.
>
> **The Nisansala**
> **Drug Rehabilitation Centre**

Financial Empowerment

As a well-established, trusted finance company with a history of over 50 years involved in pioneering numerous financial solutions, we understand the responsibility we have to support people to meet their broader financial necessities. This eventually empowers them and enriches their families and the government through improved per capita and living standards. We reached out to diverse communities scattered across the island, positively contributing towards financial inclusivity, promoting a wide range of credit offerings through our expanding branch network. Our micro financing arm, which is operated from over 20 locations with disbursements from over 1,800 operating centres, upheld our objective of empowering women to become self-sufficient and independent.

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 encourage entrepreneurship and give financial assistance for SME based business startups as our disbursements are driven across all major industries which we feel will help in propelling sustainable development within local communities in the longer term.

Social Assistance beyond Business

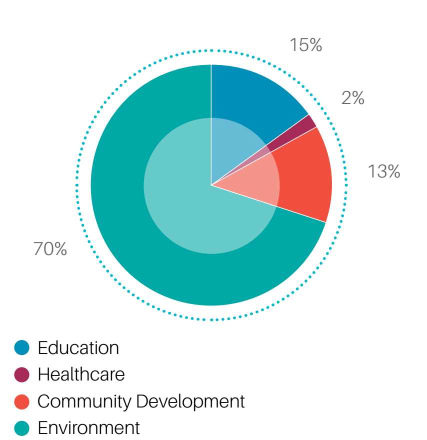
GRI | 413-1,413-2

Material Concerns Addressed
Creating Sustainable Communities

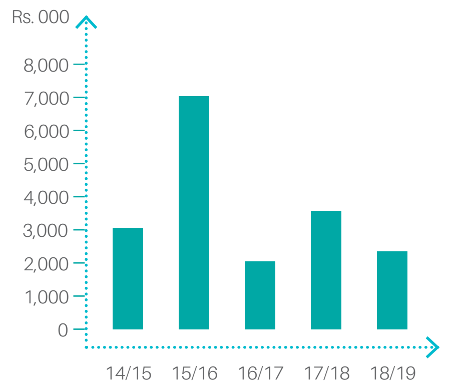
Social Engagement

Our responsibility towards wider society extends beyond business boundaries. In order to ensure social wellbeing , we enagage with communities to understand their needs and strive to address burning issues and provide support where it is neccessary. This includes helathcare, education, sanitation and other areas that require urgent attention. This year, we initiated and completed seven social assistance projects and the total social investment, as a percentage of MI's post tax profit, stood at 0.2%.

Community Support Areas FY 2018/19



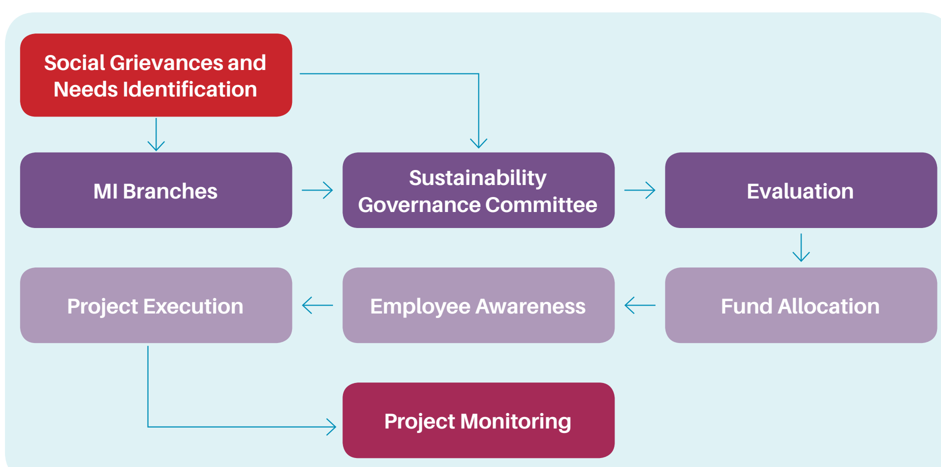
Community Investment



Social Needs Identification

Corporate Social Responsibility programmes originated mainly from community needs that were notified through the formal branch network and hierarchical channels to the Sustainability Governance Committee, which holds the responsibility for planning and implementating the programmes. Once the project ideas were presented to the Committee, the Committee conducted a thorough evaluation which is not restricted to monetary costs and benefits, but also includes the externalities invloved in the project. As explained in the diagram, the Committee proceeded with the fund allocation and implementation whilst ensuring that the project does not create any negative consequences. If the outcomes anticipated generated any negative impacts, the Committee planed for further action that will negate or mitigate consequences, before proceeding with the next phases of the project.

Process of Managing Corporate Social Initiatives



Social Impacts

The Sustainability Governance Committee closely monitorered both social and environmental impacts. The process provided the committee with a bird's eye view of our activities and whether anticipated benefits were achieved, without any negative societal impacts. We are pleased to observe that there were no known or reported material negative impacts on local communities. During this period, none of the operational changes, or new product launches which were reviewed by the Sustainability Governance Committee in coordination with the senior management, resulted in any negative impacts on society. (Refer Impact Report pages 125 to 147).

Inculcating Cultural and Ethical Attributes

GRI | 205-1, 205-2, 205-3

Material Concerns Addressed

Maintaining standards of governance

The way we govern our business, our values and ethics are fundemental in defining our bond with society. We utilise our unique corporate culture, governing style and ethical behaviour to nurture long term bonds with society. To support society, we adopt stringent anti money laundering policies that help control financial crimes and other illegal activities that are harmful to the general public. We also uphold strong governance practices that include a whistle blowing policy to discourage fraud and corruption and we maintain clear communication channels to report improper activities.

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 were monitored on a regular basis and any concerns were reported to the Board. This year, a revised Anti Money Laundering policy was approved by the Board, which encompasses effective controls over verification of customer identity and risk based customer due dilligence reviews.

The improved know your customer (KYC) policy has helped curb illegal activities, that have a negative impact on society. Financial institutions are commonly used as intermediaries for the circulation of illegal money or to fund illegal activities. Therefore, we placed greater emphasis on tightening our internal processes, which extend beyond regulatory obligations. Through regular training, we strive to develop an anti-money laundering (AML) culture, which in turn help us detect and counter AML risks.

Anti Corruption Practices

Integrity is a key value which is encouraged and supported by the corporate management primarily through the Fraud and Whistle Blowing Policy. With the intervention of the Human Resources Department, greater emphasis was placed on strengthening this area through the revised HR policy of 2018. Currently we do not conduct specific anti-corruption trainings, however, considering this a material area, we plan to provide formal-anti corruption training programs in the future years.

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 year, the internal audit team covered all material operational processes and did not come across any significant risks relating to corruption.

Outlook

As we anticipate industry and market competition to be driven by innovation, technology and new product development, the quality of our alliances with customers, investors, business intermediaries and wider society will become vital factors in differentiating our services from peers. To fulfil future requirements of relationship management, we will continue to support our staff in acquiring and sharpening their skills. Therefore, we hope to strategically invest further in developing staff skills that are essential for relationship management and also provide other infrastructure upgrades that matters to the quality of alliances. Accordingly, our corporate plan up to 2022 focused on numerous HR strategies to empower our staff with the required relationship management skills to capitalise on future market opportunities. Technology will also play a vital role in nurturing relationships and providing invaluable management information that will pave the way to attract and retain our alliances in a competitive Industry.

Human Strength

http://mi.com.lk/reports/human-strength.pdf

Role of Human Resources in Building Competitive Advantage

GRI | 103-2, 103-3, 102-16

We heavily rely on the strength of our workforce, which encompasses their business knowhow, experiences, skills and qualities. For us, the strength of our employee talent base has demonstrated proven success for the business in gaining competitive advantage throughout a period of more than five decades.

We perceive the knowledge and expertise of our employees as valuable assets in introducing innovative products and ideas to the market. Staff talent and capabilities have contributed in creating meaningful value that exceeds peoples' expectations.

In reaching our aspired standards, we introduced a set of well-structured policies and procedures covering recruitment, training, performance management and employee rewards which are communicated to the employees through a Board-approved HR Policy, Employee Handbook, Code of Conduct, HR information system and numerous learning and development initiatives.

Value Creation

Our unparalleled work culture attracts, retains and drives our staff to excel in their fields and for them to enjoy a gamut of benefits that extends beyond monetary terms to fulfil wider personal and social aspirations. We utilise staff talents to gain competitive advantage to better serve our clients.

Short-Term Goals

- Enhancing the skills and capabilities of the workforce
- Creating an unparalleled and motivated work culture

Medium-Term Goals

- Grooming talent to face industry challenges

Long-Term Goals

- Achieve status as an employer of choice
- Create an agile workforce

Capital Inputs

- Workforce dynamics
- Employee skills and capabilities
- Culture and relationships

Key Management Activities

- Manpower planning
- Talent acquisition
- Learning and development
- Performance management and rewarding
- Employee Attrition Management
- Human rights management
- Promote employee engagement

Outputs for MI

- **Improved Employee productivity - Assets per Employee Rs. 39 Million**
- **Innovation/ideas contributed >3**
- **Effective compliance to internal policies and labour laws**
- **Employer employee harmony**
- **A captivating culture**

Impacts on Other Capitals

- Revenue per employee - **Rs. 7.3 Million**
- Employee expenditure - up by **9%** to **Rs. 923 Million**

- Enhanced client relationship

- Improved employee knowledge, skills and personality

- Optimised use of physical infrastructure

- Growing natural resource usage with the expanding workforce
- Employee volunteerism in environmental initiatives - **411 hours**

Value Adding Outcomes for Human Strength

- **Gratifying rewards with recognition - average salary increase >8% YoY**
- **Clear career prospects**
- **Broad-based knowledge and skills for career development**
- **Post-employment benefits - Rs. 99 Million**
- **Cultural association and belonging**

Trade-Offs: We invested in staff development, through which we expect to generate steady financial returns and build intellect for the business, especially in the medium- and long-term. In order to build our workforce readiness for future business challenges, during the year, we increased our emphasis on learning and development. As a result of nurturing talent, we have already started to reap positive results with improvements seen in operational processes, lead times and service standards.

"I have been with MI for 30 years because it has a unique and rich culture and the close association with my colleagues felt like family which is impossible to find in any other work place."

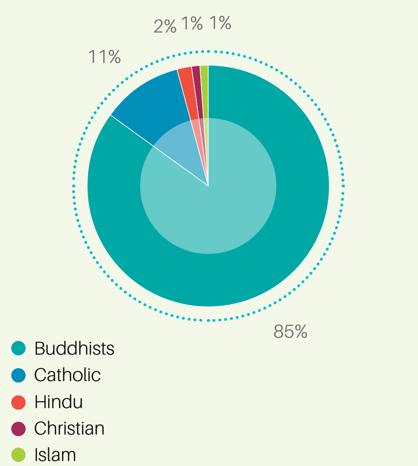
Rohitha Rupasinghe
Senior Manager, Recoveries

GRI | 102-8, 405-1

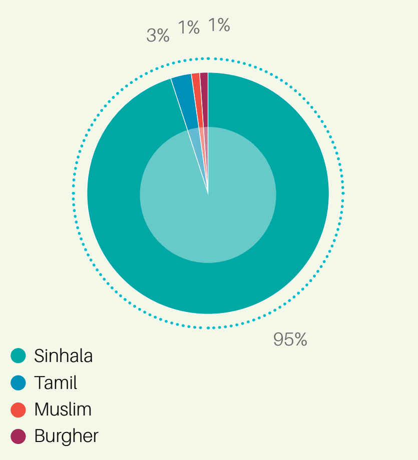
Workforce Diversity

In making our corporate aspirations a reality, we have over 1,000 employees working at different hierarchical levels, having served the organisation with varying service tenures.

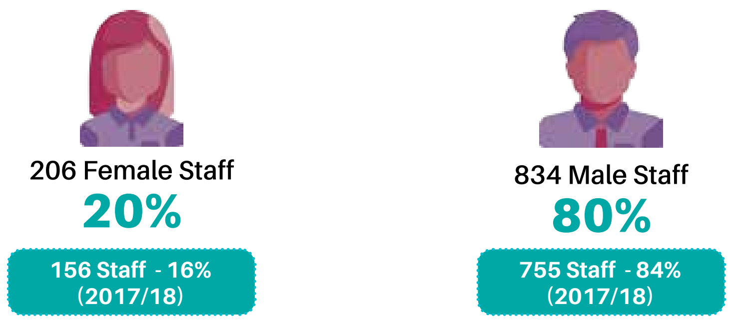
Diversity by Religion



Diversity by Ethnic Group



Workforce Diversity



Well balanced pool of experience

Number of Staff	%	Employees by Their Years at MI	Number of Staff	%
6	3%	Over 20 years	53	6%
6	3%	16-20 years	29	3%
12	6%	11-15 years	39	5%
21	10%	6-10 years	109	13%
161	78%	Below 5 years	604	72%
206			834	

Effective representation of various hierarchical levels

Number of Staff	%	Employees by Hierarchy	Number of Staff	%
1	0.5%	Directors	5	1%
7	3%	Mangers	49	6%
10	5%	Executives	73	9%
66	32%	Clerical and allied	312	37%
122	59%	Office Assistant and Others	395	47%
206			834	

Diversified Age Profiles

Number of Staff	%	Employees by Age	Number of Staff	%
1	0.5%	Above 60 years	11	1%
7	3%	51-60years	30	4%
10	5%	41-50 years	99	12%
36	17%	31-40 years	225	27%
152	74%	18-30 years	469	56%
206			834	

Balanced representation of regions

Number of Staff	%	Employees by Province	Number of Staff	%
162	79%	Western	558	67%
2	1%	Central	10	1%
5	2%	North Central	42	5%
10	5%	North Western	70	8%
12	6%	Sabaragamuwa	67	8%
12	6%	Southern	66	8%
3	1%	Eastern	21	3%
206			834	

Employee Categories by Age 2018/19

Employee Category	Age Group						Total
	Below 30 years	%	30-50 years	%	Over 50 years	%	
Directors	0	0%	2	33%	4	67%	6
Managers	0	0%	45	80%	11	20%	56
Executives	6	7%	76	92%	1	1%	83
Clerical & Allied	209	55%	163	43%	6	2%	378
Office assistant & Others	339	66%	96	19%	82	16%	517
Total	**554**	**53%**	**382**	**37%**	**104**	**10%**	**1,040**

* *The table is based on permanent and full time employees. Staff on contract is immaterial and not included.*

Manpower Planning

Planning of our manpower requirement well in advance ensures the smooth flow of our business operations through timely hiring or internal mobilisation. In doing this, we consider the average attrition rates in different business areas coupled with the requirements stemming from business expansion agendas. Accordingly, the corporate plan put into effect for the financial year required mobilisation of additional staff to strengthen the core business frontline, which included branch expansion plans pursued.

Talent Acquisition

GRI | 202-2, 401-1

Material Concerns Addressed
Grooming a productive workforce

Our Hiring Rate for 2018/19 was **43.8%**

When recruiting, we sought individuals who were appropriately qualified, experienced and skilled and who could fit with our corporate culture. In doing this, we assessed the candidate's ability to demonstrate behavioural and situational skills during a series of structured interviews and psychometric tests.

Our Recruitment Strategy was aimed at mitigating the human resources risk by recruiting the right pool of talent while avoiding the selection of unsuitable candidates. During the hiring process, we strived to maintain a fair ground for all the candidates regardless of their gender, ethnicity and any other discriminatory factors.

The reputation we have gained in the industry as one of the best employers plays a key role in attracting the right talent. MI was recognised for the second time as one of the top 15 companies to work for in Sri Lanka in 2017 by the 'Great Place to Work Institute'. Suitable candidates underwent a stringent selection process, customised for different hierarchical levels. A thorough assessment on employee background is conducted before hiring candidates to ensure we recruit people with high integrity levels and ethical standards that meet the expectations of the Company and stakeholders.

As we operate with an island-wide branch network, we relied on sourcing talent from respective geographical territories which enabled us to contribute to regional development through creating employment opportunities as well as in gathering area-specific market knowledge. The expertise gained by the branch network contributes to the product design and market intelligence gathering phase of the value chain to convert their local expertise into product development and marketing strategies.

88% of senior managers have been hired locally to date

Local Hiring

Diversity in Recruitment

We hired 436 employees during the year to support our widening business considerations and planned Growth Strategy. Our Recruitment Strategy ensures that we acquire diverse talents stemming from varied backgrounds.

104 Female Staff
24%

55 Staff - 17% (2017/18)

332 Male Staff
76%

266 Staff - 83% (2017/18)

Number of Staff	%	Employee Hiring by Age	Number of Staff	%
2	0.5%	Over 50 years	16	4%
6	22%	30-50 years	50	61%
96	1%	Below 30 Years	266	11%
104			332	

Number of Staff	%	Employee Hiring by Province	Number of Staff	%
69	16%	Western	208	48%
2	0.5%	Central	2	0.5%
2	0.5%	North Central	5	1%
10	2%	North Western	32	7%
9	2%	Sabaragamuwa	31	7%
8	2%	Southern	40	9%
4	1%	Eastern	14	3%
104			332	

New Employee Hires by age, gender and region

Learning and Development

GRI | 404-1, 404-2

Material Concerns Addressed
- Grooming a productive workforce
- Maintaining standards of governance

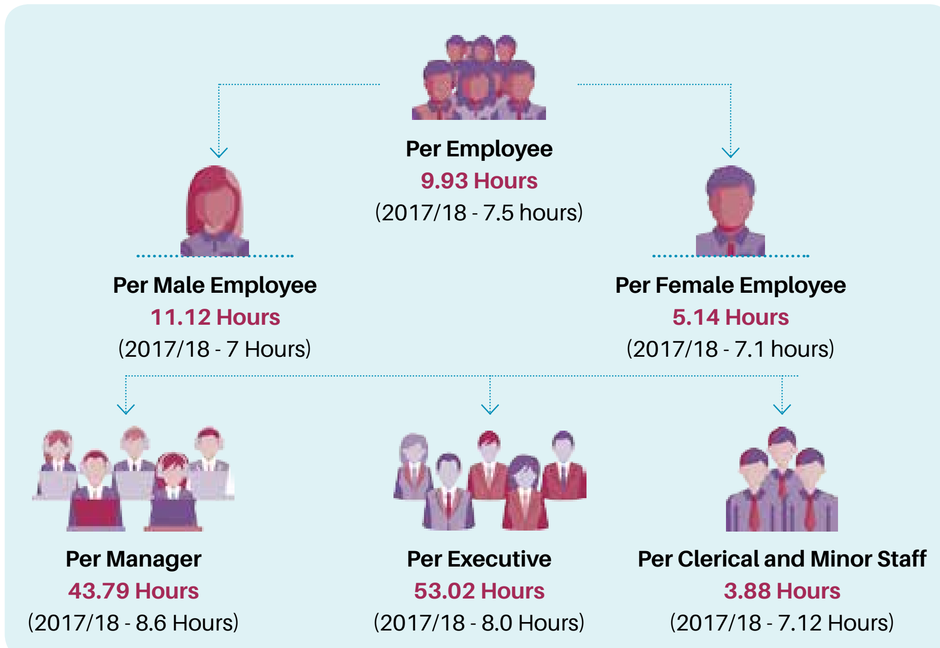
Learning and development was perceived as the backbone to equip the workforce with appropriate knowledge and skills in line with job complexities and challenges. Training needs were identified by the Human Resources Department, which coordinated and designed suitable programmes throughout the calendar year.

Training programmes conducted by internal in-house resource personnel or external specialists addressed a wide array of training needs, including technical training, training on regulations, IT training, leadership and soft skill development, etc.

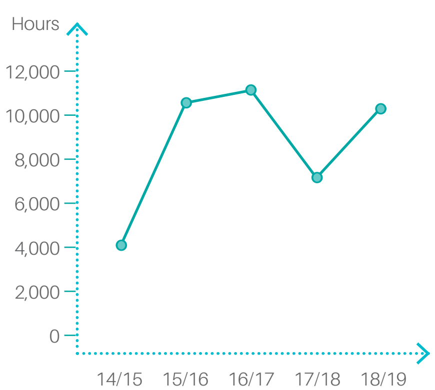
This year, greater emphasis was placed on learning and development activities due to the expanding geographical footprint, changing regulatory requirements, challenging industry landscape and business growth.

The planned business growth trajectory identified the emerging need to groom our employees for higher leadership roles. Business requirements together with the importance placed on future human resource management propelled the training investment to new heights. As a part of increased focus on training and development, we restructured and redesigned some of the existing training programmes to enhance their effectiveness and better address the expectations of our staff and other stakeholders.

Average Training Hours Breakdown - 2018/19

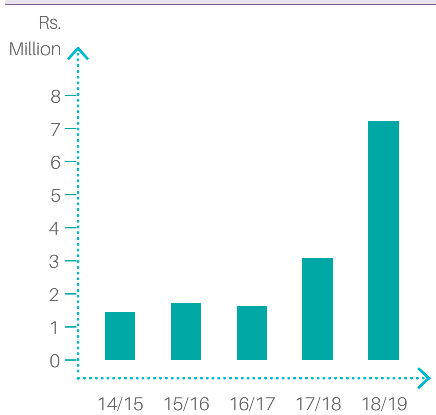


Hours of Training



Our efforts in training and development was reflected through a YoY **44%** increase in the number of training hours afforded this year

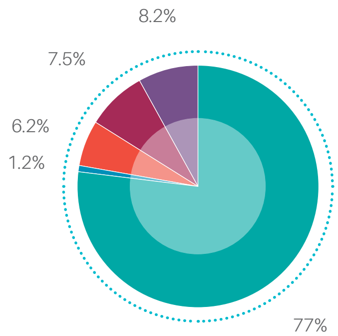
Investment in Training



In 2018/19, we invested **Rs. 7.2 million** in learning and development, up by **133%** compared to last year

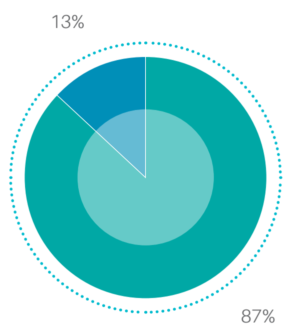
Training Hours by Employee Category

Training Coverage - 2018/19



- Job related training
- Training on regulations
- Anti-money laundering
- Corporate ethics
- Leadership and personality developments

Training by Gender



- Male
- Female

Programs for skills management and lifelong learning

Training by Gender and Hours of Training

Leadership and Personality development Training Sessions held in 2019

Addressing the growing need of AML practices and awareness, we conducted AML training during the year resulting in 480 training hours.

Number of employees who participated in training on AML

	2018/19	2017/18	2016/17	2015/16	2014/15
Managers and above	29	48	50	28	16
Executives/Assistants	51	83	75	183	89
Total	80	131	125	211	105

Employee Soft Skill Development

Skill Area	No of Training Hours
Business communication	180
Interview skills	736
Joining instructions- decisions define your destiny	428
Performance management process and the expectation from you as a "People Manager".	88
Sales excellence training	3,264
Team leaders sales excellence	240
The coach of Steve Jobs - CEO forum	88
Total	**5,024**

Performance Management and Rewarding

Material Concerns Addressed
- Grooming a productive workforce
- Employee motivation and welfare

Appraising Employees

GRI | 404-3

The formalised performance appraisal system was applied across all hierarchical levels. Accordingly, as a key tool in balancing productivity with motivation, we conducted this reviews bi-annually, evaluating the employees in terms of their job performance and behavioural skills. As an initial step, employee goals were set in advance and communicated to the employee. Employees' actual efforts were then measured and compared. This paved the way for the 'employee rewarding' phase and provided insights into future career advancement opportunities for staff.

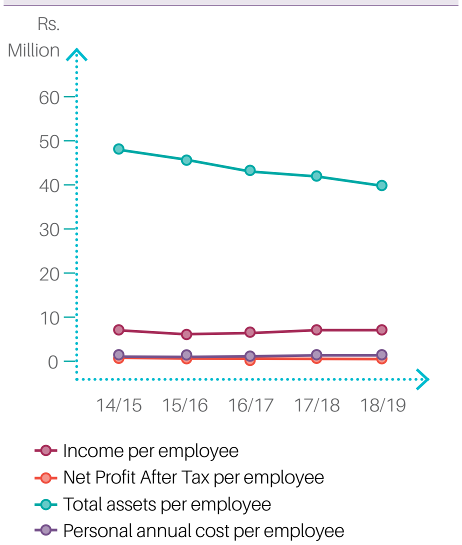
As a bold step in improving the existing performance management system, we collaborated with an external expert institution and were able to establish a fully-fledged system which is hoped to kick-start from FY 2019/20. This new system will help evaluate employee performance thoroughly, not only from the aspect of "what they did" but also "how they did it".

65% of our staff underwent performance reviews this year.
During the year, we recognised the contribution of high performers and gave 149 opportunities to advance in their careers, reflecting a 39% increase YoY.

Employees who were Subjected to Performance Appraisal and Career Development Review

	Number of Employees who underwent Performance Appraisal		Percentage of Employees who underwent Performance Appraisal		
	Male	Female	Male	Female	Total
Corporate management	13	3	1.9	0.4	2.3
Managers	101	10	14.8	1.5	16.3
Executives	267	60	39.2	8.8	48.0
Clerical and Allied Staff	169	58	24.8	8.5	33.3
Office Assistants and Others					Not Appraised
Total	**550**	**131**	**66%**	**64%**	**65%**

Workforce Productivity



Employee Benefits and Rewards

GRI | 202-1,401-2,405-2

In order to keep our workforce motivated and contended, we maintained competitive remuneration packages for each employee category, which were not restricted to salary and bonuses but blended with non-monetary incentives such as a motivating corporate culture, a safe and pleasant work environment, work-life balance and sufficient learning and development opportunities.

In keeping to our HR policies, a competitive salary structure was maintained on par with the industry. In order to ensure the economic wellbeing of our employees, we have set our standard entry level wages above the regulatory requirement regardless of gender or any other inequalities.

As a responsible employer we ensured adherence to legal obligations associated with employee compensation, which include minimum wage regulations, contribution to Employee Provident Fund, and contribution to Employee Trust Fund, overtime payments, gratuity payments and tax deductions.

Our standard entry level wage is **18%** above the regulatory minimum wage level

Disparity in entry level basic salary between women and men stood at **17: 16**

During the year, the monetary benefits provided to permanent employees totaled **Rs. 1.1 Billion**

Ratio of Basic salary

Composition of Employee Benefits for Permanent Employees

Key Benefits	2018/19 Rs. 000	2017/18 Rs. 000	2016/17 Rs. 000
Salaries, Wages & Bonus	862,788	696,208	551,747
Overtime	17,172	14,978	13,761
Allowance	216,793	36,230	77,582
Medical Expenditure	1,182	987	1,188
Health Insurance	15,499	13,565	11,860
Gratuity	11,120	20,277	28,327
Total	**1,124,555**	**782,245**	**684,465**

Health and Safety

GRI | 401-3, 403-1,403-2,403-3, 403-4

We ensured the physical safety of staff and provided necessary resources and facilities to expedite their duties without any frustration and hindrance. In doing this, we created a clean and pleasant office environment which underwent timely renovations. We also adopt a high level of safety standards which is accepted by the industry to protect our employees, though our business operations do not create a high risk environment.

257 lost days were reported during the year 2018/19

MI has direct control over the health and safety conditions of all its employees and workers employed by independent contractors. The nature of our business does not directly cause any occupational diseases or hazardous environment to employees and independent contractors employed by the Company, thus our exposure to employee safety hazards is minimal. Therefore, we do not perceive the need to set up an Employee Health and Safety Committee. No formal agreements exist between the organisation and its employees on matters of health and safety. However, we monitored all relevant indicators such as the incidents of injuries and return to work after parental leave as a means of improving employment health and safety, the summary of which is given below.

Rate of Injuries or Fatalities, Occupational Diseases, Lost Days 2018/19

Region	Injuries in Number				Lost Days (Based on average number of days per employee)X246 days				Type of Injuries
	Male	Injuries Rate	Female	Injuries Rate	Male	Lost Day Rate	Female	Lost Day Rate	
Eastern	-	-	-	-	-	-	-	-	
North Central	1	20.00	-	-	47	40.87	-	-	Accident
North Western	-	-	-	-	-	-	-	-	
Sabaragamuwa	1	20.00	-	-	44	38.26	-	-	Heart Surgery
Southern	1	1.39	-	-	4	0.81	-	-	
Western	6	1.13	2	40.00	156	21.14	6	5.22	Fever (Dengue)/ Accident
Total					**251**		**6**		

- *There were no fatalities during the year*
- *Average number of working days per employee - 246 days*
- *There was one incident reported in the Eastern province that resulted in injuries to a worker employed by an independent contractor due to a bike accident. The worker is not an employee of MI*

Absenteeism by Region and Gender 2018/19

Region	Absenteeism			
	Absenteeism in Days- Male	Absenteeism Rate	Absenteeism in Days- Female	Absenteeism Rate
Eastern	1	1.43	-	-
North Central	2	2.86	-	-
North Western	-	0.00	-	-
Sabaragamuwa	-	0.00	-	-
Southern	-	0.00	-	-
Western	28.5	40.71	-	-
Total	**31.5**			

- *Occupational diseases are not applicable due to the nature of finance business activities which does not directly create related health risks.*
- *The report was prepared using the statistics generated by the HR Department by compiling department-wise information annually.*

Return to Work and Retention Rate after Parental Leave

At MI, we have created a supporting environment for staff who return after parental leave, allowing them to balance new life challenges while growing in their careers. MI's return to work after parental leave ratio stood high at 80% in 2018/19 which has been reflecting an improving trend throughout the last three years, which indicates the high standards of facilities we have provided for female staff returning after maternity leave.

	2018/19	2017/18	2016/17
Number of employees entitled for maternity leave	206	156	150
Number of employees who took maternity leave	5	4	6
Number of employees who returned to work after maternity leave	4	3	3
Number of employees who returned to work after maternity leave and who were still employed 12 months after their return to work	5	2	2
Return to work rate%	80	75	50
Retention rate%	67	67	40

- *As a general policy, only maternity leave for females is granted as parental leave*
- *One employee was on maternity leave as at the reporting date*
- *Based on previous year's retention information.*

Employee Attrition Management

GRI | 401-1

Having observed industry inherent attritions at specific levels of the organisation, we were able to streamline the exit management process that provides insight into effective people retention. Confidential exit interviews were conducted to identify suggestions, grievances and motivational gaps, etc. Information gathered through these interviews helped us in re-shaping HR policies and procedures to manage attrition levels.

Staff Turnover by Age, Gender and Region 2018/19

Category	Male		Female	
	Staff Turnover	% of workforce	Staff Turnover	% of workforce
Eastern				
Below 30 years	10	2.88	1	0.29
30-50 years	3	0.86	-	-
Over 50 years	1	0.29	-	-
Central				
Below 30 years	1	0.29	2	0.58
30-50 years	-	0.00	-	-
Over 50 years	-	0.00	-	-
North Central				
Below 30 years	3	0.86	1	0.29
30-50 years	4	1.15	-	-
Over 50 years	-	0.00	-	-
North Western				
Below 30 years	12	3.46	2	0.58
30-50 years	6	1.73	-	-
Over 50 years	-	0.00	-	-
Sabaragamuwa				
Below 30 years	20	5.76	1	0.29
30-50 years	9	2.59	1	0.29
Over 50 years	-	0.00	-	-
Southern				
Below 30 years	31	8.93	5	1.44
30-50 years	12	3.46	1	0.29
Over 50 years	-	0.00	-	-
Western				
Below 30 years	128	36.89	32	9.22
30-50 years	34	9.80	6	1.73
Over 50 years	17	4.90	4	1.15
Total	**291**	**79.27**	**56**	**20.73**

Staff Turnover

Rate of employee attrition during the financial year was **34.9%**

Human Rights Management

GRI | 412-1,412-2,412-3

Material Concerns Addressed

- Grooming a productive workforce
- Maintaining standards of governance

As a responsible employer and a reputed finance company, we understand that the protection of the human rights of our employees and clients is vital and fundamental. We do not have any operations which are subject to human rights screening, hence no separate human rights clauses were developed or incorporated into any agreement. However, with the issuance of the Financial Customer Protection Framework, we further emphasised on the human rights of our customers. In keeping to this and to educate our staff on human rights aspects that are relevant to our business and operations, we aim to include such aspects of human rights into our future induction programs.

Handling of Staff Concerns and Grievances

GRI | 102-41, 103-2,103-3, 403-4

Our Open Door Policy and close relationships with staff allow us to understand their needs well in advance, resulting in minimal concerns and disruptions. We have established a formal mechanism which is incorporated into the HR Policy for grievance handling which receives active participation of the Human Resources Management Department as well as the department heads. No trade union functions or collective bargaining agreements prevail within the Company.

Managing Operational Changes

GRI | 402-1

As an organisation which places greater emphasis on innovation and streamlining while focusing on sustainable business growth, we introduced changes to our products, processes and systems. In addition to this, we operated with 39 branches, sometimes requiring a high level of staff mobility. In managing operational changes such as physical transfers between branches, changes to job scope and responsibilities, we maintained effective dialogue with the employees impacted and kept them informed well in advance in order to provide them with sufficient time to prepare for changes. However, if there are circumstances where business conditions require immediate changes to the operations, this may require Management to implement same without prior notification. Currently, we do not specify a minimum notice period when any such changes are deemed necessary.

Security Personnel Training

GRI | 410-1

The security personnel deployed at MI are outsourced from a third party security service provider. As a financial institution dealing with money and cashiers, we are exposed to a greater level of theft-related security risks. Further, being located in a high security zone and considering the recent national concerns on safety, all security personnel deployed are well-trained in techniques to provide security and safeguard our premises, employees and also our clients. Further, all security personnel have been educated and trained on handling situations which are deemed a security threat, without compromising on the human rights aspects of those involved.

Workplace Equality

GRI | 406-1

We demonstrate high standards of fairness and workplace equality across our corporate policies, procedures and practices such as our Recruitment Strategy, Performance Appraisal and Rewarding Strategy, staff promotions, etc. By strengthening the performance management system, we increased transparency and reaffirmed the idea of equality among our employees.

As a result of our efforts towards non-discriminative practices, our workforce reflected diverse characteristics in terms of age, gender, ethnicity and tenure. There were no incidents of discrimination reported through our channels during the period.

Promote Employee Engagement

For us, it is equally important that we ensure our employees are content and enjoy their job, which in turn helps the Company in retaining employee expertise. We intend to provide experiences beyond traditional work experiences which result in pleasant memories with colleagues and about the institution. In doing this, we invested Rs. 5.1 million in employee engagement activities such as staff trips, Christmas carols event, staff party, sports events and staff outings and created opportunities for them to participate in voluntary environmental and corporate social initiatives.

"Superwoman" – Women's Day Program 2019

Outlook

As our business journeys into a new era of technological advancements, human capital is considered as one of the most vital assets in enabling innovation, which leads to gain competitive advantage. In doing this, our Human Resource Management Strategy aims to increase its focus on enhancing employee capabilities through learning and development, a better performance culture and employee engagement in a way that is aligned with the changes in socioeconomic conditions and human behavioural trends. A higher learning and development budget was planned for the next three years to boost staff capabilities and nurture our talent pool.

Intellect

http://mi.com.lk/reports/intellect.pdf

Role of Intangible Competences in Providing the Edge

GRI | 103-2 and 103-3

As a premier finance company with a history of more than five decades, MI has gained a vast amount of knowhow and intelligence over the years, in the form of a talented team of skilled and experienced individuals. The intangible power of our intellect is not only driven by our insights gained on motor vehicle trade and in-depth understanding about the intricacies involved in dealing in financial products, but is also manifested through our brand reputation which encompass MI's 50-year heritage. We are known for being a trustworthy partner and a people friendly financial specialist. The untouchable legendary service we extend to our customers differentiates us from competition.

The investments we make in technology, to automate operational functions to execute transactions with ease and reduce transaction processing times affords customer convenience and accessibility. The brand image is fortified through our good governance, staunch leadership and prudent management philosophy executed by the MI board. This has protected the interests of all MI key stakeholders and enabled the organisation to reach performance success. We have gained recognition, winning accolades internationally as well as locally for financial reporting and transparency.

Value Creation

For us, intellect is a compilation of our leadership and workforce knowledge, effectiveness of our internal processes and MI's brand strength. We actively drive these inputs to enhance value for us and our stakeholders, in the form of outputs, outcomes and various capital trade-offs that eventually enrich the overall value of capitals.

Short-Term Goals

- Widen skills of our workforce
- Embracing advanced IT systems for business

Medium-Term Goals

- Create island - wide "top-of-the-mind recall" of the MI Brand

Long-Term Goals

- Continue to increase market share

Capital Inputs

- Leadership style
- Know-how and intelligence
- 4 Ps of MI: Policies, processes, procedures and practices
- Our brand standing
- Corporate credit rating

Key Management Activities

- Knowledge management
- Brainstorming and idea creation programmes
- Talent building
- Processes and systems development
- Intelligence gathering
- Branding

Outputs for MI

- **Through competitive advantage, kept market share at 3%**
- **Increased efficiency and productivity - Revenue per employee Rs. 7.4 million**
- **Infused Innovation**

Impacts on Other Capitals

- Revenue growth - **9.4%**
- Software development investment - **Rs. 6.2 Million**

- Customer oriented workforce
- Service excellence through technology

- Skilled and experienced employees
- Increase in number of training hours - **44%**

- Return on assets – **1.1%**

- Automation-led controlled use of paper

Value Adding Outcomes for Intellect

- **Strengthened brand reputation and public confidence**
- **Accumulated employee knowledge**
- **Inbuilt a secured information security environment**

Trade-Offs: The benefits from the investment we made in building the required intellect has cascaded and enriched all capitals we utilise. Though retaining talent and technology involves continuous expenditure, we have groomed a strong workforce, who has penetrated markets to increase revenue, delivering a quicker service and utilising technology to generate a greater product value. With our brand enriched, our clients have cemented lasting bonds.

> We believe that the brand we build adds to the financial value of our business, much more than our tangible assets.

"We reinforced our workforce knowledge base (refer 'Learning and Development' on pages 85 to 86) and broadened their skill set, whilst retaining the experienced and also injecting new blood to strengthen the talent pool we have."

Knowledge Management

Material Concerns Addressed
Enhancing clientele value

Knowledge management is at the centre of intellectual development and involved in grooming of young talent through know-how and insights gained by the experienced corporate management team and support managers attached to core functions of the Company. Through the coordination of the Human Resource Department, it was possible to carry out a numerous technical programmes in-house, directly related to core business operations, with total training hours notably increasing by 44% compared to last year.

As leadership development was deemed central in meeting future business challenges and complexities, during the year, the Directors and Corporate Management as well as their next in line managers were subjected to leadership and knowledge development programmes carried out with the expertise of both external and internal resource personnel within this period.

Leadership development programs for the Corporate Management Team

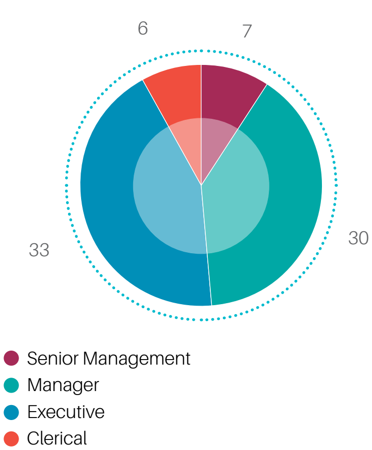
Brainstorming and Idea Creation Programmes

Our corporate culture encourages knowledge sharing and idea generation among all layers of the hierarchy. To facilitate this, our "open door policy" and the performance based rewards system is geared in identifying and giving due recognition to innovative contributions. As a formal mechanism, MI Board members together with the corporate management underwent "Brainstorming and Creation" sessions conducted across all strategic business units with the consultation of heads and senior staff. These programmes as well as regular management meetings and employee feedback brought out innovative solutions, processes and concepts that eventually helped us to introduce new product value additions and effective internal workflow changes that improved our service, paving the way for competitive pricing.

Talent Building

The revised human resource policy introduced in 2018 through the new head of HR placed greater emphasis on future talent building. As the industry and job market remained competitive, it was essential that we retain our existing talent. Those having the qualifications and experience in the finance field as well as the potential talent were identified and were provided with future oriented grooming programmes.

Employees with Over 5 years of Experience in the Finance Field



We are proud to observe that 14% of our workforce have served us for more than 10 years, while 6% of the workforce has served us for over 20 years. We also strengthened the workforce with young blood injected during this period, which contributed to our talent pool with their accumulated experience in the finance field.

Process and System Developments

Material Concerns Addressed
Keeping pace with the technology boom

This year, numerous refinements were made to internal processes, procedures and the IT system which helped reduce lead-times and improve the client service we extend. The decentralisation programme which we commenced a few years ago was further expanded to gear all service points to cater to much greater client requirements. Through the in-house IT system developers, we automated most of the key operational back office functions as well as front end operations which included the introduction of POS machines for our micro collection officers. Further, IT system features were enhanced to support user decision making with the generation of greater value adding management information. Core IT system software installations and upgrades made this year also strengthened data confidentiality, addressing some of the growing cyber security concerns of the industry. With the implementation of the ongoing system migration, we intend affording ATM services and introduce enhanced payment platforms across the island.

Key Automations Carried Out in 2018/19

- To improve asset quality, automation of credit risk evaluation through a system supported score card
- RMV charges recording module which linked credit and finance divisions.
- Online process for employee system access request and authorisation.

Intelligence Gathering

Material Concerns Addressed

Facing intensifying competition

Market research and intelligence gathering played an integral role in MI's value chain (Refer Service Value Chain Report page 116) and is a key component in our intellectual value building process to eventually satisfy our clients with greater product value. The customer related knowledge acquired for over fifty plus years and our expanding dealings with communities during the last two decades has broadened our customer related intelligence which has given us leads into business development and insights on how to differentiate our offerings effectively.

The knowledge we gather by dealing in motor vehicle trade and interactions with communities through the branch network has helped us to identify untapped needs and expectations and understand their savings potential as well as repayment ability. The strong network of agents that we further broad-based this year, assisted us in widening horizons on our lending operation. They were able to support us with market knowledge and potential leads.

Branding

"Brand building revolved around a visibility driven strategy, riding on MI's reliable, unblemished corporate history and legendary service."

Having operated for over five decades with an impeccable corporate track record in the minds of our clients, the MI Brand continued to be positioned as a vibrant brand that is customer-friendly and moreover, a reliable name in the non-banking and financial services sector. All lending products as well as fixed deposits were promoted using the umbrella 'MI' logo, using the tag line 'Service that extends beyond,' to reiterate the legendary service MI is renowned for delivering.

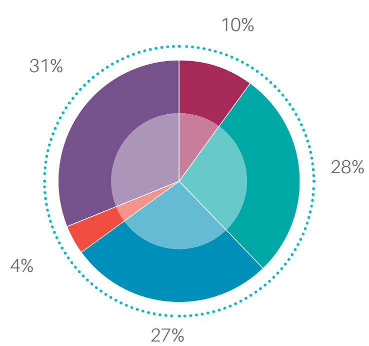
Consequent to the effective stakeholder engagement process we adopt regularly, an effective communication policy was deployed to create the required 'top of the mind recall ', increasing brand awareness levels across the island. To develop the brand, we spent Rs.103 Million from the marketing communication budget on promotions and advertising which reflected a 51% increase from last year. A higher promotional spend was necessary to fuel awareness in newly established locations and those areas deemed fairly new and competitive.

Mercantile Investments and Finance PLC

With public confidence in the industry being somewhat shaken due to a few finance companies facing difficulties in the recent decade, and the banking sector's deeper penetration into the leasing market, transparency and communication of our financial solidity and capabilities were called for.

As an on-going exercise, we measured the effectiveness of our offerings by conducting an annual customer survey across geographical locations. This helped us to remain receptive to public needs and to address concerns about our products and operations.

Customer Attitude Towards MI Brand



- The company provides a higher return
- The company is financially stable
- A trustworthy company
- Security of the investments
- The company is reputed and popular

Accolades & Recognitions

"Recognised yet again for excellence in financial reporting, winning three coveted annual report awards."

- Finance company sector silver award at the CA Sri Lanka awards 2018
- All Island bronze award for the best business model in Integrated reporting at the CA Sri Lanka awards 2018
- MI's annual report was recognised as being amongst the Top 10 best integrated Annual Reports in Sri Lanka for 2018, by the CMA Institute

Outlook

We foresee material shifts in the sector, with people's habits and preferences changing and significantly, the vast amount of technological advancements taking place and making changes to the way we do business. To face future business complexities, our dependence on talented skilled employees will be greater and will be the key ingredient in maneuvering business beyond traditional comfort zones towards future success, overcoming challenges and potential pitfalls on the way.

Retaining talent will depend on our ability to motivate and groom employees to fit to such a dynamic environment. As intellectual capital building will remain the key instrument and source of strength in growing our competitive edge to remain sustainable, our future investment in people and technology will remain significant. (Refer Human Strength section on pages 80 to 91 and Infrastructure section on pages 96 to 101).

Infrastructure

http://mi.com.lk/reports/infrastructure.pdf

Value of Infrastructure in Building Service Excellence

GRI | 103-2 and 103-3

The legendary service we extend is a result of the availability of effective business infrastructure, utilised by our staff in business operations towards business excellence. Our branch network is well supported by state-of- the-art communication platforms that include the information technology systems which enabled us to connect all functions, staff and business locations to deliver a 'service that extends beyond'. We have deployed physical assets efficiently and utilised national infrastructure optimally to deliver an all encompassing service from all locations we operate.

Value Creation

We direct our physical infrastructure and IT systems to broad-base our market reach as a means of improving revenue and stakeholder returns in the long-run. Our infrastructure creation process generates tangible as well as intangible returns for the Company by enabling core business lines to penetrate into markets, increase efficiency while improving the operational capacity of infrastructure.

Short-Term Goals

- Create wider access to our services for clients, community and society

Medium-Term Goals

- Utilise technology as a tool in gaining operational excellence

Long-Term Goals

- Optimise asset efficiency and returns

Capital Inputs

- Premises and surrounding infrastructure
- IT hardware and related equipment
- Motor vehicle fleet
- Other business supportive equipment

Key Management Activities

- Management of access points
- Operational assets utilisation
- Fleet management

Outputs for MI

- **Reach expanded to 39 locations**
- **Optimised operational efficiency**
- **Maintained confidentiality and safety of records**
- **Instilled safe and concurrent business operations**

Impacts on Other Capitals

- Investment in property, plant and equipment - **Rs. 258 million**
- Appreciation in land and building value

- Easy client access and convenience
- New customer relationships tapped - **>34,000**
- Micro finance based outlets - **23**

- Geographically scattered recruitment
- Safer working conditions enjoyed

- Office environment facilitated innovation and synergy

- Water utilisation across all locations - **12,325 m3**
- Electricity utilisation - **1,352,395 kWh**

Value Adding Outcomes for Infrastructure

- **Return on physical infrastructure - 17%**
- **Reach expanded to 39 locations**

Trade-Offs: By the efficient balancing and optimisation of business strategies versus wider sustainability expectations, we were able to maintain a good balance between infrastructure and other capital impacts, especially when increased infrastructure depletes nature. To strike a balance between infrastructure and natural resources, we remained vigilant and exercised best practices.

Automation projects enhanced our alliances and workforce efficiency, creating a positive link between infrastructure and other capitals.

> Technology never stops changing, and we never stop striving to offer exceptional IT amenities to our users, in reaching the objectives of the Company.

Management of Access Points

GRI | 102-3, 102-6

Material Concerns Addressed
Building clientele value

Managing client access points is an essential infrastructure dimension in reaching out to people, improving client experiences and providing convenience, which in turn resulted in maximising of regional business and contribution to overall performance.

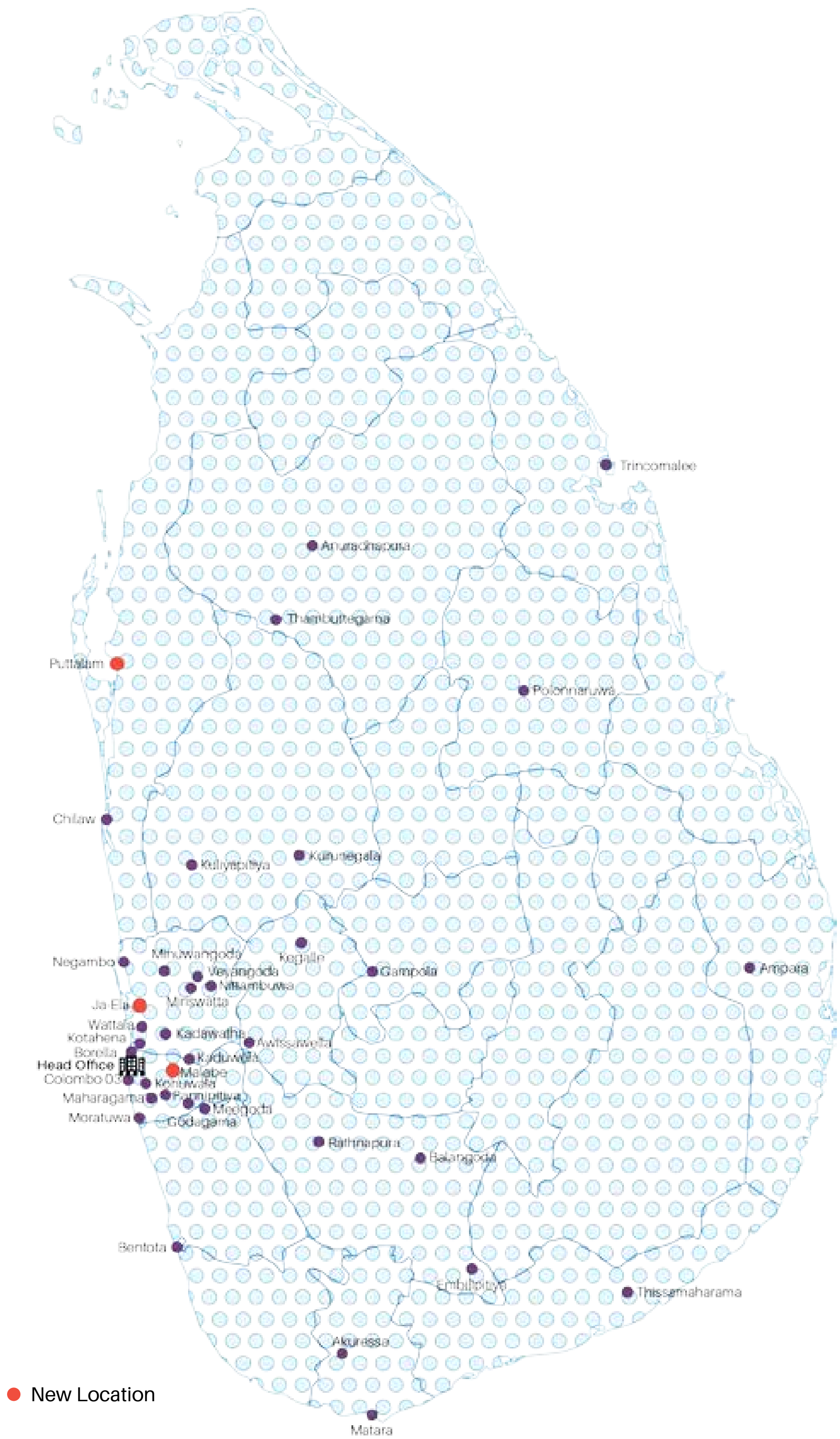
In FY 2018/19, MI's island-wide branch network was further expanded with three new branches to widen the presence in economically viable developing markets to better penetrate into untapped segments. Area feasibility, business outlook and future impacts on sustainability were carefully analysed before setting up these new locations (refer pages 391 to 393 for detailed branch/service centre).

Operational Assets Utilisation

Timely availability of suitable infrastructure is crucial for our business expansion and also for day-to-day operations. We make well-assessed asset purchase decisions in order to ensure our business is equipped with appropriate physical resources when required. Maintenance of assets is carried out on a timely manner by either the IT Department or the Maintenance Department who deploys mobile support teams to ensure the smooth continuation of business operations, avoiding possible interruptions.

Broad areas covered under operational asset utilisation this year is outlined below;

- IT infrastructure management
- Property, plant and equipment deployed



IT Infrastructure Management

Material Concerns Addressed

Facing intensifying competition

IT system infrastructure optimisation actions streamline the business processes towards increased efficiency while improving the product and service quality. This year too, we used tailored system features while introducing safety mechanisms. The corresponding introduction of IT policies and procedures and frequent audits maintained required integrity and efficiency of the core systems and sub modules and highlighted gaps to the management for early resolution.

IT infrastructure Dimensions

- System Infrastructure
- System Enhancements and Modifications
- IT Risk Review
- IT Policies and Procedures
- IT Audits

System Infrastructure

The IT infrastructure played a vital role in supporting both front-end business and back end operations and included all IT hardware, software and supportive accessories.

Our systems have been developed internally using '.NET platform' and world-renowned Oracle database system, combined with highly reliable servers allowing more than 1,000 users to carry out their daily work efficiently.

The Head Office and all the branches are connected through IP-VPN, using a number one ISP provider in Sri Lanka. Backup VPN is also maintained by another vendor to enable uninterrupted connectivity. The network servers operate on Microsoft Windows servers 2008/2012 and 'Linux,' laying the platform for both mail and proxy servers. Our internal IT team of experts, under the leadership of AGM-IT, manages the depicted system infrastructure components to derive optimal benefits to users in a dynamic environment, which are directed towards the organisation's existing requirements and future goals.

System Infrastructure Components

Hardware Maintenance

- Taking care of the computer's physical components, such as its keyboard, hard drive and monitors.

Network Operation

- Network monitoring and control, or network management, is exercised using LAN optimiser and network/bandwith monitors.

Database Administration and Data Recovery

- Capacity planning, installation, configuration, database design, migration, performance monitoring, security, troubleshooting, as well as backup and data recovery.

Documentation

- Maintain technical and user manuals.

Help Desk

- Provide technical assistance and support for incoming queries and issues related to computer systems, software and hardware.

The hardware as well as the software which includes the database is managed with high level security and with prompt servicing, upgrading and monitoring to maintain constant efficiency of the overall computer system. On top of these components, a dedicated mobile IT team and a Help Desk was active even after standard office hours to assist the users and to guide new recruits.

System Enhancements and Modifications

To keep pace with finance business sophistication and emerging user needs, the in-house IT team worked closely to bridge existing gaps and brought external expertise to infuse advanced futuristic IT features which includes digitised solutions. We upgraded the database by investing in the 'Oracle 11g version' during this financial year.

We invested in mini PCs and energy efficient computer equipment and upgraded the existing hardware. Our in-house built information system was further enhanced through upgrades and modifications, addressing the needs of divisions and branches. These enhancements widened the capacity of the system, allowing speedy delivery of services and paved the way for gathering of business intelligence, to gain a competitive edge in the market.

Developments to IT Systems

- Fixed assets barcode system
- Initiation of an in-house Anti-Money Laundering system
- MI insurance system integration with Mercantile Fortunes Insurance Brokers
- System support for product extensions- Micro savings module

IT Risk Review

Doing business in a rapidly digitising economy resulted in many challenges for MI in the midst of intensified industry competition and IT security threats. IT risks, including the threats of cyber-security were tackled through risk mitigating actions initiated by our IT Department in accordance with the recommendations made by external auditors and also the regulator. This ensured that we adhere to internal policies and government regulations on customer privacy and data protection.

IT Policies and Procedures

Utilising technology as a key driver, Management took measures to move towards a hi-tech corporate environment, whilst keeping a close watch on the related risks. We ensured existing IT policies and procedures were reviewed frequently to keep the IT control environment effective and up-to date. The Information Procedure Manual (IPM), System Development Standards (SDS) and Information Security System Policy (ISSP), together with IT contingency plans approved by the Board in 2018, maintained a strong and safe IT control environment and laid the platform to introduce robust safety features at a time when the system was being enhanced.

IT Audits

Our IT policies and procedures are in line with Sri Lanka Accounting Standards and Central Bank rules and directions. A professional IT compliance audit was carried out by outsourced internal audit service provider, Messrs. PricewaterhouseCoopers (Private) Ltd. (PWC) to ensure our systems and policies comply with these external regulations.

The Internal Audit Division, together with PWC, covered various facets of the IT system in order to ensure that current systems provide maximum support to core business processes and adhered to internal control mechanisms. Key audit findings were taken up to the Audit Committee level for resolution.

Property, Plant and Equipment Deployed

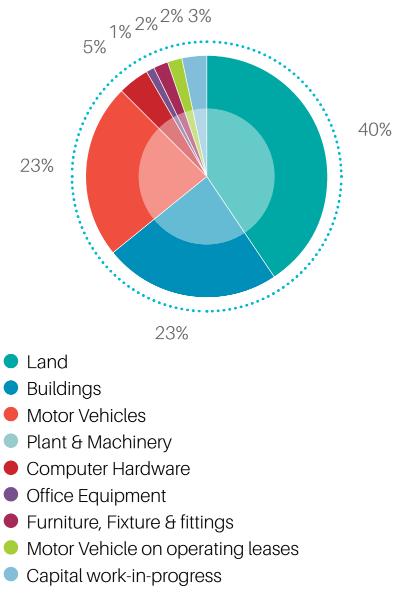
Apart from the IT infrastructure, all MI's service outlets are well-equipped with physical infrastructure, which includes furniture, office equipment and other corporate physical necessities in order to support the frontline and back office staff to offer a first-in-class superlative service.

During this financial year, MI carried out a physical inventory count of its fixed assets, by commencing a fixed asset coding exercise at Head Office, with the guidance and support of Messrs. Ernst and Young Chartered Accountants. We hope to extend this project across all locations to ensure better tracking of assets, whilst maintaining asset value accuracy, as a means of safeguarding MI's assets, even after they depreciate.

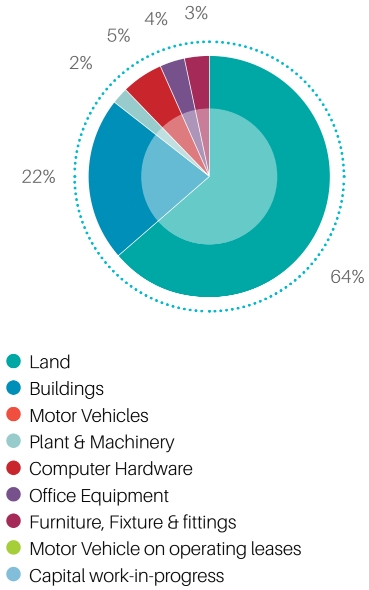
The main component of 'Property Plant and Equipment,' includes own land and building and stood at Rs. 2.8 billion. (Refer Property, Plant & Equipment note, from pages 324 to 329, for details)

Composition of Assets

Head Office



Other locations



Fleet Management

Through the effective management of the Company owned vehicle fleet, corporate management and support staff were afforded transport facilities between Head Office and branches and client places. The movement of consumables and other assets too, were facilitated through the coordination with the Manager Transport and Head of Stores. In maintaining the fleet of vehicles, periodic vehicle services and refurbishments were carried out at MI's Kohuwala workshop and service centres.

Outlook

Our growth in terms of infrastructure for the future is mapped in line with the Company's strategy. Efficient set up of workstations at all service points, bolstered with right technology is bound to ease the way we do business in future and support us in moving to sophisticated forms of business, keeping to our three year corporate plan. The installation of a solar powered business location and the adoption of sophisticated IT systems and digitalisation solutions are priorities in our business journey ahead.

Nature

http://mi.com.lk/reports/nature.pdf

Placing Importance in Protecting Natural Resources and Environment

GRI | 103-2 and 103-3

As our business strategy is embedded with the core concepts of environmental sustainability, we are in a better position to manage our environmental impacts effectively. We have understood our corporate obligations towards nature, and have made efforts to use natural resources mindfully, while rebuilding and restoring impaired resources and habitats. We have developed a clear set of policies together with procedures to safeguard our natural surroundings. This year too, in upholding these ideologies 'The Sustainability Governance Committee' and its subcommittee established numerous environmental protection programmes. While managing our externalities at the minimum, we initiated several nature focused projects to ensure environmental sustenance.

Value Creation

In our daily business operations, we effectively utilise material, energy, water, space and our surroundings to better serve our stakeholders. As a responsible corporate citizen, we handle natural resources sparingly. The green concepts we adopt in our business practices allow us to move towards our aspirations of achieving carbon neutrality in the future. As a socially responsible corporate, we go beyond commercial boundaries to safeguard our nature to create value for the society.

Short-Term Goals

- Minimise and limit negative environmental impacts from business expansion

Medium-Term Goals

- Embrace greater green thinking and related concepts into our business operations

Long-Term Goals

- To become carbon neutral in operational activities

Capital Inputs

- Material
- Energy
- Water
- Space and surroundings
- Ecological effects

Key Management Activities

- Environmental impact monitoring
- Green Lending
- Green operational concepts
- Environmental protection initiatives
- Managing climate change implications on business
- Environmental compliance

Outputs for MI

- **500 Trees planted towards carbon neutrality**
- **Controlled carbon Emissions - 3,168 tCO_2**
- **Waste managed efficiently**
- **Used water, electricity and paper sparingly**

Impacts on Other Capitals

- Environmental and habitat conservation investment - **Rs. 1.3 Million**
- Increased Community benefits
- Partnerships and alliances
- Environmental employee volunteerism - **411 hours**
- Broad-based employee awareness
- Reduced electricity usage by **13,186 kWh**
- Green oriented automation and digitisation
- Enhanced brand image with 51% increase in advertising coverage

Value Adding Outcomes for Nature

- **Improved eco-system**
- **Optimised natural resources usage**
- **Long term environmental sustenance**

Trade-Offs: Despite having to incur additional costs to safeguard the environment, the perceived benefits of environmental protection remained of longer horizon. Whilst MI's interaction with nature and society grows exponentially, management stressed the importance of controlled use of resources and environment protection as a future need to gain societal acceptance. Indirectly, as a result, we have already reaped benefits and greater bond with communities.

"As a responsible citizen, I am proud to volunteer in the steps taken towards nourishing our nature for future generations. I feel valued to be a part of the tree planting campaign which was initiated through the Sustainability Governance Committee of MI."

Udara Jayasundara
Assistant Manager- Deposits

Environmental Impact Monitoring

Material Concerns Addressed
Widening environmental interaction

As a financial services provider, we do not have directly harmful activities or discharges to the environment. Our impact on the environment is more indirect and immaterial. However, with our expanding footprint, we stayed committed to monitoring any possible negative impacts on the surroundings we operate in, whilst managing the use of natural resources effectively.

Under the supervision of the Sustainability Governance Committee, environmental statistics were provided by the Finance Department which incorporated both Head Office and branch information and other statistics for decision making. Further, the Committee monitored impacts on the environment at various locations and identified ways MI can contribute towards environmental protection. (Refer Environmental Impact Management section on pages 140 to 147).

In the back drop of the on-going decentralisation and expansion, the "Asset coding project" initiated this year will pave the way for better control over fixed asset purchase and disposal. This programme combined with the revamping of the stock system in early 2018, complemented the streamlining of stationery and consumable management system to effectively manage stocks between branches.

Further, by providing periodic updates about location-wise utility consumption etc., branches were able to monitor their usage periodically and seek ways of controlling waste.

Green Lending

Through our vehicle financing products, an indirect impact is created on the environment as a majority of vehicles require the consumption of non-renewable energy and cause fuel emissions. However, our increasing promotion of electric and hybrid vehicles has helped minimise these indirect impacts.

During the year we granted **74** Green Loans

Green Operational Concepts

As we have committed ourselves towards a sustainable environment, we have embedded green practices into our day to day business operations and office processes.

In order to optimise the usage of natural resources and to dispose waste appropriately, we adopted the universally accepted best practice of **"3Rs, Reduce, Recycle and Reuse."** We implemented numerous corporate practices and inculcated 'good habits' into our corporate culture, for staff to remain 'Cost Conscious' and reduce wastage, especially in the back drop of expanding business operations.

Nurturing a Green Corporate Culture

With our unique corporate culture, we were able to obtain the commitment of our employees towards the efficient use of resources and environmental protection. Managing Director with the commitment of the senior management staff held a special event in 2018 to drive the importance of cutting down waste through the 'Cost optimisation programme,' which is aimed at inspiring staff to improve their habits towards the 3R concept. Awareness was further intensified through the activities of the Sustainability Governance Committee (SGC), which took the lead to gather staff support towards environmental initiatives and communicate the social and environmental benefits of such projects.

Tree planting campaign at Southern expressway

Steps MI Followed to Build a Green Corporate Culture

Awareness

- Notices/ displays, emails and pop-up screen saver notices on energy savings
- Share reminder notifications about energy saving at meetings and training sessions

Green Actions

- Upgraded lighting system with effective LED, CFL and fluorocent tubes
- Switching off electronics and lights when leaving work place
- Shared printers and the use of high capacity toner cartridges and photocopy machines
- Encouraged staff to use stairs, instead of elevators, whenever possible
- Enhanced equipment with better technology to save on energy

Engagement

- Improved habits and engagement of employees
- Development of an anti-waste culture

Optimising the Usage of Technology

Our automation programme directed at improving operations coincided well with the cost optimising initiatives instilled across the organisation. With technology in the forefront, various IT enhancements and modifications were carried out resulting in reduced paper usage and energy consumption. The contribution from IT developments broadly involved;

A Paperless Environment	The Documentation Management System (DMS) was successful in cutting down paper usage while the introduction of an e-platform, such as the SLIPS system played a key role in creating a paperless work environment. Automation, which includes system approving and monitoring, has resulted in a gradual shift towards a paperless environment.
Energy Efficient Equipment Usage	Continued investments in energy efficient computer equipment and peripherals, such as mini-PC systems and shared printers, resulted in notable energy savings.
Sharing and Rationalising IT Resources	Use of virtual servers, efficient IT architecture and basic procedures, such as sharing computer equipments optimised the usage of available resources. Eg; Printers.

Upholding eco-values in Managing Locations

GRI | 304-1, 304-2, 304-4

As our branch network is wide spread across the country including both urban and rural areas, we are concerned about the environmental footprint we create in these locations. Consequently, periodic audits were carried out to ensure that our business operations do not directly affect bio-diversity hotspots, or protected areas negatively.

Based on our evaluation of branch/service centre's proximity to demarcated areas of bio-diversity in the country, only the Kegalle branch fell within a 3 Km radius from a designated site - Kurulukale. We do not assess the impact our business operations have on IUCN red listed species.

A bio-diversity check was carried out prior to setting up the three new branches this year and we are happy to conclude that these locations did not disrupt hot spots in the eco-system in any way.

MI's presence in bio-diversity designated locations

Environmental Protection Initiatives

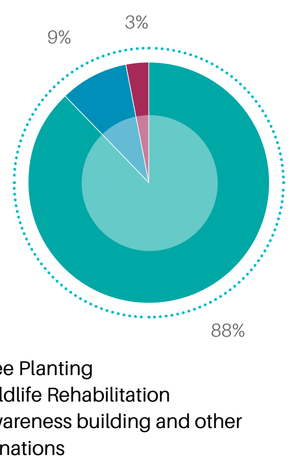
GRI | 304-3

As a long standing corporate working towards a sustainable future for all, we believe that we should contribute to the wellbeing of our environment which allows for the future sustenance of society.

With this ideology in mind, we carried out several environmental initiatives during the year, covering various environmental disciplines ranging from protecting wildlife, to tree planting and enhancing public awareness.

We strongly encouraged staff participation in building public awareness, especially among our customers and communities we interact with, which remained a priority for us during the current year as well.

Volunteered Hours for Environmental Initiatives



Our employees voluntarily spent **411** hours on environmental projects.

Managing Climate Change Implications on Business

GRI | 201-2

In the current context, we witnessed adverse impacts of climate change in rainfall patterns, temperature trends and various natural disasters. As we operate in the finance industry, such impacts are not directly affecting our business lines. However, we are indirectly impacted due to our lending exposure to the agricultural sector, which is dependent on the climate and is susceptible to change.

Financial Implications Due to Climate Change

Key Indicators	2018/19	2017/18	Change %
Exposure to Agriculture and Agri - Based Industries ;			
Agriculture and related lending portfolio (Rs. 000)	1,856,930	1,282,218	44.82
Total Agriculture related Disbursements (Rs. 000)	1,318,290	848,240	55.41
Non performing Portfolio relate to Agriculture and related lending (Rs. 000)	102,899	84,179	22.24
Non performing Ratio (%)	6	7	(8.61)
Environmental Initiatives			
Environmental Investment (Rs. 000)	1,557	1,661	(6.26)

Environmental Compliance

GRI | 102-11, 307-1

Material Concerns Addressed
Regulatory Challenges

As a responsible corporate citizen, we continued to embrace best practices on environmental governance and other legal requirements. During the financial year 2018/19, no violations were reported on maintaining environmental standards imposed by regulators. No sanctions were imposed by regulators for non-compliance of any environmental laws and regulations. (Refer Statement of Board of Directors on pages 260 to 266 in the annual report).

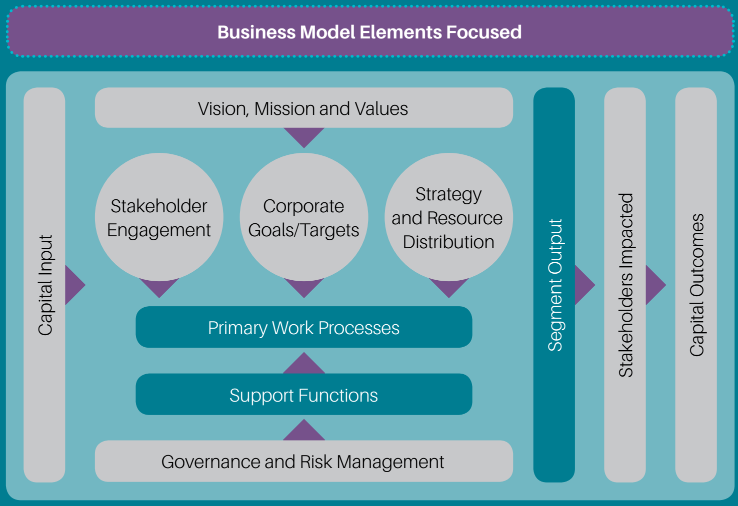
In order to abide with accepted corporate best practices and regulations, we took a precautionary approach towards better governance over the usage of natural resources and better conduct of operations in eco designated locations. Our internal policies and procedures are geared to ensure the carbon impact on the environment is minimised (Refer carbon footprint certification on page 144), and requires employees to be vigilant about the resources they use and to understand the importance of environmental sustainability.

Outlook

As our business grows along with new technologies and facilities, the impact to the natural surroundings would also be significant. Our future plans in minimising our carbon footprint and introducing ways to curtail negative impacts on nature will take greater importance. Conversion of selected locations into solar power to connect with the national electricity supply grid and moreover, the application of more innovative environmental friendly solutions will expand MI's environmental protection platform further, in the future.

Service Value Chain Report

This section of our integrated report analyses the market forces under which MI's business operated, and the performance of the four business segments for the year. This report analyses the global and domestic economic performance and the PESTLE factors impacting the LFC sector and how MI manoeuvred its segments successfully. A summarised elaboration is given of MI's 'Service Value Chain' and its interlinks to segments, segment performance, product value additions and each segment's outlook.



Sub Section Index

Operating Environment

3.7%
World Economic Growth

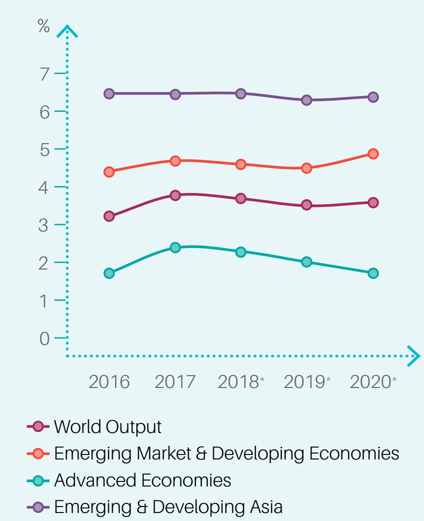
3.2%
Sri Lankan Economic Growth

Interest Rates	Exchange Rate	Inflation
>1.5% upward movement in deposit ceiling rates	**19.5%** Rupee depreciation	**4.3%** Annual average CCPI change

Global Economy

Global economic expansion weakened during the year 2018, bringing down the growth rate to 3.7% from 3.8% last year. Introduction of new fuel emissions standards in Germany and natural disasters in Japan impacted the large economies against a backdrop of weakening financial markets, trade policy uncertainty and slowdown of the Chinese economy contributed to the downside movements of world economic growth. Despite US trade tensions with China, growth in Emerging and Developing Asia continued to grow at a similar pace as 2017 due to offsetting effects of the Indian economic expansion. However, global economic growth forecasts for 2019 and 2020 have been revised downward by the IMF, indicating challenging business dynamics.

Growth Trajectory of the Global Economy



Source: World Economic Outlook, IMF - January 2019
** Projections*

Impact to MI

Slowdown of the Global Economy affected the growth prospects for the local economy and indirectly the finance industry including MI's performance, thus narrowing the possibilities to attract foreign investments and posed challenges for domestic industries to compete in international trade (The US closed policies was one key drawback). As the global economic growth forecasts for 2019 and 2020 have been revised downward, the Sri Lankan economy which remains dependent on the ties with advanced economies will be weary of changing global economic landscape.

Moreover, the finance companies need to re-strategise to face the backdrop of the current domestic security concerns and its impact on tourism and other dependent industries and the cascading effects to credit and vehicle sales in the medium term.

Sri Lankan Macro Economy

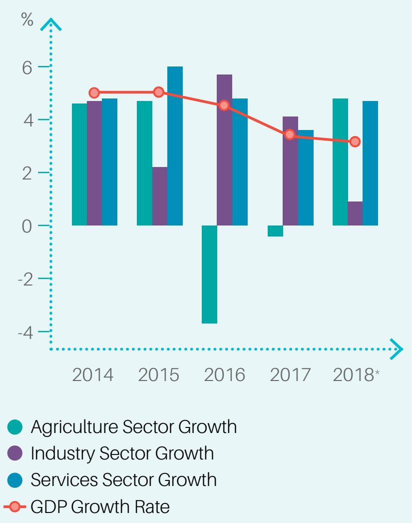
Economic Development

National Output

In the midst of headwinds from a challenging domestic and external environment, the Sri Lankan economy grew at a moderate pace of 3.2% in 2018 compared to 3.4% in 2017. Services activities provided the highest contribution to the economy, led by growth in financial services, and wholesale and retail trade activities. Recovery in agriculture activities also supported economic growth while industry activities slowed down due to setbacks of the construction and mining activities, and moderate growth of manufacturing activities.

During the year, the agricultural sector and services sector grew by 4.8% and 4.7% respectively, supporting the overall economic growth. However, the industries sector grew only by 0.9% compared to the growth of 4.1% last year. GDP per Capita in Rupee terms was up by 6.6%, a slower growth compared to the growth of 10.6% last year due to slowdown in GDP at current prices since the mid-year population growth rate was somewhat stable. GDP per Capita in Dollar terms was almost similar to last year due to weakening of the domestic currency alongside the moderate growth of GDP at current prices.

GDP and Sectoral Growth Trends



Source: CBSL Annual Report 2018
** Provisional*

Employment

During the year, the total labour force and the employed population in the economy declined by 2.1% and 2.4% respectively. Nevertheless, the rate of unemployment increased to 4.4% in 2018 compared to 4.2% in 2017 with females, youth and educationally qualified categories reporting the highest unemployment rates.

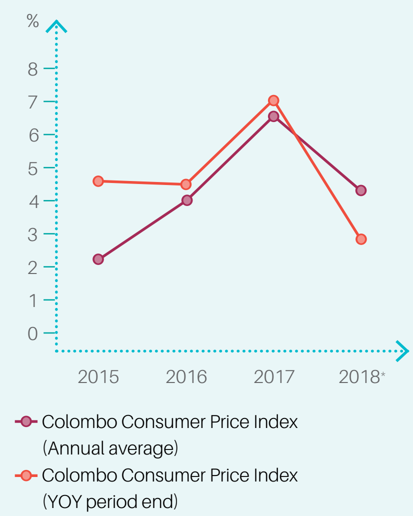
GDP Per Capita & Unemployement Rate

Source: CBSL Annual Report 2018
** Provisional*

Inflation

The Colombo Consumer Price Index (CCPI, 2013=100) reflected mixed movements and stood at 126.3 compared to 122.9 in 2017. The annual average change in the CCPI was recorded at 4.3%, compared to 6.6% last year while the CCPI YOY was at 2.8% compared to 7.1% in the previous calendar year.

Changes in Colombo Consumer Price Index



Source: CBSL Annual Report 2018
** Provisional*

Impact to MI

With slowed economic growth and volatility, the overall business environment and investor confidence remained subdued and resulted in contraction in demand for credit for the Company compared to the previous year.

The slow growth in individual income levels curtailed customers' loan repayment ability and resulted in a rising trend in MI's non-performing lending similar to the industry growth in NPL averages. Moreover, our deposit growth too remained moderate at 5.5% in 2018/19 compared to an 18% growth in 2017/18 mainly owing to the lower residual individual income enjoyed from the moderate GDP per Capita growth and inflationary impacts. MI's increased operational activities in the backdrop of the on-going decentralisation and inflationary effects caused personnel cost and the overhead costs to escalate by 11.4%.

However, amidst difficulties that stemmed from these macro-economic factors, the Company was able to manage costs and improve revenue and therefore, was able to record a healthy post-tax profitability level, though somewhat lower than the previous year profits. (Refer Financial Wealth pages 58 to 68).

External Sector

International Trade and Exchange Rate

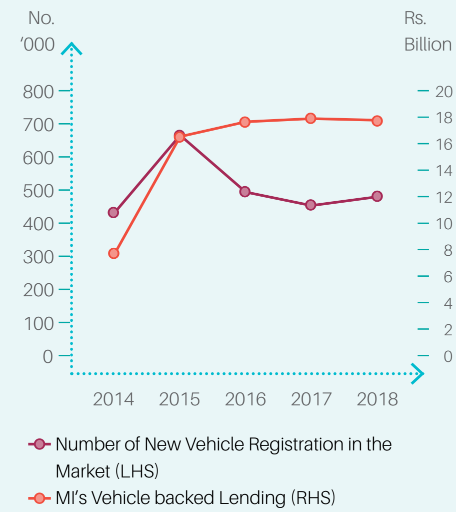
Sri Lanka's external sector experienced significant pressure due to both external and domestic factors. On the domestic front, the deficit in the trade account expanded as import growth outpaced export growth, whilst on the external front, the broad-based strengthening of the US Dollar following the US policy interest rate hikes resulted in investment outflows from emerging markets including Sri Lanka.

As a result, the year observed greater volatility in the external value of the Sri Lankan Rupee which depreciated by 19.5% against the US Dollar. Consequently, tighter policy measures were imposed by the government resulting in significant reduction in vehicle and gold imports, containing the trade deficit to USD 10.3 million by end 2018.

Foreign Direct Investment (FDI)

Foreign participation in the Sri Lankan economy increased notably, marking an FDI growth of 17% compared to 2017, bringing the total FDI to USD 1,611 million excluding foreign loans obtained by BOI. FDI inflows were mostly channeled towards ports, telecommunications, housing and property development and hotel sectors.

Vehicle Registrations Vs MI's Vehicle Backed Lending



Source: Ministry of Transport & Civil Aviation 2018

Impact to MI

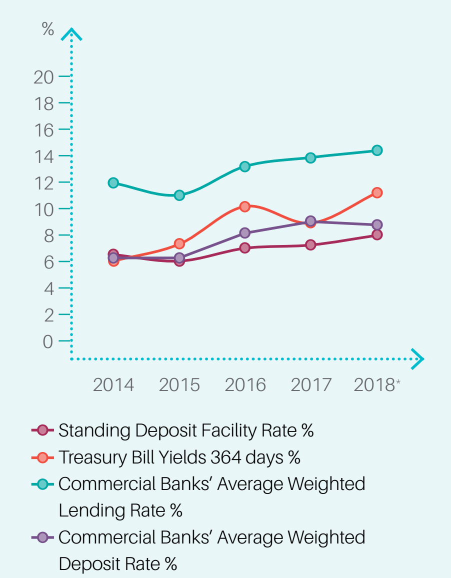
During the year, tighter restrictions were imposed on vehicle imports through increased duty and LC margin requirements. These state policies towards stabilising the currency value of the Sri Lankan rupee, curtailed vehicle imports leading to lowered demand for traditional lease financing and vehicle backed funding for the Company. However, this increased the popularity for lower engine capacity motor vehicles which included low priced vehicles to luxury brands. During this phase, the alliances we possessed with a network of vehicle sales agents and other intermediaries enabled us to remain an active financier to these market segments.

Monetary Policy

Interest Rates

Amidst tight liquidity conditions and the tight monetary policy stance that was maintained until April 2018, deposit interest rates remained at high levels during 2018. However, the Average Weighted Deposit Rate (AWDR) decreased by 26 basis points to 8.81% by end 2018 from 9.07% recorded at end 2017. On the other hand, continued high demand for credit caused lending rates to remain high during the year. The commercial bank's Average Weighted Prime Lending Rate (AWPR) went up to a 5 year high of 12.09%.

Market Interest Rates



Source: CBSL Annual Report 2018
** Provisional*

Impact to MI

Interest rates applicable to our lending and deposit products were maintained at competitive levels, in keeping with the upward market interest rate movements. Deposit interest rates were revised within maximum ceiling rates prescribed by the regulator. Similarly, competitive yield rates were offered to borrowers, without compromising on minimum core margins laid down. However, core margins remained constricted, particularly in the backdrop of the re-pricing effect from MI's deposit base and the competitive pricing offered that kept yields lower and funding costs relatively higher.

Fiscal Policy

Despite a decline in revenue mobilisation during the year mainly due to a tax revenue reduction, budgetary operations recorded a progress with an enhanced primary surplus and a lower budget deficit.

Tax revenue as a percentage of GDP declined to 11.9% from 12.4% in 2018, but however increased in nominal terms. The decrease in the tax revenue was mainly attributable to lower revenue collection from import duties, VAT, excise duty on petroleum products and liquor, withholding tax and Cess Levy and the delay in implementing certain revenue measures in the Budget 2018. Nonetheless, in nominal terms, revenue from income taxes increased marginally to Rs. 310 billion from Rs. 274 billion last year while revenue from Value Added Taxes (VAT) increased by 4.1% to Rs. 462 billion.

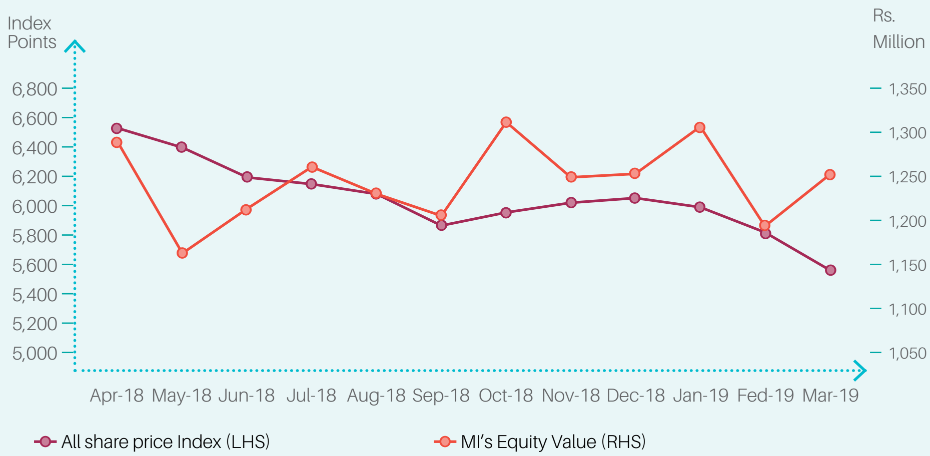
Impact to MI

With the imposition of a wide array of taxes on the industry, which included a debt repayment levy of 7% being applicable from October 2018, MI's effective tax rate including VAT and other taxes have escalated above 55%. On the other hand, continued high import duty tariffs and proposed upward duty on luxury motor vehicles hampered the demand for brand new vehicle imports, though the registered vehicle sales look promising with demand on the rise.

Colombo Stock Market

Responding to the adverse developments in domestic and global environment, the Colombo Stock Exchange recorded a declining trend in 2018. The All Share Price Index (ASPI) decreased by 5% to 6,052.4, comparatively worse than the 2.3% increase in 2017. Furthermore, the S&P SL20 index decreased by 14.6% by the end of the year 2018. Foreign participation in the equity market declined due to negative sentiments with increased foreign sales.

MI's Equity Value Vs All Share Price Index



Source: Colombo Stock Exchange

Impact to MI

Due to weaker market performance, MI did not execute any realised gains and enjoyed subdued returns from our equity investment portfolio from dividends. During the year, the market value of MI's equity investments portfolio decreased, resulting in a fair value reduction of Rs. 276 million adjusted to the Statement of other Comprehensive Income, out of which the manufacturing sector contributed the highest fall.

Finance Sector Performance

Both the Banking and Non-Bank Financial Institutions (NBFI) sectors were impacted by the tight monetary and fiscal policy measures adopted by the Government to control credit and pricing, whilst increased taxation posed further challenges for the industry.

Non-Bank Financial Institutions (NBFI)

Licensed Finance Companies (LFCs) sector moderated during the year in terms of credit growth, profitability and non-performing loans. The sector performance was negatively affected by the fiscal and macro-prudential measures taken to curtail vehicle importation.

By the end 2018, the sector comprised of fourty three LFCs and five SLCs totaling to 1,373 branches, reflecting a marginal 0.8% increase due to the industry expansion slowing down.

Credit Growth

The credit growth of the sector reflected a slowing down trend during the year, in response to fiscal and macro-prudential policy measures taken to curtail motor vehicle imports and lending towards vehicles and also due to the general slowdown in economic activities. Credit provided by the LFCs and SLCs sector grew by 7.6% to Rs. 1,137 billion in 2018 compared to the growth of 9.8% in 2017.

Assets and Liabilities

The total assets of the industry stood at Rs. 1,431.1 billion, reflecting a slow down with a growth of 5.6% in 2018 compared to the growth of 11.8% during the previous year.

Deposits growth slowed down significantly to 4.4% from 29.4% last year, mainly due to a notable shift demonstrated in the funding mix. The sector showed reliance on bank borrowings which grew by 17.1% over moderate deposits growth considering the flexibility and negative public perception towards LFCs which resulted in the slowdown of funds mobilised through deposits.

Composition of Assets and Liabilities of LFC and SLC vs. MI

Item	Actual Overall 31- Dec-2018 Rs. Billion	Actual Overall 31-Dec-2017 Rs. Billion	MI's Actual 31- Dec-2018 (as a % of Sector)
Assets			
Accommodation	1,137.00	1,057.10	2.8%
Finance Leasing	636	554	2.0%
Hire Purchase	19	27	21.1%
Other Lending	482.00	476.10	3.2%
Investments	109.7	118.1	2.6%
Others	184.6	179.8	3.0%
Liabilities			
Total Deposits	716.8	686.7	2.8%
Total Borrowings	463.8	396	2.1%
Capital Elements	183.7	169.7	4.8%
Total Funds	1,364.30	1,252.40	2.8%
Others	67	102.6	3.4%
Total Assets/Liabilities	1,431.30	1,355.00	2.9%

Source: CBSL Annual Report 2018

Business Risks

Credit quality of the sector further declined during the year, moving upward the Non-Performing Loans ratio (NPL) to 7.7%, up from 5.9% reported in 2017. The rising trend of NPL continued throughout the year and was mainly attributable to unfavorable weather conditions and the slow-down in economic activities. Though the surplus liquid assets declined in the backdrop of tight liquidity conditions, the industry statutory liquidity assets indicated a surplus of Rs. 25.6 billion against the minimum requirement of Rs. 88.2 billion.

Profitability

The industry profitability slowed down during the year, recording a decline of 17.2% in the post-tax profits to Rs. 21.4 billion, majorly due to increased funding costs and rising impairment provisions on NPLs. Interest expenses showed an increase of 2.9% while interest income grew only by 4.3%, forcing the net interest margins to shrink marginally to 7.4% in 2018.

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

Item	Actual Overall 31- Dec-2018 Rs. Billion	Actual Overall 31-Dec-2017 Rs. Billion	MI's Actual 31- Dec-2018 (as a % of Sector)
Interest Income	241.5	231.5	3.1%
Interest Expense	132.6	128.9	2.9%
Net Interest Income	108.8	102.7	3.3%
Non-Interest Income	38.1	34	1.0%
Non-Interest Expense	81.2	80	2.8%
Loan loss Provisions (Net)	25.9	13.5	2.7%
Profit Before Tax	39.7	43.2	2.5%
Tax	18.3	17.4	2.7%
Profit After Tax	21.4	25.8	2.8%

Source: CBSL Annual Report 2018

Capital Adequacy

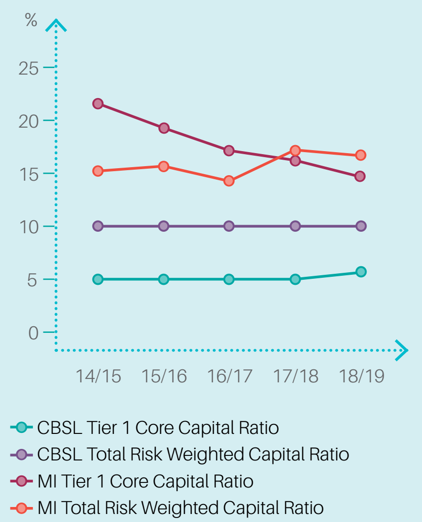
Core Capital Ratio and Total Risk Weighted Capital Ratios decreased to 9.9% and 11.2% respectively from 2017 reported ratios of 12.4 % and 13.1% respectively. The decrease in these ratios were influenced by the changes made to the new capital adequacy reporting framework which required the Companies to report risk weighted assets on a more risk sensitive manner, covering credit risks and operational risks.

Impact to MI

MI continued to contribute towards the growth and stability of the financial system and contributed 2.9% to the total assets of the LFC/SLC sector. However, the Company's total assets growth of 2.5% stood relatively lower than the industry average of 5.6%. Our gross loan book credit growth also reflected a moderate increase of 3%, reflecting conservative growth trends below the industry average of 7.6%.

The Company's revenue and net interest income remained satisfactory, but with moderate profitability, behind forecasts and hampered by higher impairment charges. Demonstrating our strength in facing industry challenges and capacity to grow, we were nonetheless able to maintain a healthy capital position. MI's prudent capital adequacy ratios were well above the 6% and 10% in terms of Tier 1 core capital and total risk weighted capital adequacy ratio regulatory requirements and also above the industry average.

MI Capital Adequacy Ratio versus Regulatory Requirement



Outlook

The "Vision 2025 – A Country Enriched" explains Sri Lanka's future approach to growth which will be based on the principles of social-market economy. Innovation and entrepreneurship will be regarded as the key contributing factors for the economy that are expected to drive skill-based technological change towards productivity and economic growth. As an initial step of this long-term national plan, the Colombo International Financial Centre (CIFC) will be developed within the Colombo Port City, to act as a financial hub between Dubai and Singapore. Moreover, the logistics sector is also expected to propel with the development plans set for the medium term. It is envisioned that these medium and long-term plans will broaden MI's growth horizons, being part of the transforming finance sector and thus we considered the Country's future economic approach to reshape our business strategies. Accordingly, to reap the benefits of future opportunities stemming from national development agendas, we empowered our business spheres with effective financial planning, right talent, technology, physical infrastructure, healthy and favourable alliances and a supporting natural environment.

Approach to Key LFC Sector Risks and Challenges

PES

Political

Impact to the LFC Sector

- Uncertain political environment accompanied with changing macro-economic policies.
- The Government's direct intervention via the Central Bank of Sri Lanka to impose stringent regulatory oversight.

MI's Approach

- In the backdrop of uncertainty and volatility, MI's conservative receptive approach enabled the Company to devise and revise strategy to manage short-term and medium-term challenges and embrace laws and directions imposed by the Government/regulator.

Economic

Impact to the LFC Sector

- The evolving and highly-competitive finance industry.
- Economic slowdown and contraction in borrower repayment capacity.
- Increase in cost of funding.
- Steep depreciating rupee value.
- Imposition of interest rate ceiling and direction to write off overdue interest in micro lending.

MI's Approach

- MI pursued targeted business growth strategies to boost revenue while monitoring key variables such as NPLs, interest rates, exchange rates, changing customer behaviour, segment margins and liquidity levels.
- Took conservative approach to branch expansion and improved credit review and stringent recovery measures to manoeuvre moderate asset quality deterioration.
- Maintained cost of funding at a minimum by pursuing low cost borrowings and implementing deposit mobilisation strategies to manage funding optimally.

Social

Impact to the LFC Sector

- Few LFC failures in the past continued to impact investor confidence.
- The Social upliftment and increasing standard of living of society had a direct impact on the sector.
- A more literate society with adequate market information even amongst the rural communities.
- Greater need for social consciousness when doing finance business.

MI's Approach

- Built and sustained trust and confidence among MI's customers and public.
- Remained very receptive to social changes and needs. With our competitive pricing we were able to meet customer needs across all segments ranging from lower to higher income groups while extending our legendary service.
- While investing in social welfare, MI offered special rates and rewards for senior citizens to enable their financial needs.
- Individuals who had the desire for financial assistance but lacked accessibility to credit were specifically targeted through our budding branch network.

TLE

Technological

Impact to the LFC Sector

- Introduction of innovative payment mechanisms and withdrawal mechanisms by the sector in the last decade.
- Continuous improvement to minimise manual intervention.
- Use of Artificial Intelligence (AI) for strategic and operational decisions.
- Use of customised systems and robotics for complex calculations and processes.
- Increase of digital marketing transactions.
- Increase in risk of cyber security threats due to the technological sophistication.

MI's Approach

- To minimise the exposure to cyber security threats, further upgraded existing IT security systems.
- In the process of migrating selected functions to a new IT system, which will improve the efficiency and the effectiveness of the core payment platforms, business analytics, general ledger and cashiering systems of the Company.
- Radical improvements were made to the core system to support frontline staff to provide efficient and speedy service.
- A representative from each department appointed to cater to innovation and technology advancements.

Legal

Impact to the LFC Sector

- Stringent imposition of regulations on the sector with additional directions.
- Enhanced capital adequacy requirements imposed by regulators from June 2018.
- Imposing of a Debt Repayment Levy by the regulator from October 2018.
- Implementation of SLFRS 09 – Financial Instruments, especially restructuring the credit loss provisioning method.

MI's Approach

- Strengthened the Risk Management Framework and made changes to adopt regulations as and when they were imposed.
- Implementation of the next three-year corporate plan that covers evolving risks and enhanced capital expectation of the regulator.
- Introduction of revised 'KYC' forms and educating staff about the importance of consumer protection laws through the Risk and Compliance Unit.
- With the support of professional advice and management communication, the Company was able to adopt requirements of SLFRS 9 with ease and improve on disclosure for better reporting and transparency.

Environmental

Impact to the LFC Sector

- Increase attention on environmental conservation by both public and private sector.
- Demand for more financial and non-financial disclosures on business environmental effect.
- International focus on creating a greener environment towards social sustenance.

MI's Approach

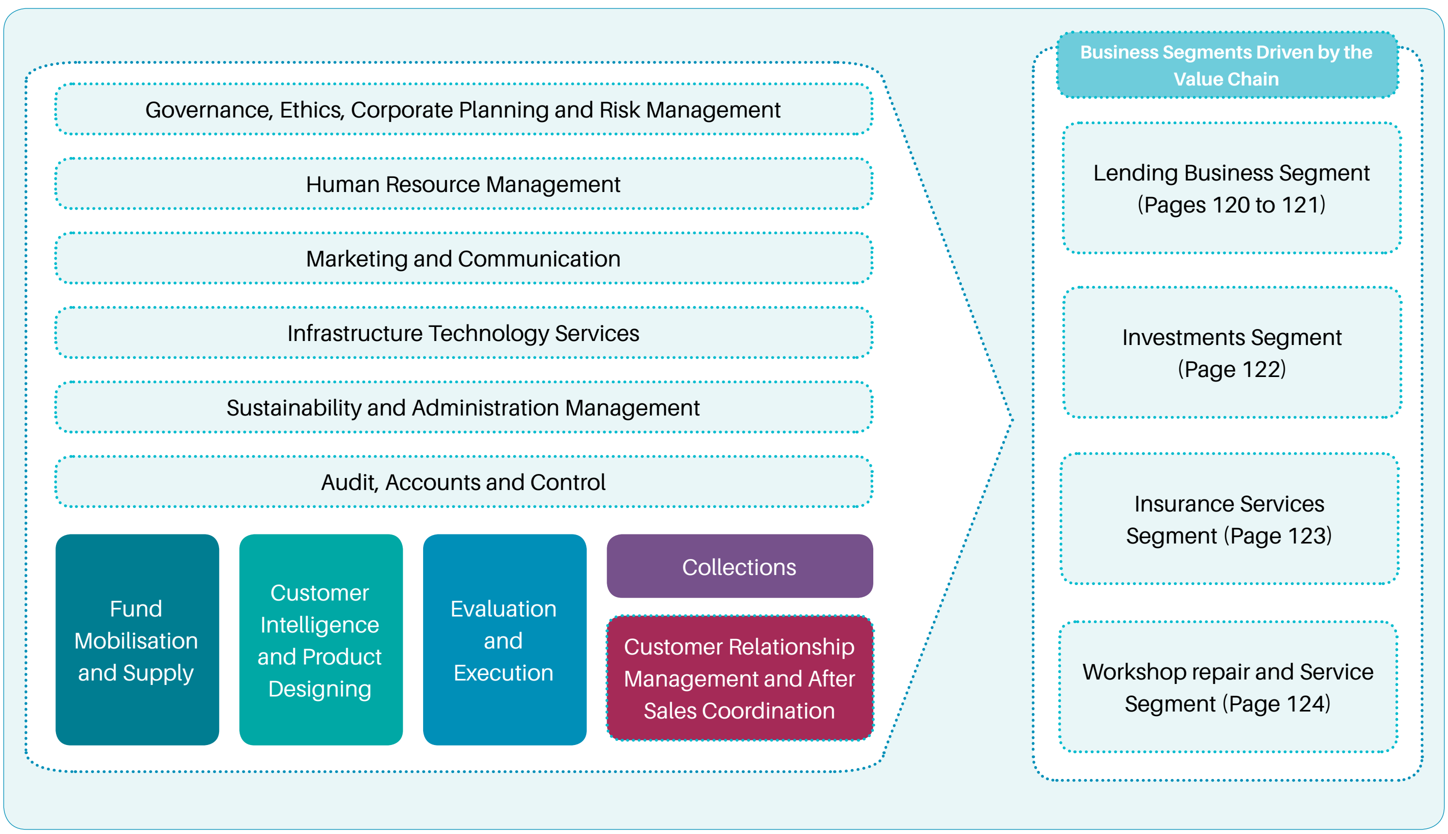
- Being a carbon conscious company, we measured our GHG emissions to minimise our negative impact and set a goal to reach carbon neutral status by 2022.
- Through the CSR and wildlife conservation funds, initiated programs towards environmental conservation.

How MI's Service Value Chain Works

As a company operating in a fierce competitive industry, we geared our product differentiation through our 'Service Delivery' which enabled each of our four business segments to gain the anticipated competitive edge. Thus, having considered the importance of funding supply, together with key support functions that include both back office and front-end operations, we kept a close integration between core business segments, deposits, Treasury Unit and all other supporting functions to enhance ultimate product value.

As a finance company, we prioritised acquiring funds and sourcing of funds to each segment in a timely manner, whilst ensuring funds are obtained cost efficiently. Our fund providers, network of agents and suppliers played a key role in our value chain. Similarly, the internal back office functions such as branding, product designing, recovery, legal, finance, human resource management played an equal key role in the value chain, to support the business segments to deliver a better product and provide support services on an ongoing basis. Our value chain continued to be refined and enhanced, keeping with organisation objectives, mission and ultimate visionary aspirations to meet evolving industry changes and customer expectations.

MI's Service Value Chain Elements



Business Segment Overview and Performance

GRI | 102-2

Product Descriptions

Lending Business Segment

This is the main revenue driving business unit and involves the disbursement of credit under various lending types. We tailor-made our lending propositions that are both traditional and non-traditional to suit customers' evolving needs, budgets and preferences.

Our versatile product offerings tailored to cater to varying customer needs include the following;

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 it from loyal leasing customers.

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.

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

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

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.

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.

Deposit Products Supporting this Segment

As the direct funding arm for lending business, we mobilise funds in the form of deposits and savings from the general public, corporates and non-financial institutions.

Our Deposit Product Offerings

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.

Investment Segment

The Treasury Division manages investment to maximise returns and meet regulatory requirements, mainly placing funds in the Government securities market, stock and debt market and financial institutions.

Our Key Investments Products

Regulatory Liquidity-Based Investments

- **Treasury Bills and Bonds**
  Fixed-return investment in short-, medium- and long-term securities issued by the Government of Sri Lanka.
- **REPOs**
  Short-term Government security-backed investments in Banks and primary dealers.
- **Placements**
  Fixed return yielding investments in short- and medium-term deposits in rated Banks and Financial Institutions.

Equity/Debt Investments

- **Equity Investments**
  Primarily investments in ordinary shares of listed entities.
- **Corporate Debentures**
  Investment in debt securities of listed entities

Insurance Segment

We arrange insurance facilities to our financing and term borrowers at competitive rates extending our one-stop-shop experience and hassle free service under one roof.

MI Insurance Referrals

- **Motor Vehicle Insurance**
  Full and third party protection on motor vehicle insurance
- **Loan Protection**
  Loan recovery protection against borrower's death
- **Title Insurance**
  Protection against loss of ownership of property
- **General Insurance**
  All other protection including fire, burglary, etc.

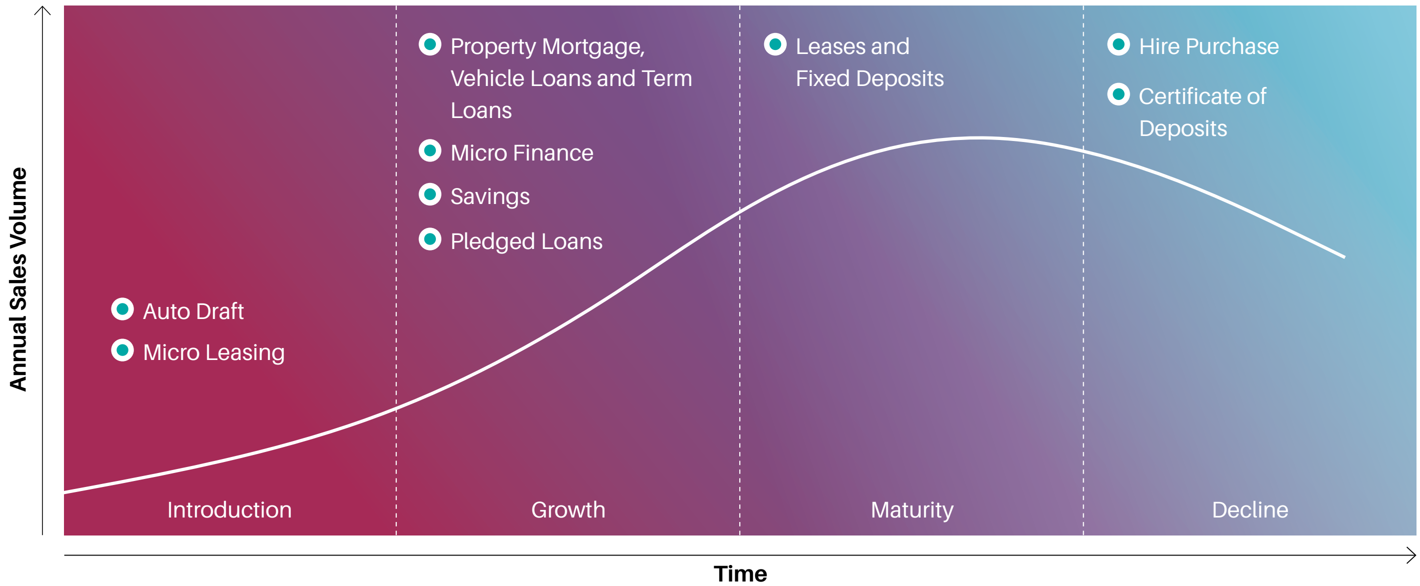
Workshop Segment

Not only do we provide finance for motor vehicle ownership, we also extend after sales motor care services through our workshop repair and service centre located in Kohuwala. MI's Workshop Division, having gained experience over the years, is well-poised to cater to the general market demand for vehicle repair, painting, servicing and other related services.

MI Workshop Services

- **Vehicle Servicing**
  Facilitates all-inclusive motor vehicle servicing
- **Vehicle Repairing**
  Facilitates varying types of automobile repairs providing expert attention to every nook and corner of vehicle
- **Paint Jobs**
  Provides exclusive painting solutions

MI's Product Mix and Stage in Product Life Cycle



Strategic Approach towards MI's Core Products

Introduction	Growth	Maturity	Decline
Based on future profitability and asset quality management will either decide to invest in these lines further or eliminate from product mix	Take measures to develop business and increase related volumes based on demand and opportunities.	Adopt product specific strategy including brand development to grow and sustain these traditional lines. (Refer Product Market Strategy adopted on page 36)	After experiencing declining demand for these products to gradually phase out them over time

Segment Performance

This financial year, our primary four business segments being performed satisfactorily, despite the economic slowdown and the volatile market conditions, displaying sustainable growth. Utilising segment capital inputs, the contribution of each segment towards the bottom line and the enhancement of investor value was achieved as follows;

Segment Performance Summary

Business Segment	Lending Segment		Investments Segment		Insurance Services Segment		Workshop Services Segment	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Segment Results (Rs. million *)								
Revenue	7,244	6,390	240	463	95	90	72	74
Profits Before Tax	580	709	22	5	65	62	0.024	1.4
Segment Input								
Financial Capital Portfolio/Assets (Rs. million)	31,944	31,935	4,442	4,063	240	206	10	9
Relationship Capital No. of Customers/Partnerships	>65,000	>60,000	>25	>25			>550	>450
Manufactured Capital No. of Branches/Service Centres	39	36	1	1	5	4	1	1
Human Capital No. of Employees	988	948	4	4	19	19	29	29

* Extracted from the segmental reporting section from the Financial Statements (Refer page 350 to 351)

Lending Business Segment

With great emphasis being placed on our primary business of lending, most of our business strategies were directed at maintaining sustainable portfolio growth and asset quality in the backdrop of volatile, challenging conditions. Though we surpassed Rs. 34 billion mark in our gross lending book, gross loan book growth remained minimal at 3% pegged back by the sluggish vehicle market and tightening industry credit growth. However, by maintaining an optimal product mix, we generated desired yields to ensure anticipated spreads are achieved, whilst keeping control over asset quality deterioration to eventually derive core business bottom-line. Branch diversification efforts and brand development strategies, paved the way to enjoy Rs. 7.2 billion revenue contribution from this segment which reflected a noteworthy 13% YOY upward trajectory.

Strategic Priorities	Achievement
Growth in revenue	Achieved
To increase core margins above the targeted threshold limit.	Achieved
Being the predominant segment, strive towards carbon neutrality.	Partially achieved (YoY reduction observed)

Performance Highlights as at 31st March 2019

Contribution to revenue	94%
Gross Portfolio expanded by	3%
Growth in revenue	13%
NIM increased to	10%
Widened customer base	>65,0000
No. of job opportunities	988
Carbon footprint	3,021 tCO_2e
Energy consumption	1,110,840 kWh
Water Usage	11,359 M^3

Key Risks and Opportunities encountered

MI Strengths
- MI's unblemished track record and reputation as a successful finance company for over five decades
- Agile and productive workforce of over 1,000
- Expanding branch network, active in prime strategic hubs
- Strong capital base of over Rs. 8.6 billion

MI Weaknesses
- Predominantly tilted towards traditional financing
- Expansion of product mix being in the last few decades.

Industry Opportunities
- Rejuvenated regions and industries have sprouted untapped business segments
- Technology advancements paving the way for more innovative solutions

Industry Risks
- Increase credit risks and slowing down of collections in a volatile business environment
- Strong competition and price sensitivity resulting in pressure on interest margins

Lending Segment Results

The lending segment was driven by MI's primary product being its lease financing and immerging term-based product categories, while HP remained a dying product, consequent to the tax changes in 2015.

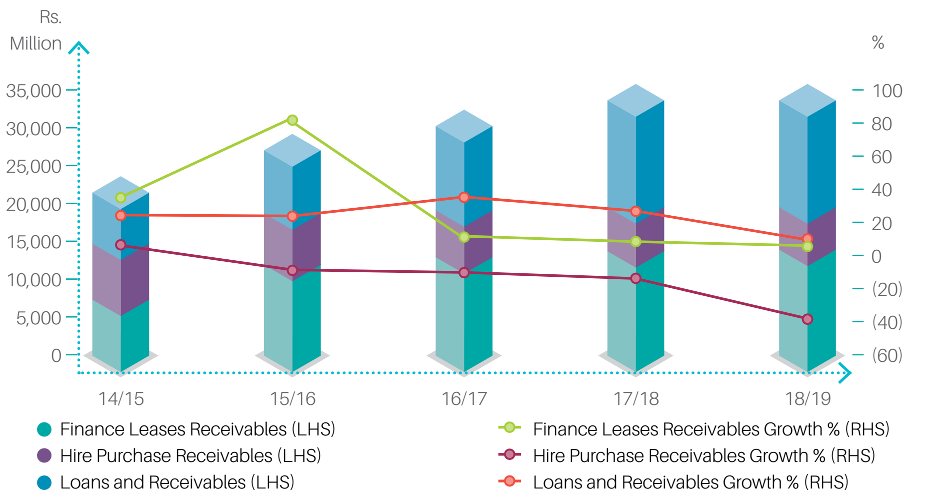
Lease vs. Hire Purchase Performance

In contrast to HP's decline of 38.4 %, leases performed pleasingly but moderate in terms of lease book growth of 5.9 % but related interest income was up commendably by 23% YOY.

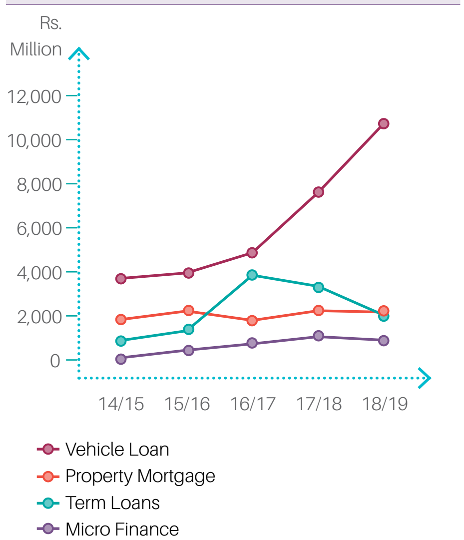
Term-based Lending Performance

Term-based lending which mainly revolved around vehicle loans, property mortgaged loans, term loans, pledged loans and micro finance loans categorised under MI's loans and advances portfolio in the Statement of Financial Position performed commendably with a portfolio growth of 9.4 % and contributing 48 % to the total revenue.

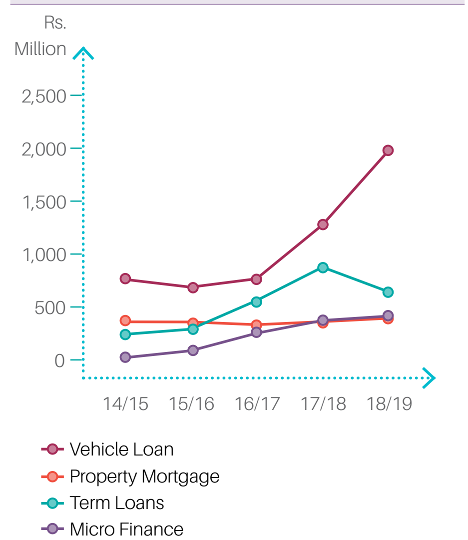
Total Lending Portfolio Progress



Term Based Lending - Portfolio



Term Based Lending - Revenue



Lending Segment Outlook

Foreseeing the current challenging economic environment being prolonged with market competition, we aim to further strengthen our corporate brand in driving future lending business. Moreover, management of lending product mix and our product lifecycle will be emphasised in great detail, focusing on innovation and technology as the way forward. Branch expansion strategies will also ensure that we cater to many market segments including rural areas.

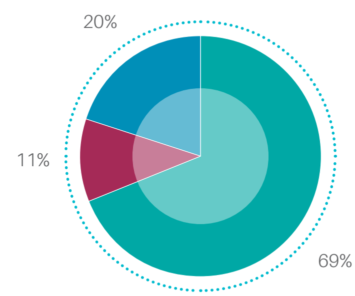
Our strategic investment in technology and nurturing of human resources will pay a pivotal role in development of traditional leases and expansion toward more term based credit to cater our future corporate needs. With the proposed implementation of higher taxes on luxury vehicles and the pickup witnessed in the registered vehicle market, the industry will look to shift its business strategies. To keep competitive pricing, the industry will need to keep funding costs optimal and control escalating overhead costs and ensure capital expenditure is routed towards innovative ideas.

Investments Segment

We are committed to continually improving our responsible investment practices to maximize stakeholder returns, maintain liquidity and regularity levels. As a policy, we continued to keep most of our investments limited to quoted equity investments, Government securities and deposits in Licensed Commercial Banks.

Strategic Priorities	Achievement
Derive sound returns by way of gains from capital appreciation and dividends	Partially achieved
Diversify risk and maintain safety of investment	Achieved
Maintaining statutory liquidity ratio requirement	Achieved

Investment Income Composition 2018/19



- Investment Income form Treasury Bills and Bonds
- Income from fixed deposits
- Dividends Income

Performance Highlights as at 31st March 2019

Contribution to revenue Rs.	Rs. 240 Million
Investment income growth/(decline)	(48%)
Total investment	Rs. 4,442 Million
Dividend returns	Rs. 48 Million
Fair value gain/(loss)	(Rs. 276 Million)
Carbon footprint	24.44 tCO_2e
Energy consumption	26,975 kWh
Water usage	66 M^3

Key Risks and Opportunities Encountered

MI Strengths	MI Weaknesses
Diversified investment portfolio Investing primarily in risk-free and quoted investments	Lower risk investments yielding lower returns
Industry Opportunities	**Industry Risks**
Wider market investment choices	Lacklustre share market performance. Volatile political conditions and tight monetary policy impacting interest rates, liquidity and stock market

Segment Results

This segment contributed 3% to revenue, driven primarily by Government security returns, while modest results of specific industry corporates and the lacklustre share market restricted earning of higher dividend income with no trading gains.

Investment in Government Securities and Placement with Banks

To park excess liquidity and also comply with CBSL liquidity requirements; we invested Rs. 2,105 million in Government securities and bank deposits which generated Rs. 192 million, contributing 80% to the segment revenue.

Equity Gains and Dividends

Economic slowdown and its impact on sectors such as tourism finance and diversified sectors restricted our optimistic returns to Rs 48 million as opposed to Rs. 70 million derived in 2017/18 while also recording a Rs. 276 million fair value equity loss to the Other Comprehensive Income. With these sluggish market conditions we refrained from carrying out any share trading resulting in no equity gains and losses being recorded for the period.

Investments Segment Outlook

The knowledge, skills and other resources deployed to the investment segment will help us stay attuned to financial market developments and to adopt proactive strategies to overcome current volatile market trends. While being receptive, the segment will continue to maximise returns while striking a balance between safety and liquidity. To achieve our future milestones of the segment's value creation journey, management will heavily rely on managing equity risks and vigilance to changes in our financial and economic environment impacting the investments portfolio.

We can expect the current upward trends in interest rates to ease in the medium term and the risk-free Government securities market yield to move downwards. Similarly, the imminent elections and improving diplomatic and commercial ties are bound to attract foreign investments, creating stable and lucrative conditions for the stock market to revive.

Insurance Services Segment

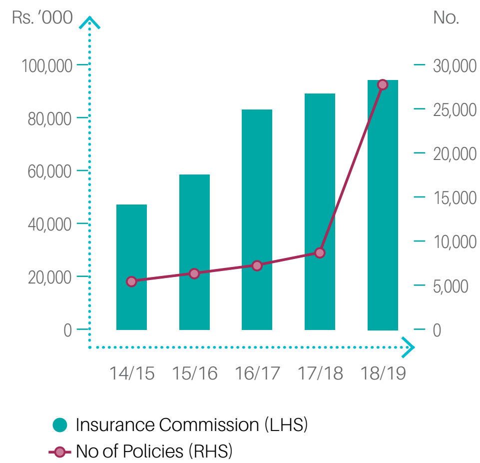
MI's Insurance Department which acts as a support function to MI's financing business extended a yeoman service by fulfilling insurance needs of borrowers under one roof through its referral business. Whilst the sluggish vehicle market constricted growth prospects, a moderate increase was recorded in insurance commissions with a 1.23% contribution towards total revenue.

Strategic Priorities	Achievement
Maintain commission revenue growth trajectory in line with loan portfolio movement	Achieved
Increased customer retention	Achieved

Performance Highlights as at 31st March 2019

Contribution to revenue	Rs. 95 Million
Growth in insurance income	5.7%
Widened customer base	>50,000
New customers attracted	>8,000
Carbon footprint	94.88 tCO_2e
Energy consumption	135,171 kWh
Water Usage	332 M^3

Insurance Commission Vs No. of Policies



Key Risks and Opportunities Encountered

MI Strengths	MI Weaknesses
Ability to obtain insurance brokering service under one roof Experienced and efficient workforce	Dependency on the lending business

Industry Opportunities	Industry Risks
To offer one-stop-shop customer convenience To improve customer satisfaction and loyalty	A fierce competitive insurance market, sensitive to pricing.

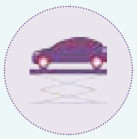
Segment Results

In keeping to the marginal credit growth reported this year, insurance income also grew in a similar trajectory by a modest 5.74 %. Nevertheless, through the satisfactory track record in recovering insurance claims which stood at Rs. 163 million (Rs. 160 million for 2017/18) the segment was able to sustain sound customer retention levels and attract new customers as well.

Insurance Segment Outlook

We hope to create a wide array of positive customer experiences, the feature which we intend to enhance further to sustain competitive advantage for the segment. Moreover, with the aim of diversifying beyond vehicle insurance, we seek possibilities in other insurance products to widen our market presence.

In coordination with the insurance brokering company, we hope to keep pace with the developments in the insurance industry which is expected to evolve further with greater innovation, technology and customer service coming into play. Under one roof, after sales support and ease in claims recovery will take precedence to make the segment's tagline "Protection that extends beyond" a reality.

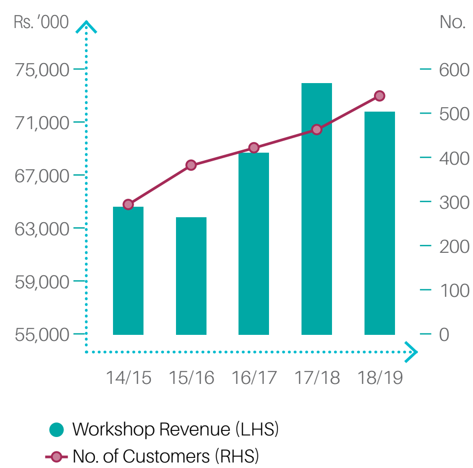


Workshop Services Segment

With the escalating competition in the vehicle service and repair market, the MI workshop segment was operated strategically to boost future revenues and to support MI's internal fleet operation. The segment generated revenue of Rs. 72 Million, while maintaining the internal vehicle fleet, though not achieving the expected contribution to the bottom line.

Strategic Priorities	Achievement
Sustaining gradual revenue growth	Not Achieved
Moving towards Steady segment profitability	Partially Achieved
Increased customer retention	Achieved

Growth in Workshop Revenue & Customer Base



Performance Highlights as at 31st March 2019

Contribution to revenue	Rs. 72 Million
Customers catered	>500
Employee Strength	30
Carbon footprint	27.27 tCO_2e
Energy consumption	41,910 kWh
Water Usage	286 M^3

Key Risk and Opportunities

MI Strengths	MI Weaknesses
An experienced workforce Workshop located in a prime area to enhance customer convenience	Competitiveness has led to thinner margins enjoyed
Industry Opportunities	**Industry Risks**
Increasing vehicle population and breakdowns	Competitors embracing advanced technology to capture niche business

Segment Results

During the year, 1,822 workshop repairs were carried out and 1,577 vehicle servicing, generating total revenue of Rs. 72 million which reflected a marginal dip of 3% YoY. Furthermore, highly-competitive vehicle repair and servicing market kept margins thin, restricting anticipated bottom line.

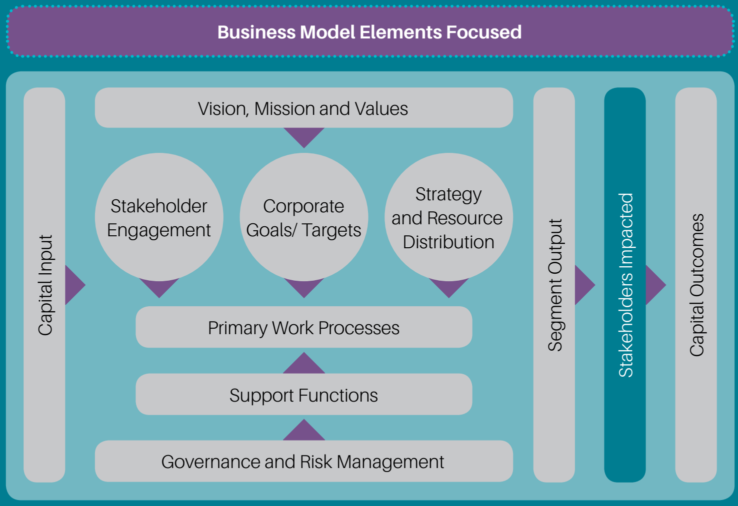
Workshop Segment Outlook

Having gained experience in the motor vehicle trade and repair, MI's workshop is well geared to absorb the emerging opportunities in the vehicle repair and servicing market. Marketing and promotions will play an important role in expanding our services to a wider segment which also comprise of the lending segment customers who require after sales care.

Future business of this segment will significantly revolve around potential customer alliances, capitalising on the vehicle population in the country and catering to MI's own growing vehicle financing portfolios.

Impact Management Report

As a responsible corporate citizen, we strive to create sustainable living for all and hence ensure we eliminate or mitigate our negative footprint to society. This Impact Report takes the reader through our economic, social and environmental impacts created during the year and how we managed to negate our adverse impacts whilst striving to bring about positive change in society.



Sub Section Index

Rational for Impact Management

MI's 'Sustainability Pledge' upholds our visionary aspirations of building a greater sustainable nation by being a committed corporate role model in sustainable development, at times going beyond business boundaries to support society. To achieve these wider economic, social and environmental goals, the MI Board has delegated its authority to the Senior Management which as a committee complements core business drivers, ensures financial inclusivity and diversity to reduce poverty and also extends assistance outside business. As a responsible corporate citizen, we have established a clear governance structure to uphold sound sustainable development practices (refer pages 10 to 11). Sustainable Development Goals play a key role in guiding us towards an all-encompassing effort that we commenced almost a decade ago.

How We Manage Impacts

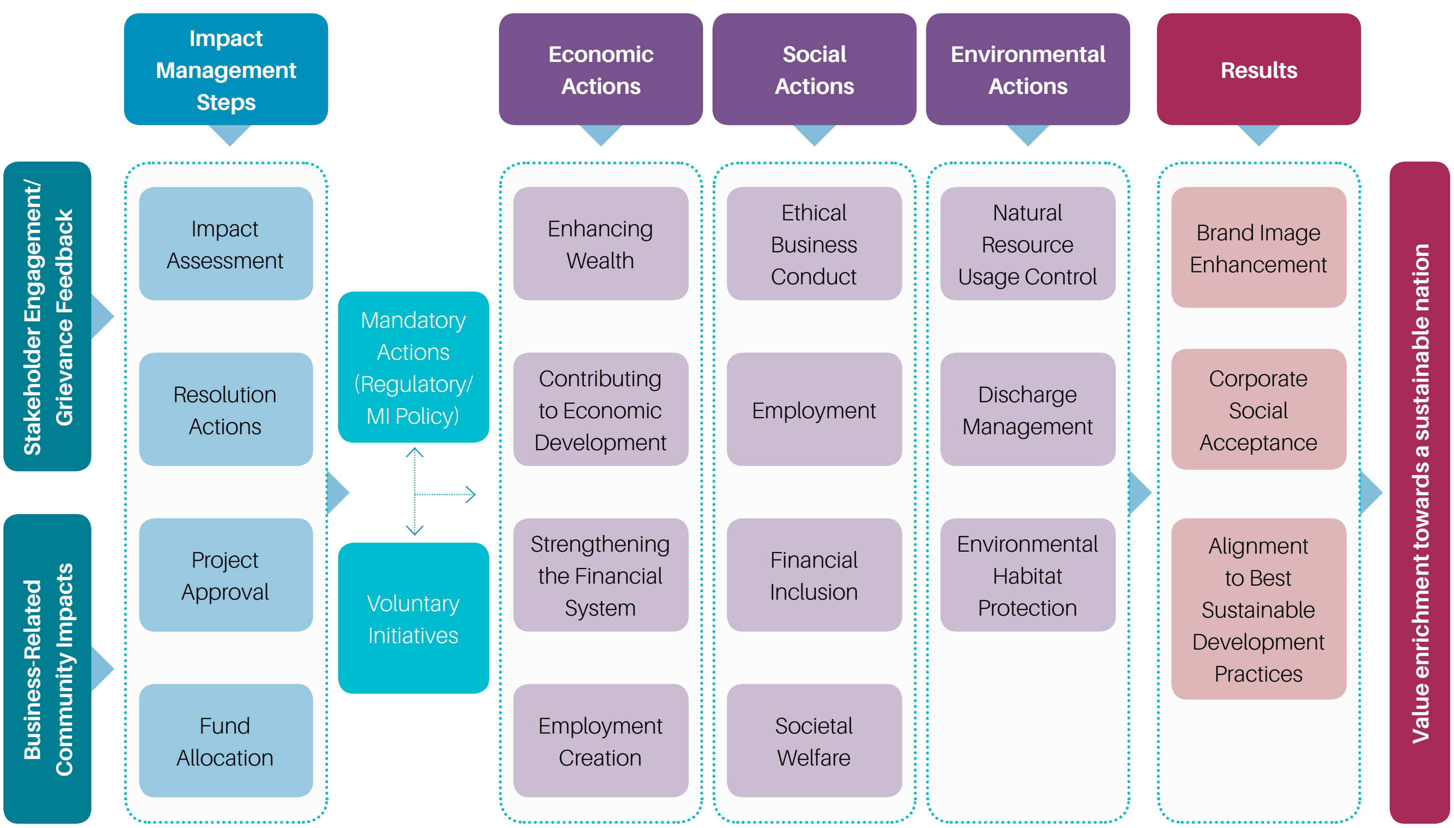
Our impact management mechanism starts with the stakeholder engagement process. We gather stakeholder grievances, needs and expectations that require attention and resolution. The impacts we create on stakeholders could be both positive and negative and decide the extent to which their expectations were fulfilled and the gap that needs to be filled. We strive to meet these stakeholder expectations through the management of varying impacts which are broadly categorised under economic, social and environmental dimensions.

Impact Management Process

The responsibilities associated with management of impacts primarily come under the purview of the Sustainability Governance Committee (SGC) that coordinates with Business and Support divisions to exercise mandatory and voluntary actions towards economic, social and environmental sustenance.

We disclose our impacts according to the framework provided by Global Reporting Initiatives (GRI) and direct our impact management actions to be in line with the UN's Sustainability Development Goals which we have adopted voluntarily. An independent assurance to this section has been obtained from Messrs. Ernst and Young and the report is given on page 154.

Impact Management Process



Impact Management Progress Versus Goals

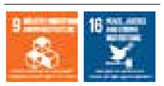
GRI | 102-12

We referred to the UN Sustainability Development Goals (SDG) and the principles of Global Compact Considerations as external charters that guided us in establishing sustainability goals for the Company in the medium term. In order to achieve them, we aligned these goals with our products and services, business operations and corporate social initiatives, enabling us to better manage our impacts on the economy, society and environment.

Sustainability Goals Achievement Outline for the year 2018 / 2019

Stakeholder	Sustainable goals set out	UN SDGs aligned	Global Compact Consideration Principles aligned with our goals	Our Progress in the Current Year	Level of Achievement 2018/19	2017/18	2016/17
Shareholders	Maintain Net Profit after tax growth	8, 9		Net Profit After Tax of the current year was Rs. 458 million	Not Achieved	Achieved	Not Achieved
	Maintain a healthy growth in assets base			Assets Growth was 2.6%	Achieved	Achieved	Achieved
Clients	Acquire a steady customer base growth	9, 12, 16, 17	**Human Rights:** Businesses should support and respect the protection of internationally proclaimed human rights.	Customer base declined by approximately 16%	Not Achieved	Achieved	Achieved
	Secure borrowing funding lines to support liquidity needs		**Human Rights:** Make sure that they are not complicit in human rights abuses.	Secured Rs. 13.9 billion of funding as borrowings .	Achieved	Achieved	Achieved
	Expand reach and connectively with clients annually.		**Environment:** Encourage the development and diffusion of environmentally-friendly technologies.	Expanded reach by 03 branches	Achieved	Not Achieved	Achieved
Staff	To increase average training hours per employee	3, 5, 8, 10, 15, 16, 17	**Labour:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	The average training hours per employee was 9.9 hours.	Achieved	Not Achieved	Achieved
	To increase employee volunteerism		**Labour:** The elimination of all forms of forced and compulsory labour.	Employee volunteerism decreased by 14%	Not Achieved	Not Achieved	Achieved
			Labour: The effective abolition of child Labour.				
			Labour: The elimination of discrimination in respect of employment and occupation.				

Achieved   Not Achieved

Stakeholder	Sustainable goals set out	UN SDGs aligned	Global Compact Consideration Principles aligned with our goals	Our Progress in the Current Year	Level of Achievement		
					2018/19	2017/18	2016/17
Society	Initiate social responsibility projects and increase the number of beneficiaries annually.		**Environment:** Businesses should support a precautionary approach to environmental challenges. **Human Rights:** Businesses should support and respect the protection of internationally proclaimed human rights. **Human Rights:** Make sure that they are not complicit in human rights abuses.	The number of beneficiaries catered during the year was 113.			
Regulators	Successful roll out of new regulations applicable for a given year. Timely submission of regulatory information to maintain zero penalty position.		**Anti-Corruption:** Businesses should work against corruption in all its forms, including extortion and bribery **Human Rights:** Businesses should support and respect the protection of internationally proclaimed human rights.	Regulatory changes were successfully implemented Timely submitted all information required by the regulations and maintained zero penalty status.			

Economic Impact Management

Being part of the financial system of the country, we understand our impact on the economy is vital for the wellbeing of the broader society. In keeping to this, we have embedded a responsible corporate culture across the organisation and aligned our strategic objectives towards socio-economic aspirations which are based on the guidance provided by the Sustainable Development Goals of the United Nations (UN SDG) and Global Compact Consideration Principles. These objectives motivated us to strive ourselves to become an exceptional financial service provider while ensuring sustainable value creation for our stakeholders and contributing to the finance company sector and national economy.

In this journey towards creating a positive economic footprint for our stakeholders, we identified the key areas that we could contribute towards economic development and initiated various actions and also developed a formal mechanism to measure and manage related impacts.

Areas Contributing to Economic Development	Mechanism	Actions Executed	Economic Needs Fulfilled Among Stakeholders
Direct Economic Impact	Board Leadership	Contributing to the economic output through business growth	**Shareholders:** Increased investor wealth through enhanced brand image
Indirect Economic Development and empowerment	Business Strategy	Financial assistance to uplift communities and protect nature	**Clients:** Enriching product value
Contribution Towards the Financial System	Governance and Risk Management	Deposits mobilisation within communities empowering people and entrepreneurs towards reaching greater income levels	**Staff:** Employment opportunities that benefit wider society
Employment Creation		Reaching people with a wider geographical spread	**Regulators:** Contribution to national production and economic development
Community and Environmental Investment			**Society:** Improved living standards

Direct Economic Impact

GRI | 201-1, 201-4

Our direct economic impact is tracked mainly by observing the revenue sources and moreover their distribution among various stakeholders and the total growth trend in economic value generated and distributed over time, which signifies whether MI has stayed positive in generating the anticipated broader economic contribution to the national output. During this year we analysed our direct economic impact mainly using the three following industry-accepted methods.

1. Economic Value Generated and Distributed
2. Economic Value Added (EVA)
3. Market Value Added (MVA)

Economic Value Generated and Distributed

As we continued to fulfil our responsibilities towards the country's economy, the value generated by MI amounted to Rs. 7.7 billion for the financial year ending 31st March 2019, up by 9% from the last year. A distribution of 12% was made as emoluments and statutory dues to employees and 11.5% was contributed to the economy by way of taxes to the Government. During the year, there were no direct or indirect financial assistance received from the Government.

Our contribution to the Government as a taxpayer has continuously grown over the years, through which we have indirectly supported the development of the nation's infrastructure projects and recurring State expenses which were utilised in providing socially-important public services.

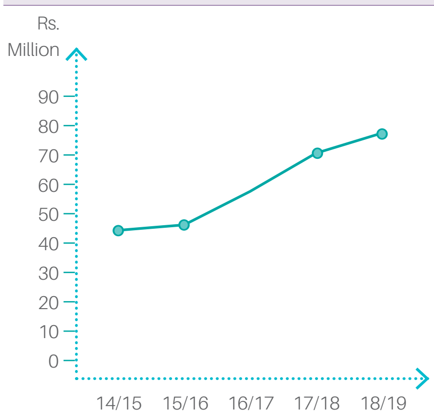
Direct Economic Value Generated (Rs 000)

For the Year ended March 31st	2018/19	2017/18	2016/17	2015/16	2014/15
Interest Income	7,436,054	6,564,038	5,286,059	4,301,828	4,129,395
Commission Income	94,955	89,797	83,622	58,927	47,554
Investment Income	-	219,327	59,542	5,143	13,049
Share of Associate Company Profit	79,724	74,812	88,212	74,434	104,107
Others	107,488	110,931	216,309	134,376	96,290
	7,718,221	7,058,906	5,733,744	4,574,708	4,390,395

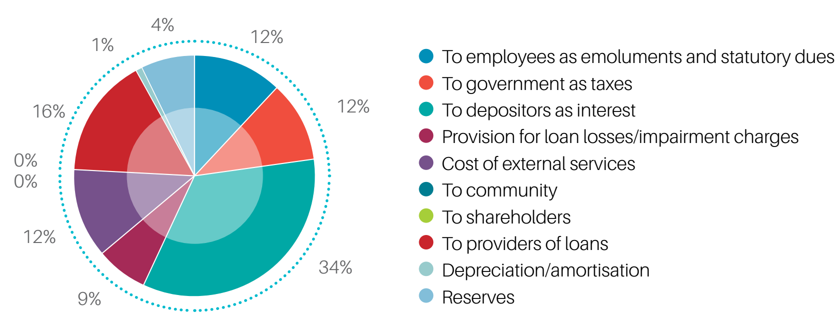
Direct Economic Value Distributed (Rs 000)

	2018/19	% of value distributed	2017/18	% of value distributed	2016/17	% of value distributed	2015/16	% of value distributed	2014/15	% of value distributed
To Employees as emoluments and statutory dues	923,352	11.96%	844,689	11.97%	678,232	11.83%	532,029	11.63%	437,628	9.97%
To Government as Taxes	890,500	11.54%	460,487	6.52%	191,579	3.34%	315,064	6.89%	303,904	6.92%
Operating Costs										
To Depositors as Interest	2,633,891	34.13%	2,507,282	35.52%	1,847,009	32.21%	1,428,676	31.23%	1,456,321	33.17%
Provision for Loan Losses/ Impairment Charges	681,648	8.83%	426,353	6.04%	625,066	10.90%	234,816	5.13%	295,741	6.74%
Cost of External Services	959,786	12.44%	844,317	11.96%	812,462	14.17%	725,945	15.87%	597,162	13.60%
To Community	2,350	0.03%	3,587	0.05%	2,045	0.04%	7,053	0.15%	3,063	0.07%
Payments to Providers of Capital										
To Shareholders as Dividends	-	0.00%	45,090	0.64%	-	0.00%	21,042	0.46%	88,677	2.02%
To Providers of Loans	1,227,987	15.91%	1,196,493	16.95%	1,289,209	22.48%	669,702	14.64%	491,462	11.19%
Economic Value Retained within the Business										
- as Depreciation/ Amortisation	99,494	1.29%	93,746	1.33%	69,186	1.21%	49,994	1.09%	86,896	1.98%
- as Reserves	299,213	3.88%	636,862	9.02%	218,956	3.82%	590,387	12.91%	629,541	14.34%
	7,718,221	100.00%	7,058,906	100.00%	5,733,744	100.00%	4,574,708	100.00%	4,390,395	100.00%

Direct Economic Value Generated



Direct Economic Value Distributed FY 2018/19

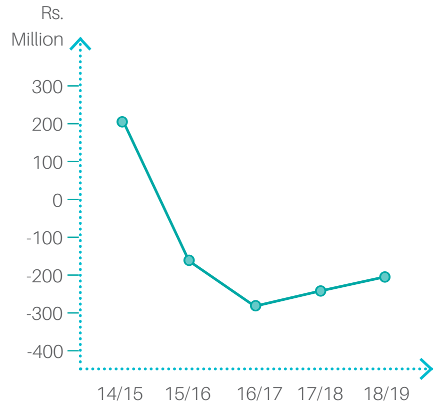


Economic Value Added (EVA)

MI's value towards the economy, measured through the EVA method marginally decreased from a negative of Rs. 245 million to negative Rs. 219 million this year.

As at 31 March	2018/19 (Rs.'000)	2017/18 (Rs.'000)	2016/17 (Rs.'000)	2015/16 (Rs.'000)	2014/15 (Rs.'000)
Invested Equity					
Shareholders' funds	8,672,864	8,683,086	7,867,265	7,654,232	7,779,765
Add:Provision for impairment	2,357,345	1,766,088	1,381,640	770,887	660,743
Total	**11,030,209**	**10,449,174**	**9,248,905**	**8,425,119**	**8,440,508**
Earnings					
Net Profit after tax	458,073	514,065	202,014	505,019	631,272
Add:Impairment charge	681,648	426,353	625,066	234,816	295,741
Less: Bad debt written off	(60,640)	(28,198)	(14,320)	(124,672)	(82,780)
Total	**1,079,081**	**912,220**	**812,760**	**615,163**	**844,233**
Cost of equity (based on 12 months Weighted Average					
Treasury Bill Rate plus 2% for the Risk Premium)	12.09%	11.75%	12.43%	9.25%	8.41%
Cost of average equity	1,298,429	1,157,262	1,098,441	780,035	637,254
Economic Value Added	(219,348)	(245,042)	(285,681)	(164,872)	206,979

Economic Value Added



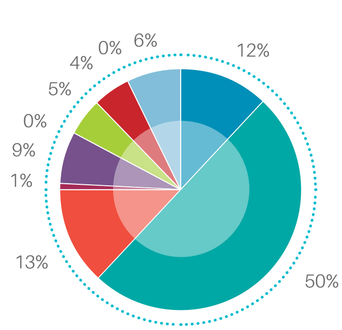
Sources of Income

For the year ended 31st March	2018/19 Rs.'000	%	2017/18 Rs.'000	%	2016/17 Rs.'000	%	2015/16 Rs.'000	%	2014/15 Rs.'000	%
Loans & Advances	7,244,122	93.9%	6,390,394	90.5%	5,055,670	88.2%	4,172,079	91.2%	3,999,740	91.1%
Government Securities	165,078	2.1%	151,392	2.1%	200,207	3.5%	98,809	2.2%	92,161	2.1%
Commission Income	94,955	1.2%	89,797	1.3%	83,622	1.5%	58,927	1.3%	47,554	1.1%
Operating Lease Income	8,182	0.1%	8,628	0.1%	8,507	0.1%	3,785	0.1%	2,926	0.1%
Other Income	126,159	1.6%	343,883	4.9%	297,526	5.2%	166,674	3.6%	143,906	3.3%
Share of Associate Company Profit	79,724	1.0%	74,812	1.1%	88,212	1.5%	74,434	1.6%	104,107	2.4%
Total	**7,718,221**	**100.00%**	**7,058,906**	**100.00%**	**5,733,744**	**100.00%**	**4,574,708**	**100.00%**	**4,390,394**	**100.00%**

Utilisation of Income

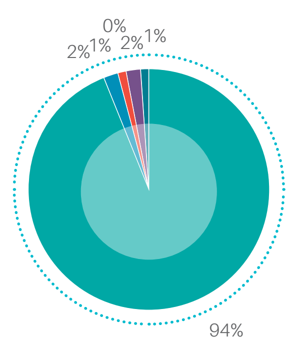
For the year ended 31st March	2018/19 Rs.'000	%	2017/18 Rs.'000	%	2016/17 Rs.'000	%	2015/16 Rs.'000	%	2014/15 Rs.'000	%
To Employees										
Personal Expenses	923,352	12.0%	844,689	12.0%	678,232	11.8%	532,029	11.6%	437,628	10.0%
To Suppliers										
Interest Paid	3,861,878	50.0%	3,703,776	52.5%	3,136,218	54.7%	2,098,378	45.9%	1,947,783	44.4%
Other Expenses	959,786	12.4%	844,317	12.0%	812,461	14.2%	725,944	15.9%	597,162	13.6%
As Depreciation/ Amortisation	99,494	1.3%	93,746	1.3%	69,186	1.2%	49,994	1.1%	86,896	2.0%
As Provision for Credit Losses/Impairment	681,648	8.8%	426,353	6.0%	625,066	10.9%	234,816	5.1%	295,741	6.7%
To Community	2,350	0.0%	3,587	0.1%	2,045	0.0%	7,053	0.2%	3,063	0.1%
To Government										
Value Added Tax and Other Taxes	403,059	5.2%	283,667	4.0%	112,838	2.0%	141,090	3.1%	119,926	2.7%
Income Tax	328,580	4.3%	344,706	4.9%	95,682	1.7%	280,384	6.1%	270,924	6.2%
To Shareholders										
Dividends	-	0.0%	45,090	0.6%	0	0.0%	21,042	0.5%	88,677	2.0%
To Reserves										
Retained Profit	458,074	5.9%	468,975	6.6%	202,016	3.5%	483,978	10.6%	542,594	12.4%
Total	**7,718,221**	**100.00%**	**7,058,906**	**100.00%**	**5,733,744**	**100%**	**4,574,708**	**100%**	**4,390,394**	**100%**

Utilisation of Income 2018/19



- Personal Expenses
- Interest Paid
- Other Expenses
- As Depreciation/Amortisation
- As Provision for Credit Losses/Impairment
- To community
- Value Added Tax and Other Taxes
- Income Tax
- Dividends
- Retained Profit

Sources of Income 2018/19



- Loans & Advances
- Government Securities
- Commission Income
- Operating Lease Income
- Other Income
- Share of Associate Company Profit

Market Value Added (MVA)

The Company's market value did not exceed the value of owners' equity funds. The Company's market value was stable during the year due to the absence of share transactions of the ordinary shares of the Company. Although the MVA currently remains negative, the Company expects MVA to move up once active trading takes place in future.

Market Value Added (MVA)

	2018/19 Rs.'000	2017/18 Rs.'000	2016/17 Rs.'000	2015/16 Rs.'000	2014/15 Rs.'000
Market capitalisation/ Market value of equity	7,756,382	7,756,382	7,756,382	6,613,200	6,613,200
Less: Equity owner's funds					
Shareholder's funds	8,672,864	8,683,086	7,867,265	7,654,232	7,779,765
Total equity owners' funds	8,672,864	8,683,086	7,867,265	7,654,232	7,779,765
Market value added	(916,482)	(926,704)	(110,883)	(1,041,032)	(1,166,565)

Indirect Economic Development and Empowerment

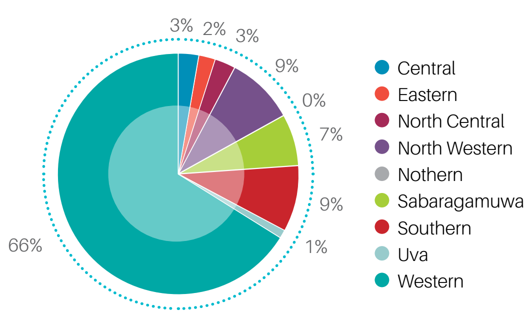
GRI | 203-2

Our indirect business impact on key economic sectors and regions reflected a notable growth during the last decade, as we continued to expand our business and the branch network. Our efforts in consolidation and decentralisation supported geographical expansion of the Company and enabled us to positively change the lives of many people by empowering them financially which will ultimately result in regional economic development. In doing this, our financial solutions played a vital role to provide financial assistance for entrepreneurs and small businesses while our micro-financing arm focused on empowering women entrepreneurs across the island.

Significant Indirect Economic Impact, Including the Extent of Impact

Province	2018/19		2017/18		Change in total disbursement Rs.'000
	Total disbursement Rs.'000	Number of Branches	Total disbursement Rs.'000	Number of Branches	
Central	543,562	1	483,916	1	59,646
Eastern	372,947	2	407,306	2	(34,359)
North Central	673,236	3	773,910	3	(100,674)
North Western	2,027,655	4	1,625,315	3	402,340
Nothern	13,438	0	7,000	0	6,438
Sabaragamuwa	1,494,095	4	1,501,719	4	(7,624)
Southern	2,048,737	5	2,092,767	5	(44,030)
Uva	161,565	0	164,767	0	(3,202)
Western	14,362,454	20	14,759,514	18	(397,060)

Province-wise Profit Generation - FY 2018/19



MI's credit support to various sectors

Sector	Total disbursements by industry/ sector		% Growth
	2018/19 (Rs. 000)	2017/18 (Rs. 000)	
Agriculture	1,318,289	848,239	55%
Commercial	5,659,743	5,595,830	1%
Consumption	751,836	813,303	-8%
Finance	377,346	231,358	63%
Housing & Property	752,417	972,965	-23%
Industrial	1,543,992	1,131,185	36%
Services	9,960,294	9,285,805	7%
Tourism	626,820	411,624	52%
Others	706,951	2,525,905	-72%

Contribution Towards the Financial System

GRI | 203-2

Whilst being engaged in our core business successfully, we have ensured that we contribute our fullest to the finance industry and financial system stability through prudent business practices, risk management and sound governance system. We ensured that we maintained ethical corporate behaviour which was vital in building trust and confidence with both the regulators and general public. (Refer Corporate Governance Report pages 166 to 233)

Employment Creation

GRI | 203-2

During the last decade, we created many employment opportunities and avenues for the people living in different parts of the country, resulting from business and geographical expansion. This has provided a great opportunity for us to contribute to the economy by compensating our employees fairly and on par with the industry. During the year, we have distributed 12.2% of our earnings as emoluments and statutory contributions towards our staff's financial upliftment. (Refer Human Strength from pages 80 to 91 on employment creation).

Community and Environmental Investment

GRI | 203-1

MI's efforts in uplifting the living standards of people through business and corporate social responsibility projects generated desired economic impacts within the local communities while our environmental protection efforts contributed towards a wider economic upliftment of society. (Refer Social Impact Management pages 135 to 139 and Environmental Impact Management on pages 140 to 147.) However, we have not made any direct investments in infrastructure development projects during this year.

Community and Environmental Investment 2018/19

Type of community Investment	Type of assistance provided	MI's goals and expected outcomes from the community investments	Value in monetary terms (Rs.)
Monitory contributions	◈ Financial Assistance and other monitory donations.	Enriched MI's vision of being a leading financial institute while bringing value to the society.	1,430,157
Time contributions	◈ 447 man hours were devoted to enhance the value of societal 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.	126,948
In kind contributions	◈ Consultation services were provided. ◈ Sanitation facilities, desks, chairs and other school stationery items	Built team spirit and social responsibility by lending a hand to the needy, reaching MI's key values.	920,728
Management cost	◈ 202 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.	202,000

Social Impact Management

GRI | 413-1, 413-2

We place significant importance on social impact management as our business employs over 1,000 staff members who directly and indirectly help serve over 50,000 customers from different communities scattered across the country. Being present in seven provinces, our engagement in various communities and society keeps widening along with branch expansion. This urged us to observe and measure the impacts we create over society and to deploy strategies to enhance the positive impacts and minimise and manage the negative impacts. As a responsible corporate citizen, we have also initiated many programs targeted at uplifting the quality of life of the citizens of Sri Lanka. By doing this, we aimed at fulfilling the needs and expectations of our stakeholders, especially the needs that have societal importance.

Areas contributing to social wellbeing

- Ethical business conduct
- Secure employment
- Financial inclusion
- Societal development and welfare

Mechanism

- Board leadership
- Dedicated committee to oversee sustainability governance
- Labour regulations and policy implementation
- Feedback and control checks

Actions executed

- Shelter and sanitation for the poor
- Educational support to children
- Healthcare to the needy
- Community service
- Employee welfare

Fulfilled stakeholder needs from our societal efforts

Shareholders:
- Corporate reputation

Clients:
- Prudent corporate conduct

Staff:
- Quality of life improved
- Motivation and morale boosted

Regulators:
- Contribution to financial system stability

Society:
- Contributed to wealth creation

Ethical Business Conduct

The reputation we have built for over 50 years reflects our efforts in abiding with industry regulations and best practices adopted. We displayed sound employer principles by complying with the Shop and Office Act and by contributing to statutory employee funds. By practicing effective corporate procedures and policies (refer page 201) we have ensured that our actions do not lead to illegal or unethical practices that result in erosion of social values.

Secure Employment

By affording secure employment opportunities with sufficient growth potential, we supported in cultivating sustainable communities with a wider geographical spread that resulted in positive social contribution.

We ensured that a competitive and fair Remuneration Policy is in place which in turn facilitates the improvement of the quality of life of our staff and their families. Whilst sufficient opportunities were created for employees to progress in their careers, our efforts again this year in strengthening staff welfare boosted morale and motivation and created better innovation and team play. (Refer Human Strength on page 80)

Financial Inclusion

Our financial inclusion programmes, mainly driven by micro finance and SME services, have already contributed to the economy by empowering people financially to build sustainable communities. Through the micro finance centres and widespread branch network, we reached the poor and less-privileged people who have little or no access to funds to realise their immediate needs and entrepreneurial aspirations in order to improve their quality of life. Our microfinance products supported these families to establish income streams, funding their agricultural activities and small-scale start-ups, thus encouraging self-employment.

MI's Core Business Operational Impact as a Percentage of Population

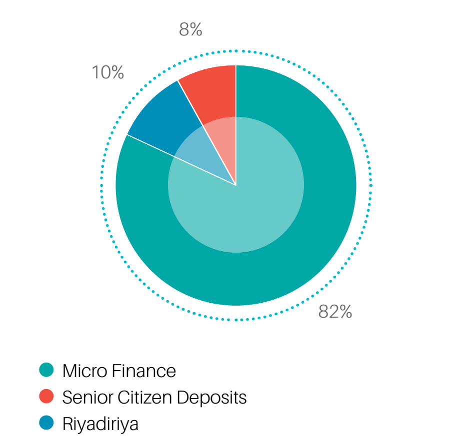
	FY 2018/19						
	Eastern province	North Central Province	North Western Province	Sabaragamuwa Province	Southern Province	Western Province	Central Province
Number of branches	2	3	4	4	5	20	1
Number of new branches	-	-	1	-	-	2	-
Population*	1,710,000	1,366,000	2,536,000	2,047,000	2,637,000	6,129,000	2,750,000
Lending customers /Deposit customers	1,282	3,139	7,152	6,168	5,652	27,588	342
Lending customers /Deposit customers (% of population)	0.07%	0.23%	0.28%	0.30%	0.21%	0.45%	0.01%

Source: Department of census and statistics

Lending with Direct Positive Social Impact

Lending Product Type	Targeted social group	Number of customers served	Value of lending FY 2018/19 (Rs. '000)
Micro Finance	Low income earners	31,524	1,483,515
Senior Citizen Deposits	Senior citizens/elderly population	3,203	11,827,586
Riyadiriya	Low income earners	3,887	1,283,328

Direct Positive Social Impact 2018/19



Community Service

As we closely associated with communities and society, we were able to identify the issues faced by them in the current social context. This enabled us to contribute via community service initiatives as depicted below.

Drug Addict Rehabilitation Program

December 2018
By the Sustainability Governance Committee

Contribution

Monetary Value	**Nil**
Management Time	**21 hours**
Staff Volunteerism	**26 hours**
In-kind assistance	**Consultation program expenditure Rs. 47,643**
Number of beneficiaries	**50**

Project Rationale
To improve the social wellbeing and mental health condition of drug-addicted youth. Through this project, we expected to contribute towards addressing a serious social issue faced by Sri Lankan society today.

Project Action
The Sustainability Governance Committee worked together with the National Council for Mental Health 'Sahanaya' counsellors and arranged a full-day program in December 2018, providing useful advices and counselling 50 drug addicts residing at 'Nisansala' Drug Addict Rehabilitation Centre, Gampaha.

Donations to Salvation Army

December 2018
By the Sustainability Governance Committee

Contribution

Monetary Value	**Nil**
Management Time	**6 hours**
Staff Volunteerism	**6 hours**
In-kind assistance	**Stationary and supporting equipment Rs. 26,892**
Number of beneficiaries	**14**

Project Rationale
Share seasonal joy with children and refresh their lives with happiness.

Project Action
The Sustainability Governance Committee arranged an event and handed over gifts, including school stationery and food, to 14 kids of the Salvation Army during the 'MI Christmas Carols' service held at MI premises.

Societal Development and Welfare

MI in the recent decade has taken bold steps to support communities beyond financing. Our philanthropic ideologies have been put into action to mainly assist the poorest of poor and also to provide support in various social aspects with the core of building sustainable communities. We view social welfare as a corporate obligation, forming the wider spectrum of our Corporate Social Responsibility as a people-oriented organisation.

Shelter and Sanitation

Sanitation Facilities for the Needy

July and August 2018

By the Sustainability Governance Committee

Contribution

Monetary Value	Nil
Management Time	25 hours
Staff Volunteerism	12 hours
In-kind assistance	Construction of sanitation facilities Rs. 89,740
Number of beneficiaries	4

Project Rationale
To assist a family to restore their lives after emergencies.

Project Action
The committee identified a micro finance client of MI whose house has been destroyed by fire. The house had been repaired with the help of neighbours and the Sustainability Governance Committee stepped forward to build a complete sanitation system for his new house.

Educational Support

Knowledge and education significantly contribute towards enhancing value for future intellect and human strength. Therefore, we understand that children are the starting point for an educated generation that will propell the future development of the nation. In line with this, we decided to commit ourselves to supporting the education sector by initiating various voluntary programs. During the year, we carried out two projects that supported school children with the ultimate aim of developing a well-educated nation.

Donations to Rebuild Educational Facilities at Bopaththalawa Sinhala Vidyalaya

November 2018

By the Sustainability Governance Committee

Contribution

Monetary Value	Nil
Management Time	34 hours
Staff Volunteerism	76 hours
In-kind assistance	School furniture and other supporting equipment Rs. 261,740
Number of beneficiaries	45

Project Rationale
To encourage students of Bopaththalawa Sinhala Vidyalaya to continue their education despite their financial difficulties.

Project Action
The committee provided desks and chairs for children in Bopaththalawa Sinhala Vidyalaya. Additionally, school accessories including, school bags, water bottles and lunch boxes were also donated.

Book Donation Program

July 2018
By the Sustainability Governance Committee

Contribution

Monetary Value	**Rs. 20,000**
Management Time	**6 hours**
Staff Volunteerism	**Nil**
In-kind assistance	**Nil**
Number of beneficiaries	**N/A**

Project Rationale
Provide books to support students who lack adequate access to learning facilities.

Project Action
MI made monetary contributions to the book donation programme organised by the 'Lalith Athulathmudali Commemorative Foundation Centre' and 'Dehiwala and Ratmalana Development Foundation'. The programme was aimed at supporting 3,400 children from Colombo and Kalutara and 1,150 children from Ampara District.

Healthcare

As a part of our responsibility towards society, we identified the need to support community healthcare sector where it is lacking, especially in rural areas.

Placement of name boards at Minuwangoda District Hospital

July 2018
By the Sustainability Governance Committee

Contribution

Monetary Value	**Nil**
Management Time	**14 hours**
Staff Volunteerism	**4 hours**
In-kind assistance	**Installation of name boards value of Rs. 37,900**
Number of beneficiaries	**Nil**

Project Rationale
To provide essential non-medical infrastructure support to hospitals.

Project Action
Direction name boards were placed at Minuwangoda District Hospital to assist patients and visitors.

Social Projects and Assistance to Society

Environmental Impact Management

We are conscious about the impact caused by our use of natural resources and discharges which are increasing as a result of our geographical expansion. Our products, business operations and corporate initiatives resulted in both negative and positive impacts on different elements of the environment such as air, water, plants and biodiversity. The negative environmental impacts created by our business are mainly due to the usage of natural resources and indirect discharges that mainly consists of fuel emissions. The efforts we made to manage waste through recycling and our green projects significantly contributed towards generating favourable impacts on the environment.

Areas with Environmental Impact

- Natural Resource Usage Impact
- Impacts Caused by Indirect Discharges
- Nature-Focused Corporate Sustainability Initiatives

Mechanism

- Sustainability Governance Committee
- Natural Capital Compliance Culture
- Dedicated Support Departments

Voluntary Actions Executed

- Tree planting
- Protection of wildlife
- Awareness building programs

Our Environmental Footprint on Stakeholders

Shareholders:
- Improved brand image

Clients:
- Client health and safety at MI premises

Staff:
- Improved staff awareness and employee volunteerism

Regulators:
- Compliance to the environmental laws for the benefit of future generation

Society:
- Creating a healthy environment by reducing environmental pollution

Natural Resources Usage Impact

Material

GRI | 301-1

Our business does not largely depend on consumption of material except for the usage of consumables for office administration processes. However, the usage of consumables has gradually increased during the last five years along with business expansion and therefore we make a conscious effort in monitoring and controlling the use of paper.

Consumables and Stationary Usage Trend

Type of item	2018/19	2017/18	2016/17	2015/16	2014/15
Photo copy paper : (reams)					
- A4	7,297	7,411	6,574	5,549	4,613
- Legal	197	137	164	228	263
- A4R	438	563	472	529	421
Total	7,932	8,111	7,210	6,306	5,297
Ink cartridges /Fax/Printers (No. of cartridges)	168	209	212	237	267
Photo copy toner, fax toner & laser jet printer toners (No. of units)	2,046	2,107	1,924	1,771	1,116
Box files (No. of box files)	1,024	923	1,035	992	1,078

Recycling Program

GRI | 301-2, 301-3

Paper is one of the key materials we use in our day to day office operations. Paper which does not hold any confidential information is sent for recycling, where the recycling is performed by a third party. During the year, greater emphasis was placed on recycling of the paper as the consumption was further increased due to expanded branch operations. However, we do not significantly intake recycled items, but we have quantified the items we recycled during the FY 2018/19.

Recycled Consumables 2018/19

Recycled item	Items consumed in		Items recycled in		% of items recycled against total consumption	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Paper (Kg)	31,728	32,444	1,394	1,126	4%	3%
Box files (Number)	1,024	923	256	20	25%	2%

* Consumption does not include any recycled or reclaimed items

By Collecting 1,394 kg of Paper for Recycling, We Saved;

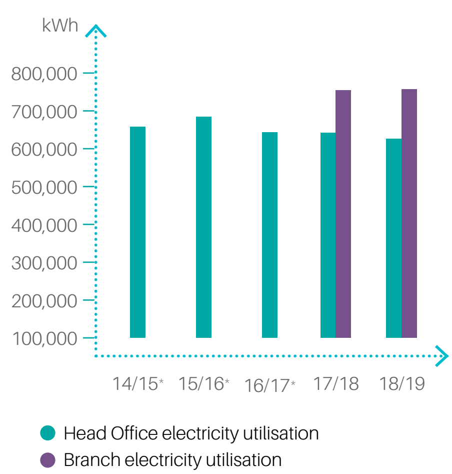
Energy

GRI | 302-1, 302-2, 302-3, 302-4, 302-5

There is no direct energy requirement for the products we offer. However, we execute day-to-day operational tasks for which we consume energy, mainly sourced from electricity and fuel. Electricity is the primary energy source used within the organisation and is purchased from the National Electricity Grid. Reduction in electricity utilisation in FY 2018/19 was 13,186 kWh.

MI's Electricity utilisation from National Grid

Electricity Utilisation



* *Branch Information not gathered*

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

Total Electricity Consumption
2018/19 - **1,352,395 kWh**
(2017/18 - 1,365,581 kWh)

Per Working Day
5,498 kWh
(5551 kWh FY 2017/18)

Per Employee
1,300 kWh
(1436 kWh FY 2017/18)

Per Service Outlet
34,677 kWh
(37933 kWh FY 2017/18)

Fuel is the other fossil-based energy source utilised to power up stand-by generators installed at each service location.

Generator Powering Statistics

Fuel Type	2018/19	2017/18	Variance (%)
Petrol (litres)	2002.64	1,701.58	17.69%
Diesel-(litres)	2144.08	1,197.84	79.00%

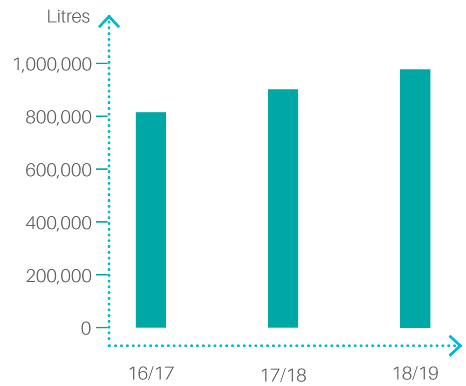
Fuel is also the main energy source used outside the Company, to support employee commuting, business purpose travels and other logistics. The usage trend reflects upward trajectory due to increasing staff and operational requirements and is depicted below.

Energy Intensity

Energy source	Consumption Level		
	2018/19	2017/18	2016/17
Energy used within organisation (kWh)	1,352,395	1,365,581	* 619,824
Energy used outside the organisation (fuel litres)	262,920	235,727	223,812
Total employees	1040	951	* 323
Energy consumed per employee (kWh per employee)	1,300.38	1,435.94	1,918.96
Energy consumed per employee (Fuel litres per employee)	252.81	247.87	255.49

* *Only Head office*

Motor Vehicle Fuel Usage Trends



Fuel usage by location

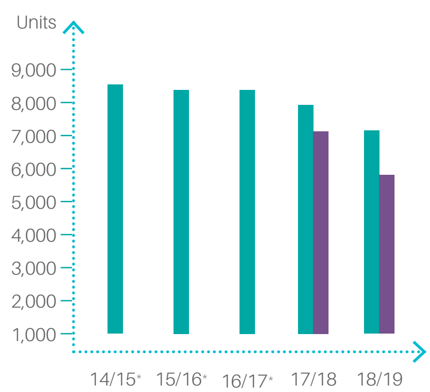
Water Usage

GRI | 303-1, 303-2, 303-3, 306-1, 306-5

Water is not a key input into our core business operations and mainly represents drinking and sanitation water. Water consumed by the majority of our locations is municipal water except for the Micro Finance Unit and Tissamaharama branch which use pipe-borne water. As the impact we create on natural water bodies is insignificant, we do not consider reusing or recycling water currently. Similarly, the water discharging process is in adherence with the disposal methodologies facilitated by the National Water Supply and Drainage Board, but not quantified considering the immaterial volume disposed.

Water utilisation from National Water Supply

Water Utilisation



Head Office water utilisation
Branch water utilisation

* *Information not gathered for branches*
◈ *Reduction in water utilisation in FY 2018/19 is 2,367 units*

Total Water Consumption
2018/19 - **12,325 m3**
(2017/18 - 14,692 m3)

Per Working Day
50 m3
(60 m3 FY 2017/18)

Per Employee
12 m3
(15 m3 FY 2017/18)

Per Service Outlet
316 m3
(408 m3 FY 2017/18)

Impacts Caused by Indirect Discharges

Effluents and Waste

GRI | 306-2, 306-3, 306-4

As the first step of our effective waste management operation, we segregated and quantified waste according to Municipal Council instructions. We engaged with Think Green (Pvt) Ltd. to ensure that e-waste is disposed of responsibly. By having a close look at the waste disposal trends identified, we have introduced an effective waste management system which will eventually reduce our impact on nature. We ensured that waste disposed from our premises did not contribute or create any hazardous environment and did not pollute water streams and not harm any habitats significantly. Our operations do not result in significant hazardous spills. Under the terms of the BASEL Convention, we do not engage in activities that generate significant hazardous waste. The table below illustrates the volume of waste we have disposed during the year.

Our operations do not involve the transportation of hazardous waste. Through the guidance and support of the Colombo Municipal Council, general waste is discarded of professionally by observing precautions during transportation of waste in a way that is not harmful to the environment.

Waste Disposal by Type 2018/19

Type of waste item	Frequency of Disposal	Weight of waste (Kg)	Disposal Method
Waste paper	Weekly	752 Kg	Waste paper was collected daily from the departments at Head Office and disposed to an authorised party on a weekly basis.
Food	Daily	5,261 Kg	Collected daily at Head Office and disposed of through the Colombo Municipal Council garbage disposal process.
E-waste	Bi-annual	183 Kg	A separate storage area was assigned to store e-waste. Periodically, an inventory was taken and quotations called for e-waste disposal with items being sold at best price.
Damaged office equipment	Ad-hoc	391 Kg	Damaged furniture, equipment and other similar items from various departments were collected by the Maintenance Department. The items were stored at Maharagama and sold when the realisable value was obtained following Management approval.
Polythene	Weekly	774 Kg	Daily collection of polythene is done from each department at Head Office and stored temporarily at a dedicated slot in the basement. Polythene is thereafter collected by the Colombo Municipal Council.
Total		7,361 Kg	

Emissions

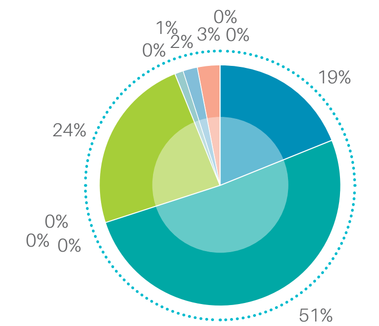
GRI | 305-1, 305-2, 305-3, 305-4, 305-5, 305-6, 305-7

At MI, emissions mainly resulted from office operations, employee commuting and business travel among branches and were quantified through carbon footprint calculations. For the fourth consecutive year, during the FY 2018/19, MI collaborated with the Sri Lanka Climate Fund to verify its footprint on the environment. We have our internal strategies towards ensuring environmental sustainability to control and mitigate emission levels and other impacts causing climate change.

The Carbon Footprint Assessment was calculated based on the Greenhouse Gas (GHG) Accounting Protocol of the World Business Council for Sustainable Development (WBCSD), and IPCC Guidelines and ISO 14064-1:2006, Sri Lanka Sustainable Energy Authority and DEFRA guidelines.

The assessment quantifies all six Kyoto greenhouse gases where applicable and was measured in units of carbon dioxide equivalent, or CO2e.

GHG Inventory -FY 2018/19



- Emission from Business Purpose travels & Employee commuting - Investigation
- Emission from business purpose travels and employee commuting - Fuel Claims and Allowances
- Emission from Generators
- Emission from CO2 Fire Extinguishers
- Emission from Refrigerant replacement
- Emission from electricity consumption
- Emissions from drinking water delivery
- Transmission and distribution Loss
- Emission from employee commuting by common and private transport
- Paper Recycling
- Waste Food


Greenhouse Gas Verification Statement
ISO 14064-1:2006
Sri Lanka Climate Fund

Mercantile Investments and Finance PLC

Greenhouse Gas Inventory - 2018/19

Green-house Gas Emissions Summary by Scope FY 2018/19

Scope	Type of emission	tCO2e
Scope I	Emission from Business Purpose travels & Employee commuting - Investigation	610.60
	Emission from business purpose travels and employee commuting - Fuel Claims and Allowances	1,621.12
	Emission from Generators	10.40
	Emission from CO2 Fire Extinguishers	0.04
	Emission from Refrigerant repalce	9.40
Scope II	Emission from electricity consumption	746.86
	Emissions from municipal water consumption	0.002
Scope III	Emissions from drinking water delivery	19.95
	Transmission and distribution Loss	65.00
	Emission from employee commuting by common and private transport	83.57
	Paper Recycling	0.04
	Waste Food	0.12
	Total	3,167.09

Emission Intensity

Year	Total GHG Emissions	Total Employees	Intensity per employee	Variance %
2018/19	3167.09 tCO2e	1040	3.05	-7.53%
2017/18	3132.05 tCO2e	951	3.29	18.04%
2016/17	2447.27 tCO2e	876	2.79	0.90%

- *Total GHG emission of scope 1,2 and 3 included to calculate intensity. An increase of 35.04 tCO2e was observed*
- *Scope 1,2 and 3 of GHG emission (carbon footprint) intensity computations have been based on Head Office and branches GHG emission that include CO2, N2O, CH4. (does not include an assessment on possible indirect emissions resulting from our lending client business and actions).*
- *MI has a very insignificant impact on ozone-depleting substances and NOx, SOx and any other significant air emissions that include biogenic CO2.*

Positive Impacts from Nature-Focused Corporate Sustainability Initiatives

GRI | 304-3

Wildlife Conservation

Beyond our business aspirations, we committed ourselves towards protecting wildlife through various conservation initiatives targeted at preserving extinct and endangered species. During FY 2018/19, 33% of the 'Wildlife Conservation Fund' and 4% of the 'Diviyata Diriyak' fund were utilised in wildlife conservation initiatives.

Rehabilitation Facilities for Small Wild Cats at Attidiya

In August 2018
By the Sustainability Governance Committee

Contribution

Monetary Value	**Nil**
Management Time	**6 hours**
Staff Volunteerism	**Nil**
In-kind assistance	**Construction and plumbing work of the enclosure Rs. 400,562**
Number of beneficiaries	**N/A**

Project Rationale

This program was conducted as an extension to the Attidiya Wildlife Nursery Unit project which was carried out in the previous financial year. The need for rehabilitation facilities for small wild cats was identified by the Sustainability Governance Committee stemming from post-project implementation monitoring of the original project. The project aimed at conservation of wildlife and endangered species.

Project Action

The Committee funded the 'Development of Rehabilitation Facility for Small Wild Cats' project at Attidiya Wildlife Rehabilitation Centre. MI financed the entire construction and plumbing work of the enclosure and also assisted in supporting the treating of fishing cats and jungle cats prior to their release to the jungle.

Rehabilitation and reintegration of rescued wild-born sloth bears into the wild

January 2019
By the Sustainability Governance Committee

Contribution

Monetary Value	**Rs. 75,000**
Management Time	**12 hours**
Staff Volunteerism	**Nil**
In-kind assistance	**Nil**
Number of beneficiaries	**N/A**

Project Rationale

Through this project on wildlife conservation, we aimed to contribute towards protecting endangered species of Sri Lanka.

Project Action

MI funded the radio collars and a CCTV camera system to monitor the behaviour of sloth bears who were subjected to a rehabilitation programme in Galge, Yala National Park, Block 03. This contributed towards the success of the rehabilitation programme as the bears were closely monitored using the donated equipment.

Tree Planting

Keeping to our Sustainability Pledge and continuing from past years, we contributed back to the environment by planting trees. This year, we conducted a tree planting campaign by planting 500 trees along the Southern Expressway, joining hands with the Road Development Authority, in making this effort successful. Special attention was given to the aftercare of the trees which acted as a key criteria in selecting the scale and location of the project. This also helped to boost environmental awareness among MI employees, resulting in greater employee engagement in the project.

Contribution

Monetary Value	**Rs. 213,936**
Management Time	**40 hours**
Staff Volunteerism	**320 hours**
In-kind assistance	**Nil**
Number of beneficiaries	N/A

Environmental Awareness

Donations Focused on Biodiversity Protection

November 2018
By the Sustainability Governance Committee

Contribution

Monetary Value	**Rs. 50,000**
Management Time	**6 Hours**
Staff Volunteerism	**Nil**
In-kind assistance	**Nil**
Number of beneficiaries	**N/A**

Project Rationale
To create environmental awareness among the public.

Project Action
Donations were made to the Environmental Foundation (Guarantee) Limited to publish a handbook focusing on environmental rights and responsibilities.

Awareness Building about the Environment

May 2018
By the Sustainability Governance Committee

Contribution

Monetary Value	**Rs. 306,120**
Management Time	**Nil**
Staff Volunteerism	**3 hours**
In-kind assistance	**Nil**
Number of beneficiaries	**N/A**

Project Rationale
Build awareness in protecting nature and encourage everyone to be involved in conserving and restoring natural resources.

Project Action
The committee funded a television commercial engaging with Dialog Television (Pvt) Ltd. for World Environmental Day.

Expenditure on Environmental Protection

Environmental protection initiatives	Activities involved	Expense for FY 2018/19 Rs.
Nature focused initiatives	Tree planting and other wildlife conservation projects	1,268,969
GHG emission testing	Annual emission certificate obtained for MI's fleet of motor vehicles and energy consumption on transportation and other internal operations	288,000
Value of employees volunteered hours	MI staff including the management spent 411 hours on environmental initiatives	179,732

Impact Monitoring

We believe that monitoring of our economic, social and environmental impacts is an important process towards value creation. This should be an on-going process as our actions require constant monitoring so that we can assess, adjust and re-implement actions when perceived results are either poor or substandard. Our Corporate Planning Unit periodically assessed the economic impact and identified trends to see whether we were able to adhere to wider economic aspirations laid down in our Corporate Plan to update the Board and the Management of its progress. The Sustainability Governance Committee with the support of the Finance Department and the Internal Audit team is entrusted with monitoring our social and environmental footprint, evaluating any areas needing speedy attention and accordingly taking measures to mitigate or totally eliminate negative impacts.

Community Feedback and Grievance Resolution

GRI | 103-2, 103-3

A formal grievance process has been established, from the lower hierarchical levels to Corporate Management and Board level, to pick up grievances of society and provide relief when deemed necessary. At branch level, we have set up contact officers who handle complaints/ recommendations to provide feedback through proper channels to the Sustainability Governance Committee and Heads of the Departments. Furthermore, a feedback form is attached to the Annual Report for any stakeholders to declare their views. For the FY 2018/19, there were no social and environmental grievances or negative feedback formally reported by outside parties at the time of publishing this report.

GRI Standards Content Index: "in Accordance Comprehensive"

GRI | 102-55

GRI General Disclosures

Disclosure Number	Disclosure Title	Section to Refer / Related Disclosure	Page Reference
GRI 102: General Disclosure			
102-1	Organisational Profile : Name of the Organisation	Mercantile Investments and Finance PLC	
102-2	Activities, brands, products, and services	Our Journey Service Value Chain Report	09 117 to 118
102-3	Location of headquarters	236, Galle Road, Colombo 03. Sri Lanka.	
102-4	Location of Operations	About Our Integrated Report	02
102-5	Ownership and legal form	About Our Integrated Report Supplementary Information	02 390
102-6	Markets served	Our Journey Infrastructure Supplementary Information	09 98 391 to 393
102-7	Scale of the Organisation	Our Journey	14 to 17
102-8	Information on employees and other workers		
	a. Total number of employees by employment contract and gender	Staff on contract is immaterial	82 & 83
	b. Total number of employees by employment contract, by region	Human Strength	82 & 83
	c. Total number of employees by employment type, by gender	Human Strength	82 & 83
	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 Strength	82 & 91
102-9	Supply Chain	Alliances	75
102-10	Significant changes to the organisation and its supply chain	Alliances	75
102-11	Precautionary principle or approach	Nature	106
102-12	External Initiatives	About Our Integrated Report Impact Management	03 127
102-13	Membership of Associations	Corporate Governance Report	172
	Strategy		
102-14	Statement from senior decision maker	Chairman's Message	20 to 23
102-15	Key impacts, risks and opportunities	Management Discussion and Analysis	35 to 43
	Ethics and Integrity		
102-16	Values, principles, standards, and norms of behaviour	Our Journey Human Strength Corporate Governance Report	10 & 11 80 180 & 202
102-17	Mechanisms for advice and concerns about ethics	Corporate governance report	180, 208 & 223
	Governance		
102-18	Governance structure	Corporate Governance Report	170, 175 to 178 &182
102-19	Delegating authority	Corporate Governance Report	170, 172, 175 to 179

Disclosure Number	Disclosure Title	Section to Refer / Related Disclosure	Page Reference
102-20	Executive-level responsibility for economic, environmental and social topics	◈ Corporate Governance Report	172
102-21	Consulting stakeholders on economic, environmental and social topics	◈ Corporate Governance Report	171,173 & 175
102-22	Composition of highest governance body and its committees	◈ Corporate Governance Report	158 to 161, 172, 173, 182 & 211
102-23	Chair of the highest governance body	◈ Corporate Governance Report	172, 175 & 188
102-24	Nominating and selecting the highest governance body	◈ Corporate Governance Report	175 to 178, 190 & 191
102-25	Conflicts of interest	◈ Corporate governance report	175, 209 & 226
102-26	Role of the highest governance body in setting purpose, value and strategy	◈ Corporate governance report	171, 179 & 205
102-27	Collective knowledge of the highest governance body	◈ Corporate governance report	180
102-28	Evaluation of the highest governance body's performance	◈ Corporate governance report	170, 171 & 180
102-29	Identifying and managing economic, environmental and social impacts	◈ Corporate Governance Report ◈ Risk Report	170, 171 & 175 237
102-30	Effectiveness of risk management process	◈ Corporate Governance Report ◈ Risk Report	171 235 & 237
102-31	Review of economic, environmental and social topics	◈ Corporate Governance Report ◈ Risk Report	171 to 173 236 & 237
102-32	Highest governance body's role in sustainability reporting	◈ About Our Integrated Report ◈ Corporate Governance Report	06 171 & 172
102-33	Communicating critical concerns	◈ Corporate Governance Report	170 & 171
102-34	Nature and total number of critical concerns	◈ Corporate Governance Report	170
102-35	Remuneration Policies	◈ Corporate Governance Report	180
102-36	Process of determining remuneration	◈ Corporate Governance Report	180
102-37	Stakeholders involvement in remuneration	◈ Corporate Governance Report	193 & 194
102-38	Annual total compensation ratio * *Omitted and not disclosed due to confidentiality*		
102-39	Percentage increase in annual total compensation ratio * *Omitted and not disclosed due to confidentiality*		
	Stakeholder engagement		
102-40	List of stakeholder groups	◈ Value Creation	47
102-41	Collective bargaining agreements	◈ Human Strength	90
102-42	Identifying and selecting stakeholders	◈ Value Creation	47
102-43	Approach to stakeholder engagement	◈ Value Creation	48 to 49
102-44	Key topics and concerns raised	◈ Value Creation	48 to 49
	Reporting Practice		
102-45	Entities included in the consolidated financial statements	◈ About Our Integrated Report	02
102-46	Defining report content and topic boundaries	◈ About Our Integrated Report ◈ Value Creation	02 49, 50 to 55
102-47	List of material topics	◈ Value Creation	50 to 55
102-48	Restatements of information	◈ About Our Integrated Report	03
102-49	Changes in reporting	◈ About Our Integrated Report	03

Disclosure Number	Disclosure Title	Section to Refer / Related Disclosure	Page Reference
102-50	Reporting period	1st April 2018 to 31st March 2019	
102-51	Date of most recent report	31st March 2018	
102-52	Reporting cycle	◈ About Our Integrated Report In annual cycles	02
102-53	Contact point for questions regarding the report	◈ About Our Integrated Report	06
102-54	Claims of reporting in accordance with the GRI standards	◈ About Our Integrated Report	03
102-55	GRI Content Index	◈ Management discussion and Analysis	148 to 153
102-56	External assurance	◈ Management discussion and Analysis ◈ About Our Integrated Report	154 03
GRI 103: Management Approach			
103-1	Explanation of the material topics and its boundary	◈ Value Creation	49, 50 to 55
103-2	The management approach and its components	◈ Value Creation ◈ Financial Wealth ◈ Alliances ◈ Human Strength ◈ Infrastructure ◈ Intellect ◈ Nature ◈ Impact Management	50 to 55 58 69 80, 90 96 92 102 147
103-3	Evaluation of the management approach	◈ Value Creation ◈ Financial Wealth ◈ Alliances ◈ Human Strength ◈ Infrastructure ◈ Intellect ◈ Nature ◈ Impact Management	50 to 55 58 69 80, 90 96 92 102 147

GRI Specific Disclosures

GRI Standards	Disclosure Number	Disclosure Title	Related Disclosure Reference/ Remarks	Page No.
GRI 200: Economic Performance				
GRI 201:Economic performance	201-1	Direct economic value generated and distributed	◈ Impact Management	129 to 133
	201-2	Financial implications and other risks and opportunities due to climate change	◈ Nature	106
	201-3	Defined benefit plan obligations and other retirement plans	◈ Financial Statements	335 to 337
	201-4	Financial assistance received from government	◈ Impact Management	129
GRI 202:Market Presence	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	◈ Human Strength	87
	202-2	Proportion of senior management hired from the local community	◈ Human Strength	83

GRI Standards	Disclosure Number	Disclosure Title	Related Disclosure Reference/ Remarks	Page No.
GRI 203:Indirect Economic Impacts	203-1	Infrastructure investments and services supported	Impact Management	134
	203-2	Significant indirect economic impacts	Impact Management	133, 134
GRI 204:Procurement Practices	204-1	Proportion of spending on local suppliers	Alliances	75
GRI 205: Anti- corruption	205-1	Operations assessed for risks related corruption	Alliances	79
	205-2	Communication and training about anti-corruption policies and procedures	Alliances	79
	205-3	Confirmed incidents of corruption and actions taken	Alliances	79
GRI 300: Environmental Topics				
GRI 301: Material 2016	301-1	Materials used by weight or volume	Impact Management	140
	301-2	Recycled input materials used	Impact Management	141
	301- 3	Reclaimed products and their packaging materials	Impact Management	141
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	Impact Management	141 to 142
	302-2	Energy consumption outside of the organisation	Impact Management	141 to 142
	302-3	Energy intensity	Impact Management	141 to 142
	302-4	Reduction of energy consumption	Impact Management	141 to 142
	302-5	Reductions in energy requirements of products and services	Impact Management	141 to 142
GRI 303: Water 2016	303-1	Water withdrawal by source	Impact Management	142
	303-2	Water sources significantly affected by withdrawal of water	Impact Management	142
	303-3	Water recycled and reused	Impact Management	142
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	Nature	105
	304-2	Significant impacts of activities, products, and services on biodiversity	Nature	105
	304-3	Habitats protected or restored	Nature Impact Management	105 to 106 145 to 147
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	Nature	105

GRI Standards	Disclosure Number	Disclosure Title	Related Disclosure Reference/ Remarks	Page No.
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions	Impact Management	144
	305-2	Energy indirect (Scope 2) GHG emissions	Impact Management	144
	305-3	Other indirect (Scope 3) GHG emissions	Impact Management	144
	305-4	GHG emissions intensity	Impact Management	144
	305-5	Reduction of GHG emissions	Impact Management	144
	305-6	Emissions of ozone-depleting substances (ODS)	Impact Management	144
	305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Impact Management	144
GRI 306: Effluents and Waste 2016	306-1	Water discharge by quality and destination	Impact Management	142
	306-2	Waste by type and disposal method	Impact Management	143
	306-3	Significant spills	Impact Management	143
	306-4	Transport of hazardous waste	Impact Management	143
	306-5	Water bodies affected by water discharges and/or runoff	Impact Management	142
GRI 307: Environmental compliance 2016	307-1	Non-compliance with environmental laws and regulations	Nature	106
GRI 400: Social Topics				
GRI 401: Employment	401-1	New employee hires and employee turnover	Human Strength	83, 84 & 90
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Human Strength	87 to 88
	401-3	Parental leave	Human Strength	88 to 89
GRI 402: Labor/ Management Relations	402-1	Minimum notice periods regarding operational changes	Human Strength	91
GRI 403: Occupational Health and Safety	403-1	Workers representation in formal joint management–worker health and safety committees	Human Strength	88 to 89
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Human Strength	88 to 89
	403-3	Workers with high incidence or high risk of diseases related to their occupation	Human Strength	88 to 89
	403-4	Health and safety topics covered in formal agreements with trade unions	Human Strength	88 to 90

GRI Standards	Disclosure Number	Disclosure Title	Related Disclosure Reference/ Remarks	Page No.
GRI 404: Training and Education	404-1	Average hours of training per year per employee	Human Strength	85 to 86
	404-2	Programs for upgrading employee skills and transition assistance programs	Human Strength	85 to 86
	404-3	Percentage of employees receiving regular performance and career development reviews	Human Strength	87
GRI 405: Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	Human Strength Corporate Governance Report	82 to 83 172
	405-2	Ratio of basic salary and remuneration of women to men	Human Strength	87
GRI 406: Non discrimination	406-1	Incidents of discrimination and corrective actions taken	Human Strength	91
GRI 410: Security Practices	410-1	Security personnel trained in human rights policies or procedures	Human Strength	91
GRI 412: Human rights Assessment	412-1	Operations that have been subject to human rights reviews or impact assessments	Human Strength	90
	412-2	Employee training on human rights policies or procedures	Human Strength	90
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Human Strength	90
GRI 413: Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	Alliances Impact Report	78 to 79 135 to 139
	413-2	Operations with significant actual and potential negative impacts on local communities	Alliances Impact Report	78 to 79 135 to 139
GRI 417: Marketing and Labelling	417-1	Requirements for product and service information and labelling	Alliances	73 to 74
	417-2	Incidents of non-compliance concerning product and service information and labelling	Alliances	73 to 74
	417-3	Incidents of non-compliance concerning marketing communications	Alliances	73 to 74
GRI 418: Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Alliances	73 to 74
GRI 419: Socio economic compliance	419-1	Non-compliance with laws and regulations in the social and economic area	Alliances	73 to 74

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- 2018/19

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- 2018/19 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 129 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 ("ICASL").

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 sustainability 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 04 March 2019. 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 ICASL.

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 2019.
- 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 129 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2019.
- 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

Ernst & Young
Chartered Accountants

19th June 2019
Colombo

Stewardship

A Journey with Care

As safe keepers of public funds in a highly dynamic finance industry, our leadership upholds effective governance and directs business in a prudent manner, adopting best risk management practices. This good governance approach and risk dynamics in a nutshell is explained in this "Stewardship" section.

Main Section Index

Board of Directors

Left to Right

Saroja Hemakumar Jayawickrema Weerasuriya - *Chairman - (Independent Non-Executive)*
Gerard George Ondaatjie - *Managing Director (Executive)*
Pathiranage Mahes Amarasekara - *Deputy Managing Director (Executive)*
Shermal Hemaka Jayasuriya - *Finance Director (Executive)*
Angeline Myrese Ondaatjie - *Director (Executive)*

Left to Right

Travice John Ondaatjie - *Director (Executive)*

Punyakanthi Tikiri Kumari Navaratne - *Director (Independent Non-Executive)*

Nawagamuwage Hasantha Viraj Perera - *Director (Non-Executive)*

Singappuli Mudiyanselage Susantha Sanjaya Bandara - *Director (Independent Non-Executive)*

Pathmanathan Cumarasamy Guhashanka - *Director (Independent Non-Executive)*

GRI | 102-22

Name of the Director	Date of Appointment to the Board	Date of Last Re-election as Director	Service period as a Director	Qualifications/ Experiences	Membership in Board Sub-Committees	
Saroja Hemakumar Jayawickrema Weerasuriya *Chairman- (Independent Non-Executive)*	26th January 2011	14th July 2016	8 years	BSc (Lond.), MICE. FIE (SL), FSSE (SL), FIPM (SL) C.Eng.	Audit Committee Remuneration Committee Nomination Committee Related Party Review Committee	
Gerard George Ondaatjie *Managing Director (Executive)*	2nd December 1993		25 years	B.Sc. (Accountancy) (Arizona State University – USA)	Nomination Committee Integrated Risk Management Committee Credit Committee	
Pathiranage Mahes Amarasekara *Deputy Managing Director (Executive)*	18th December 1995	20th October 2017	23 years		Integrated Risk Management Committee Credit Committee	
Shermal Hemaka Jayasuriya *Finance Director (Executive)*	05th January 2001	14th July 2016	18 Years	FCA, FCMA (UK), CGMA, FCMA (SL), MBA (Sri.J.)	Integrated Risk Management Committee Credit Committee Related Party Transaction Review Committee	
Angeline Myrese Ondaatjie *Director (Executive)*	20th January 1992	20th October 2017	27 Years	MBA (University of Texas in Austin) USA, BSc (Massachusetts Institute of Technology USA)		

	Competencies			Present Directorship with other Companies/ Positions	Number of Shares held in MI as at 31st March 2019
	Expertise	Sector	Qualities		
	Strategic Management Human Resource Management Financial Public Relation 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 Relation 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, 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 Relation	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 Relation Governance Risk Management	Financial Services Insurance Manufacturing Small Businesses Trading sector Automobile	Strategic Thinker Visionary Analytical Idea Generator Able to deal with ambiguity Networking	**Director** of Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited and Mercantile Fortunes Insurance Brokers (Pvt) Ltd	Nil
	Strategic Management Human Resource Management Financial Public Relation	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, 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, Brushco (Pvt) Ltd **Vice President** of Tourist Hotels Association **Director** of Sri Lanka Tourism Promotion Bureau.	477,213

Name of the Director	Date of Appointment to the Board	Date of Last Re-election as Director	Service period as a Director	Qualifications/ Experiences	Membership in Board Sub-Committees	
Travice John Ondaatjie *Director (Executive)*	13th July 1995	20th October 2017	23 Years	BSc. (Arizona State University – USA)		
Punyakanthi Tikiri Kumari Navaratne *Director* *(Independent Non-Executive)*	17th January 2012	30th June 2015	7 Years	LLB (Col.), Attorney at Law	Remuneration Committee	
Nawagamuwage Hasantha Viraj Perera *Director (Non-Executive)*	09th February 2012	30th June 2015	7 Years	Diploma in Business Management, Organisational Behaviour and HR Management	Audit Committee Remuneration Committee Integrated Risk Management Committee Nomination Committee Related Party Transactions Review Committee	
Singappuli Mudiyanselage Susantha Sanjaya Bandara *Director* *(Independent Non-Executive)*	09th February 2012	30th June 2015	7 Years	FCA (SL), FAAT (SL), MBA (Col.), BSc. (Sri J.)	Audit Committee Nomination Committee Related Party Transactions Review Committee	
Pathmanathan Cumarasamy Guhashanka *Director* *(Independent Non-Executive)*	28th June 2013	14th July 2016	5 Years	MBA (USA)		

	Competencies			Present Directorship with other Companies/ Positions	Number of Shares held in MI as at 31st March 2019
	Expertise	Sector	Qualities		
	Strategic Management Human Resource Management Financial Public Relation 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, Tangerine Vacations (Pvt) Ltd	477,213
	Legal Human Resource Management Public Relation Risk Management	Corporate Legal Enforcement and advisory Information technology	Strategic Thinker Visionary Idea Generator Networking	Vice President-Legal Affairs at WSO2 Lanka (Pvt) Limited	
	Legal Recoveries Human Resource Management Public Relation 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, 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 Relation Governance	Automobile Corporate Construction Financial servicies	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, Superlative Properties (Pvt) Ltd	Nil

Corporate Management Team

1. Dhanushka Fonseka
MCIM, MBA (Wales) -UK
Chief Operating Officer / Director (Non-Board)

Areas of expertise and contribution:
21 years experience in the Financial Service sector

Directorships and memberships:
Director of Fair View Hotels, Mercantile Fortunes Insurance Brokers (Pvt) Ltd and The Finance Houses Association of Sri Lanka
Member of Credit Committee

2. Deva Anthony
FCA, FCMA (UK), CGMA, FCMA (SL), ACIM
Chief Finance Officer / Senior General Manager

Areas of expertise and contribution:
17 years experience in the Financial Service sector
6 years 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:
37 years 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:
28 years experience in the Financial Service and tourism sector

5. Hirantha Pandithasekera
General Manager – Operations & Process Reengineering

Areas of expertise and contribution:
17 years experience in the Financial Service sector
2 years experience in the insurance field

6. Dharshana Senarath
General Manager – Credit & Marketing

Areas of expertise and contribution:
21 years experience in the Financial Service sector

7. Priyantha Athukorala
MBA (Wales) -UK
Deputy General Manager - HR

Areas of expertise and contribution:
23 years experience in the Banking and Financial Service sector

8. Lahiru Dayananda
MBA (UK)
Assistant General Manager – Credit & Marketing

Areas of expertise and contribution:
19 years experience in the Financial Service sector

9. Prasad Indika

FBCS, Dip. (NIBM)
Assistant General Manager - IT

Areas of expertise and contribution:
16 years experience in the Financial Service sector

10. Jayanka Kahawevithana

LLM (KDU), LLB (Hons.), Attorney-at-law, Notary Public, Commissioner for Oaths
Assistant General Manager - Legal

Areas of expertise and contribution:
9 years experience in the Financial Service sector

11. Roshini Induruwage

MBA – Edith Cowan University (Australia)
Assistant General Manager – Deposits & Marketing

Areas of expertise and contribution:
20 years experience in the Banking and Financial Service sector

12. Shehan Cooray

Assistant General Manager - Recoveries

Areas of expertise and contribution:
21 years experience in the Financial Service sector
Over one and half years experience in inbound sector

13. Tharanga Deepal Peiris

Dipl. Micro Finance (IBSL)
Assistant General Manager - Microfinance

Areas of expertise and contribution:
18 years experience in the Financial Service sector

14. Indunil Jayawardena

MBA - Sp (Finance) - Manipal University India
Assistant General Manager - Credit Risk

Areas of expertise & contributions:
20 years experience in Commercial & Development Banking
5 years experience in Leasing

15. Prasad Wickramasinghe

Diploma in taxation (CA Sri Lanka)
Senior Manager – Payments & Cost Control

Areas of expertise and contribution:
31 years experience in the Financial Service sector

16. Chandana Nanayakkara

ACA, ACMA (SL), CTA, MBus (Finance), MFE
Senior Manager - Finance

Areas of expertise and contribution:
14 years experience in the Financial Service sector
6 years experience in audit and assurance sector

17. Avindra Wijesundara
Senior Manager – Credit Operations

Areas of expertise and contribution:
21 years experience in the Financial Service sector

18. Chaminda Paranayapa
Senior Manager – Insurance

Areas of expertise and contribution:
29 years experience in the Insurance Field

19. Wasantha Petikiri
LLB (Hons.), Attorney-at-Law, Notary Public and Commissioner for Oaths
Senior Manager – Legal

Areas of expertise and contribution:
15 years experience in the Financial Services Sector

20. Dinesh Perera
MBA (Australia), Member of MABE (UK)
Regional Manager – Leasing

Areas of expertise and contribution:
21 years experience in the Financial Service sector

21. Pubudu Dayaratne
Regional Manager

Areas of expertise and contribution:
16 years experience in the Financial Service sector

22. Nilusha Perera
MBA (UK)
Regional Manager

Areas of expertise and contribution:
13 years experience in the Financial Service sector

23. U M M K Bandara
Fellow member of SLICM, PGDip. in Business Management (Colombo), BA (Colombo)
Regional Manager

Areas of expertise and contribution:
20 years experience in the Financial Service sector

24. Dinesh Prabhath
ACA, ACMA (UK), CGMA, B.Sc.(Acc.Sp) Sri Jayawardenepura
Head of Internal Audit

Areas of expertise and contribution:
7 years experience in the Financial Service sector
3 years experience in audit and assurance sector

25. Ramidu Costa
FCCA (UK), MCISI (UK), MBA (Cardiff Metropolitan University - UK) Distinction (Gold Medalist)
BBA (Acc.Sp) Colombo, Certified Lean Cadet
Head of Compliance & Risk Management

Areas of expertise and contribution:
5 years experience in the Accounting/ Insurance /Financial Analysis Shared Services
7 years experience in the Accounting and Financial Services Sector

26. Rohitha Rupesinghe
Senior Manager - Recoveries

Areas of expertise & contributions
30 years experience in Financial Services Sector

27. Anjula Ganegoda
CMA Passed Finalist
Senior Manager - Recoveries

Areas of expertise & contributions
17 years experience in Financial Services Sector

28. Indika Galahitiyawa
Senior Manager – Corporate Leasing

Areas of expertise & contributions:
13 Years experience in the Financial Service sector

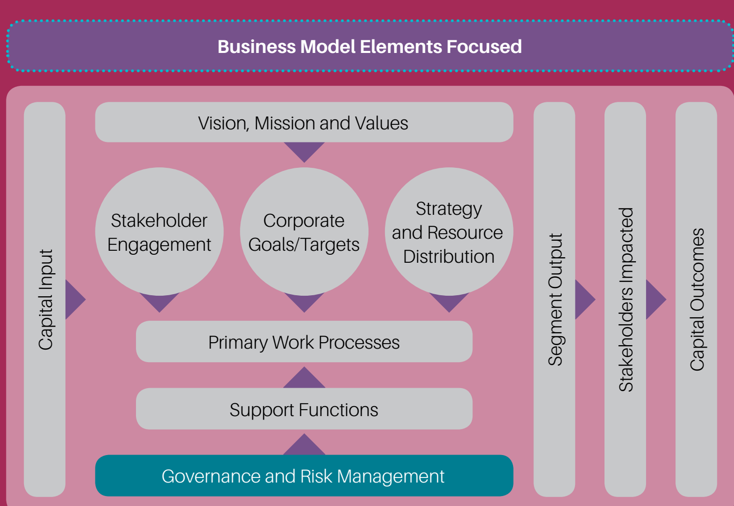
29. Eranda Withana
Senior Manager - Recoveries

Areas of expertise & contributions:
15 years experience in Financial Services Sector

Corporate Governance

We showcase our effective governance journey and framework in prudently managing affairs of the company, form the helm of our strong Board leadership, Board subcommittees, Corporate Management and right across all levels of the hierarchy.

http://mi.com.lk/reports/corporate-governance.pdf



Sub Section Index

Corporate Governance

Chairman's Statement

I am pleased to present the Company's Corporate Governance Report for FY 2018/19, which outlines our approach to governance that led to encouraging positive results, despite tough market conditions advancing our stakeholders' interest in economic, social and environmental matters. This report presents the Board's governance commitments, key governance developments for the year and the efforts of the Board's committees.

During the year, as well as throughout our journey, we strived to earn and retain the trust of our shareholders and other stakeholders through high standards of corporate governance. We consider our governance responsibilities as integral to our performance and long-term sustainability, thus we have embedded rigorous oversight and governance practices in our corporate culture, primarily through the MI Code of Conduct and corporate ethics which have been introduced companywide. Our corporate values and principles guided the Board's oversight, its relationship with the Management and its accountability to stakeholders, emphasising on the importance of conducting business with integrity.

Accordingly we did not come across any material violations of any of the regulatory requirements. Demonstrating our proactive approach, we did not restrict ourselves to complying only with external laws and regulations, but adopted voluntary best practices and also complied with internal controls and risk appetite limits to have a strong hold over areas deemed risky or vulnerable to risk.

Governance in Practice

Having well-qualified and experienced individuals on the Board, we ensured that the right level of professional capacity was maintained for strategic decision making. I am proud to state that the Directors actively contributed to the decisions at the Board meetings that decided the Company's direction towards strategic objectives. Such decisions were assessed based on their impact on sustainable corporate growth and community development. During the year, the Board stayed receptive to the changes in the regulatory environment, especially in the areas of anti-money laundering and combatting financial crime. Through its oversight, the Board further ensured that the Company was well equipped with adequate internal procedures with a sound risk management mechanism and also by providing guidance on optimising the use of resources effectively.

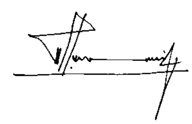
The Board's decision-making process was assisted by the sub-committees appointed by the Board. Through clearly-defined duties, roles and responsibilities, these sub-committees contributed effectively to the strategic decision-making process and to the overall value creation towards stakeholders. Each sub-committee was headed by a chairperson who provided feedback to the Board. Our corporate culture has always strived to encourage open and meaningful dialogue, both within the Board and between the Board and the Corporate Management and staff while the Board of Directors sets the tone at the top in providing the right governance framework and mandates and setting the strategy.

Future Governance

Our Board will strongly uphold sound corporate governance practices with improvements targeted at high levels of prudency and integrity to achieve our strategic objectives in the highly-dynamic and challenging business environment, coupled with technological disruptions. Our future approach will entail keeping a close watch on emerging industry risks and external vulnerability, especially with the growing dependence on technology.

We will gear our business model with our expertise, resources and corporate culture towards future growth potential to enhance stakeholder value creation.

As the Chairman, I reaffirm the commitment of the Board of Directors and all Company personnel in complying with the applicable regulatory and statutory requirements.



Saro Weerasuriya
Chairman

19th June 2019

Our Governance Journey

Governance Actions 18/19

- Implement a professional scientific approach to performance management across all levels of the hierarchy.
- Prioritised technology as one of the core drivers in future successes and took bold steps to embrace external technology development to enhance product features.
- The Board approved the revised AML Policy.
- Making radical organisation structural changes to enhance and reengineer processes to develop a specialised workforce based on the various functions.

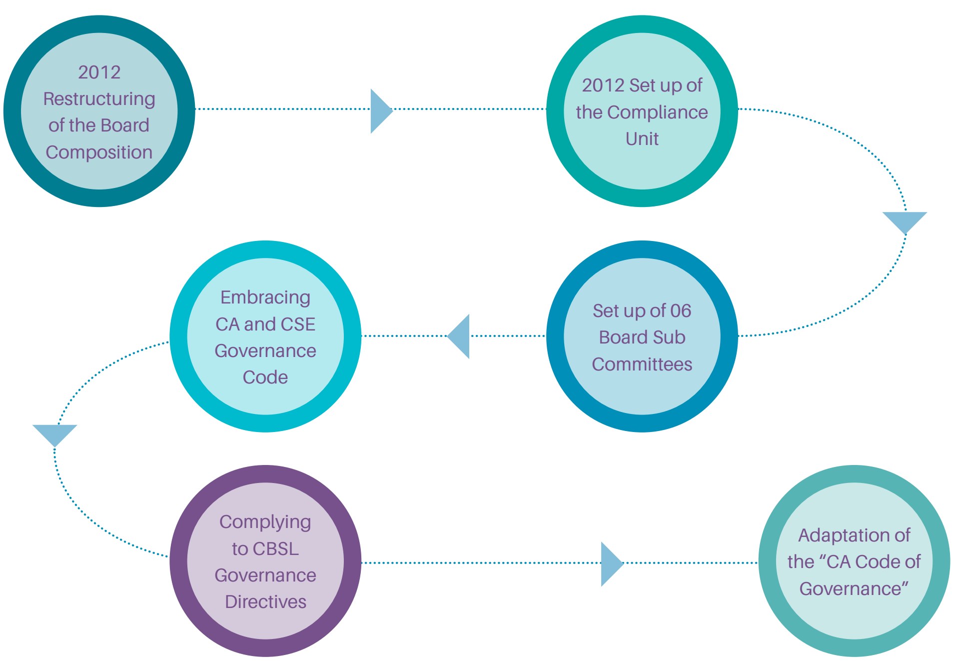
Governance Goals 2021

- Strengthen corporate planning and strategy process with greater involvement and periodic oversight of the Board to set and realign performance with targets.
- Establish clear policy guidelines for all essential areas of business functions.
- Improve the quality, relevance and timeliness of corporate information provided to the Board.
- 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 behaviour to minimise reputational risk and safeguard the Company's brand.

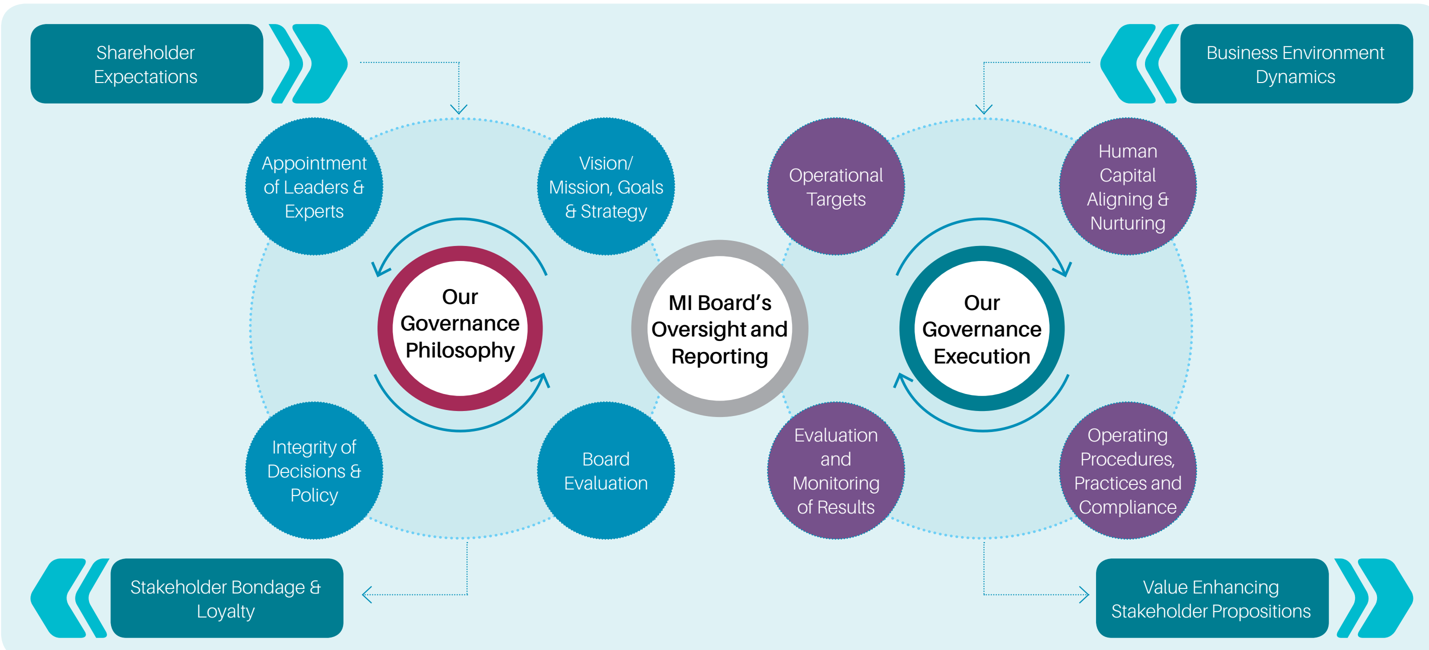
Corporate Governance in the Past Decade



Governance Framework

Our Governance Framework provided an effective governance structure and fundamentals that best suit MI. It facilitated a process towards regulatory adherence while embedding the essential sound practices in business through a strong set of values, culture, policies and procedures. The business processes supported by our unique Governance Framework continued to enhance the value creation for stakeholders and the quality of external communication.

MI Governance Framework



- **Vision, Mission, Goals and Strategy:** In keeping to the enhanced visionary aspirations and Company mission, the MI Board was able to set forth clear the long, medium and short-term milestones. (Refer pages 10 & 34 to 43)
- **Appointment of Leaders and Experts:** The skill composition of the Board required to achieve the Company's goals and objectives was decided by the Nomination Committee which then recommended the members for the Board (Refer page 254). By assigning right, skillful and experienced directors to the Board and its sub-committees, the Board exercised its oversight over the Company's affairs in critical functions. (Refer pages 176 & 177).
- **Integrity of Decisions and Policy:** Board meetings and sub-committee meetings were 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 181). These policies and decisions were directed towards MI's strategic objectives and provided the foundation of our internal control mechanism.
- **Board Evaluation:** The Remuneration Committee evaluated the effectiveness and adequacy of the Board's decision and policymaking (Refer page 253).
- **MI Board's Oversight and Reporting:** This creates a link between the governance philosophy and execution which consists of the Corporate Management team, headed by the Managing Director/CEO (Refer page 171). The Board exercised oversight over the governance execution and was duly appraised by the Executive Directors and Corporate Management on the Company's performance on a regular basis, which stemmed from the execution of governance.
- **Operational Targets:** Operational targets were set at the core divisions, branches and support levels and were based on the Company's strategic priorities as laid out in Corporate Principles keeping to the Purpose Statement, Vision and Mission (Refer pages 34 to 43).

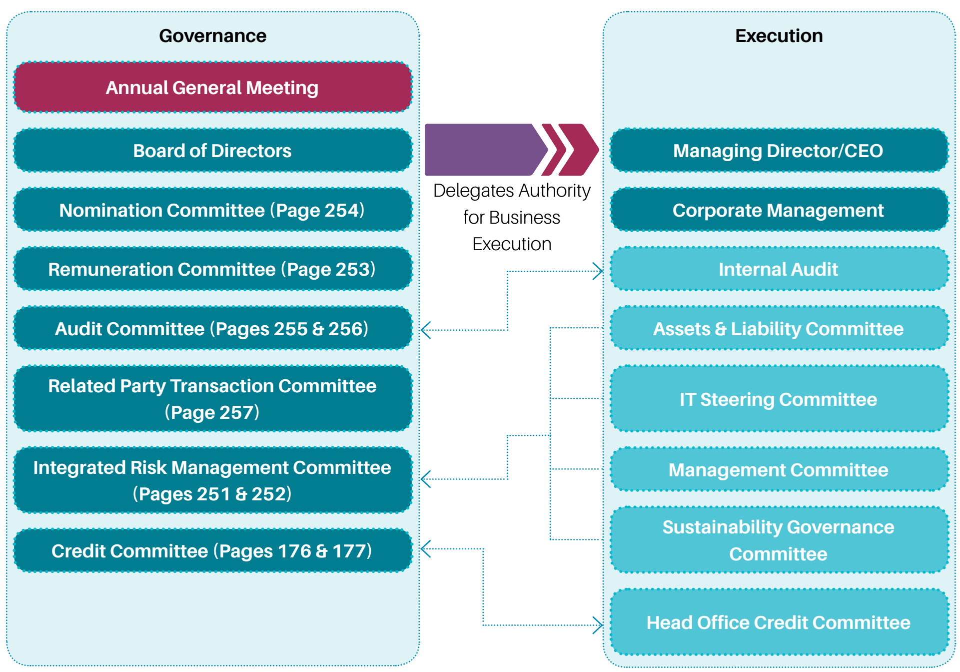
- **Human Strength Aligning and Nurturing:** Our learning and development programs ensured that our staff skills and capabilities were well aligned with corporate priorities and they possess the right capacity to achieve operational targets (Refer pages 80 to 91).
- **Operating Procedures, Practices and Compliance:** All four business segments operations were strengthened with enhanced operating procedures to improve business delivery and this involved requesting staff to comply with internal controls and external regulations (Refer page 171).
- **Evaluation and Monitoring of Results:** The ultimate performance statistics of the Company provided insights on the success of Company operations and moreover implemented strategy. Accordingly, the Board was informed of periodic Company performance, which was deemed input information for future amendments in policies and strategy (Refer pages 34 to 43).

Governance Structure

GRI | 102-18, 102-28, 102-29, 102-33 & 102-34

The purpose of our governance structure is to provide clear scope and authority to staff at all levels in achieving our strategic business objectives and sustainable goals. In doing this, MI's Board of Directors remained the highest governance body which kept oversight all of business decisions taken by the Corporate Management team under the authority delegated to them by the Board. The Corporate Management team is headed by the Managing Director, who is also the CEO of the Company. The Board was appraised periodically of all material matters by the Corporate Management team through the IRMC and Audit Committee. Further, through formal reporting processes, the Board is informed of any critical concerns that require urgent attention. During the year, there were no critical concerns reported to the Board. In order to enable this governance oversight process, MI's Governance structure facilitated the free and transparent flow of authority, communication, control and reporting within the Company, in managing business operations with integrity.

GRI | 102-18 & 102-19



Enhancing the Oversight Function

While the Board is responsible for overseeing the implementation of business decisions, the following functions supported the oversight function by increasing transparency and accountability.

- **Strengthening of the Internal Audit Function**
  MI's Internal Audit function was managed by both the in-house Internal Audit Department and as well as by PricewaterhouseCoopers (Pvt) Limited, embedding industry best practices to support our governance oversight function. The Internal Audit Department ensured the Company's compliance with laws, regulations and internal procedures. Weaknesses of business processes and findings by the Internal Audit Function were reported to the Audit Committee, which were then reported to the Board depending on the materiality of such matters. During the year, we took further steps to empower our in-house Internal Audit team with increased focus on learning and development to tackle the challenges faced by the Company as a result of business expansion and changes in the economic, social and regulatory environment. From next FY, based on regulatory directions to the industry, the full role of Internal Audit supervision will come under the Head of Audit and an outsourced firm will play a support role.

- **Strengthening of the Risk Management Function**
  During the year, the Risk Management function was further strengthened with knowledge and improved procedures, including the anti-money laundering procedures. (Refer the Risk Management Report from pages 235 to 250 for a comprehensive overview of MI's risk management process).

- **Strengthening the Compliance Function**
  The Compliance function was headed by the Head of Risk and Compliance Management who is also the Compliance Officer of the Company who reviewed the level of compliance with various regulatory directives. The Board was accordingly informed by him of the Company's compliance status in relation to regulations on a monthly basis. FY 2018/19 was challenging with the rapidly-evolving regulatory environment applicable to the LFC sector in response to the trends on anti-money laundering and safeguarding stakeholder interests, especially towards the protection of depositors.

MI Board's role in Governance: Oversight and Responsibilities

GRI | 102-21,102-26, 102-28, 102-29, 102-30, 102-31, 102-32 & 102-33

The Board provided leadership governing all the business activities and matters associated with business whilst exercising oversight and monitoring the Company's business activities through numerous Board-appointed sub-committees.

- As the decisions made by the Board may impact the economy, society and environment as well as business performance, all these aspects were taken into consideration when evaluating the decisions. In doing this, the Board appointed six sub-committees which submitted their investigations and analysis of the information to the Board, which were originated from Corporate Management, Audit, customer feedback and other stakeholder engagement activities.
- The strategic plan of the Company up to 2022 was reviewed and approved by the Board, which included the strategic milestones of the Company. During the year, the Board also approved all the policies and related amendments which were then implemented across the organisation through the Corporate Management team.
- Through the Integrated Risk Management Committee (IRMC), the Board reviewed the effectiveness of the Company's risk management process. Quarterly risk reports submitted by the Head of Risk and Compliance Management, who is also the Compliance officer of the Company, were reviewed by the IRMC and the material risks were reported to the Board. Apart from this, the IRMC also highlighted significant risk concerns to the Board as and when they occurred, if such risks were deemed to require the urgent attention of the Board.
- Further, the Board exercised governance over risk management by setting a clear policy which provided a robust risk management mechanism and helped in building a strong risk culture for different business areas.
- The Board was facilitated with adequate information and timely feedback received through Board sub-committees to support effective decision-making.
- The Board's effectiveness was assessed by the each Board member by completing an evaluation checklist. The annual performance evaluation criteria applied for FY 2018/19 was not restricted to business aspects but also included economic, social and environmental aspects.

Board's Role in Managing Social and Environmental Factors

GRI | 102-19,102-20 & 102-31

- Keeping to our vision, the Board ensured that our stakeholder interests were considered in the decision making process which led the Management to have an integrated view of the business. By implementing a stakeholder engagement process, we were in a better position to fulfil key stakeholder expectations and address concerns in a sustainable manner, creating positive economic, social and environmental impacts while mitigating and managing the negative impacts. In doing this, the Board directed both the Corporate Management team and the Sustainability Governance Committee through the leadership of Executive Directors. In driving the concept of sustainability across the Company and business operations, the Board was responsible for the reporting of sustainability goals and actions and formally approving the Sustainability Report for FY 2018/19 (Refer pages 125 to 147).

Chairman's Leading Role on MI Board

GRI | 102-23

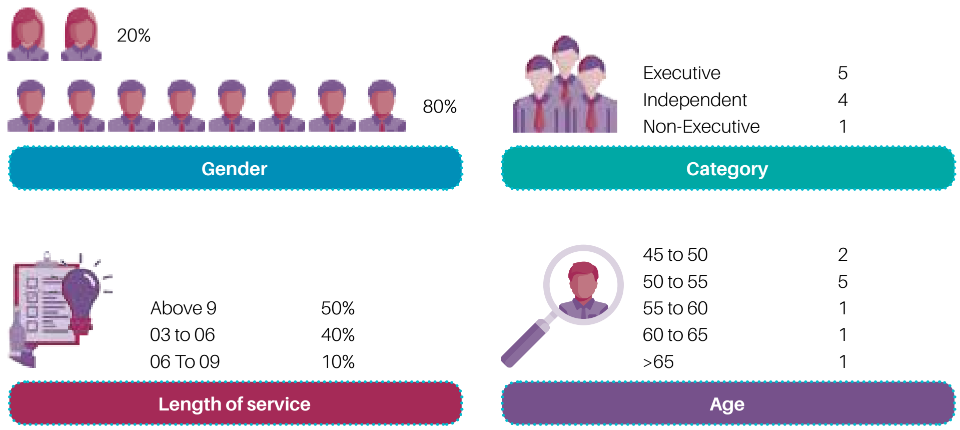
The Chairman is an Independent Non-Executive Director who with freedom and command directed the affairs of the Board while guiding the Board to generate and deliver sustainable stakeholder value prudently to the best of his ability. (Refer the Chairman's role, duties and responsibilities on page 188 in this report.)

Our Board Dynamics

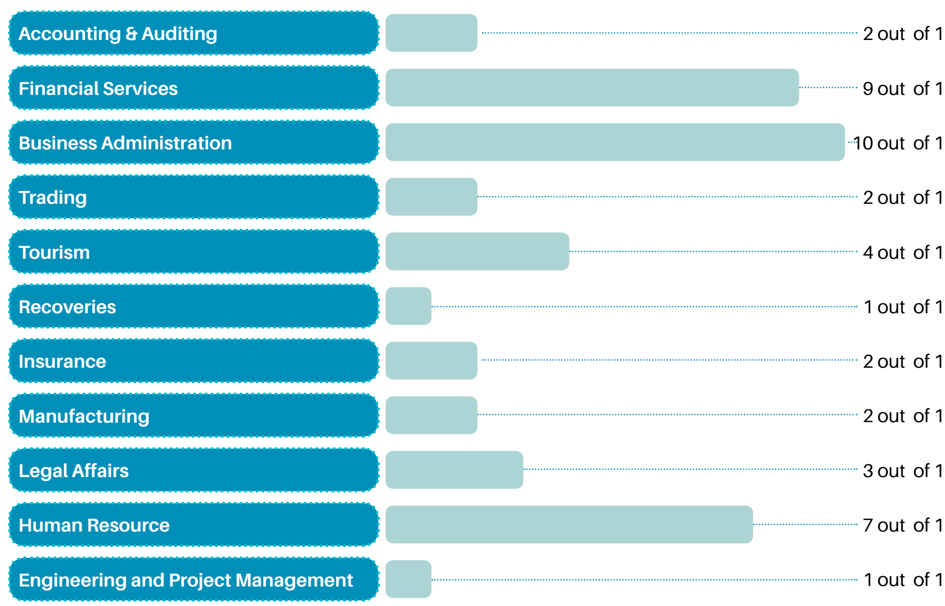
Diversity, Skills and Composition

GRI | 102-13, 102-22, 102-32, & 405-1

MI's Board comprised 10 Directors who reflected suitable composition of skills and experiences and who were collectively responsible for prudently overseeing the delivery of the Company's strategy towards organisational objectives, mission and visionary aspirations.



Professional Background and Experience



Memberships in Associations & Councils

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

Board Meetings

GRI | 102-21, 102-22, 102- 31

Scheduling

- The Board meetings were scheduled at monthly intervals 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 optimising 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

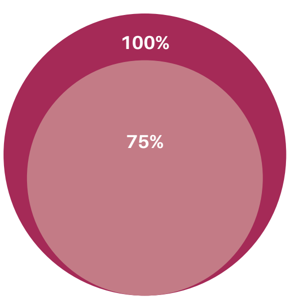
- The Managing Director/CEO provided and updated on the operational, financial and non-financial performance of the Company, updates relevant to the LFC sector, developments in the external environment and matters pertaining to the sustainability agenda of the Company.
- Updates on the risk dashboard 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

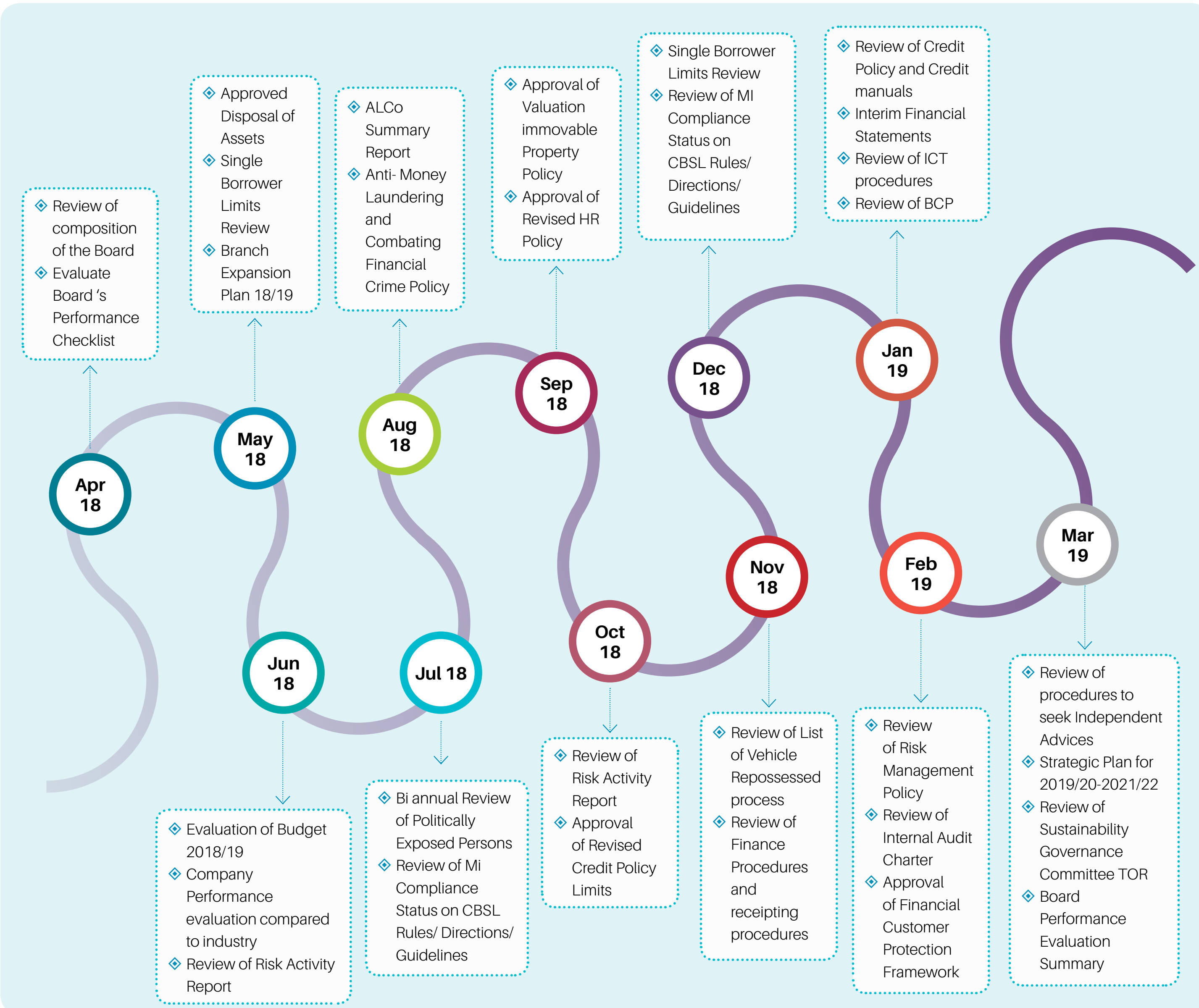
- Minutes and matters arising from the meeting were produced and circulated to the Directors for review.

Total Number of Papers Approved in 2018/19

The Number of Board Papers Submitted	140
The Number of Board Papers Approved	105

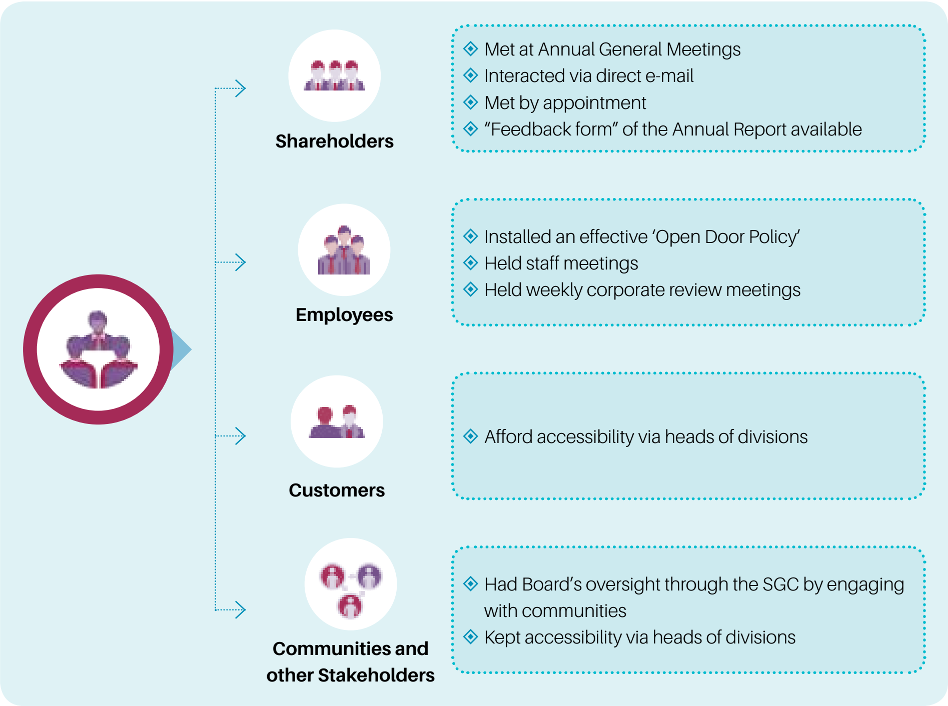


Highlights of the Board's Annual Work Cycle 2018/19



Board's Interaction with Stakeholders

GRI | 102-21 & 102-29



Independent Selection of Board Members

GRI | 102-23, 102-24 & 102-25

Our Board comprises individuals with diverse backgrounds, which resulted in them contributing the right mix of knowledge, skills and competencies required by the Company, enhancing our value creation process throughout the Company's history. The Chairman of the Board is an Independent Non-Executive Director who performs his duties and responsibilities independently and impartially.

It is the Nomination Committee which is entrusted with the authority to recommend new members to the Board based on a thorough evaluation of the candidate's profile, professional qualification and expertise. This ensured that the Board holds sufficient professional capacity to direct the Company towards its strategic objectives while meeting demanding market conditions. (Information pertaining to the Nominations Committee is given on page 254).

Board Sub-Committee Authorities and Responsibilities

GRI | 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.

Board Committee Overview

Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Nomination Committee	Related Party Transactions Review Committee	Credit Committee
Members and 2018/19 Meeting Attendance					
● S.M.S.S. Bandara 7/7	● 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
● S.H.J. Weerasuriya 7/7	● 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
● N.H.V. Perera 7/7	● 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
		● 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 Transactions 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.	Identify suitable individuals for future succession.	Assist the Board in reviewing material related party transactions and to provide feedback.	Maintenance of sound credit review, disbursement and recovery process by meeting on a regular basis.
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.	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.	Evaluate the performance of incumbent Directors upon the expiration of their terms.	Adopting Related Party Transaction policies to uphold good governance for the best interest of the company and its stakeholders.	

Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Nomination Committee	Related Party Transactions Review Committee	Credit Committee
Overlooking the matters related to external auditors and the nomination of external auditors.	Monitoring the implementation and effectiveness of such policies.	Determine the appropriate risk appetite limits in addition to limits imposed by regulations	Recommend ways in which the Board could improve its performance.	Updating the Board of Directors on the related party transactions of the Company on a quarterly basis.	
Following up on the recommendations of the internal auditors.		Review MI's approach for Risk Management periodically and introduce changes to bridge any gaps.			
Reviewing the scope of work and engaging with External Auditors, Corporate Management to identify and resolve concerns.					
Key Actions during 18/19					
Reviewed internal audit reports that highlighted shortcomings in the Head office and branch operations which led to detailed discussions on suitable measures that could be taken.	The Committee made revisions to the remuneration levels of executive directors.	Revised the Liquidity Risk Management Policy and Investment Policy.	Revised succession plan of the Key Management Personal considering the requirements to maintain additional expertise.	Reviewed and monitored related party transactions of MI.	The Committee reviewed the credit risk analysis process to ensure effective management of asset quality.
Regular monitoring of internal controls and procedures.	Human Resource Remuneration Policies were revised and the recommended changes are to be implemented from the next financial year.	Advised the IT steering Committee on the implementation of system security features to reduce the risk of cyber threats and to improve system capabilities.	The Committee reviewed and obtained the Board approval for the Terms of Reference of Nomination Committee.	Formulated, revised and approved policies on related party transactions.	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.
Reviewed appropriateness of accounting policies and ensure adherence of statutory and regulatory compliance requirements and applicable accounting policies.	Implementation of an organisation wide performance management system with the guidance and support from external consultation.	Reviewed the ongoing performance to provide early warning signals and a platform for decision-making.	The Committee recommended the re-election of Directors, assessing the performance and contribution made by them towards the overall discharge of the Board's responsibilities.		Approval of credit which requires the approval credit committee as per the Board approved limits.
Submission Status of the Board Papers					
8 Papers Approved	1 Paper Approved	18 Papers Approved	2 Papers Approved	1 Paper Approved	2 Papers Approved

Governance through Corporate Management

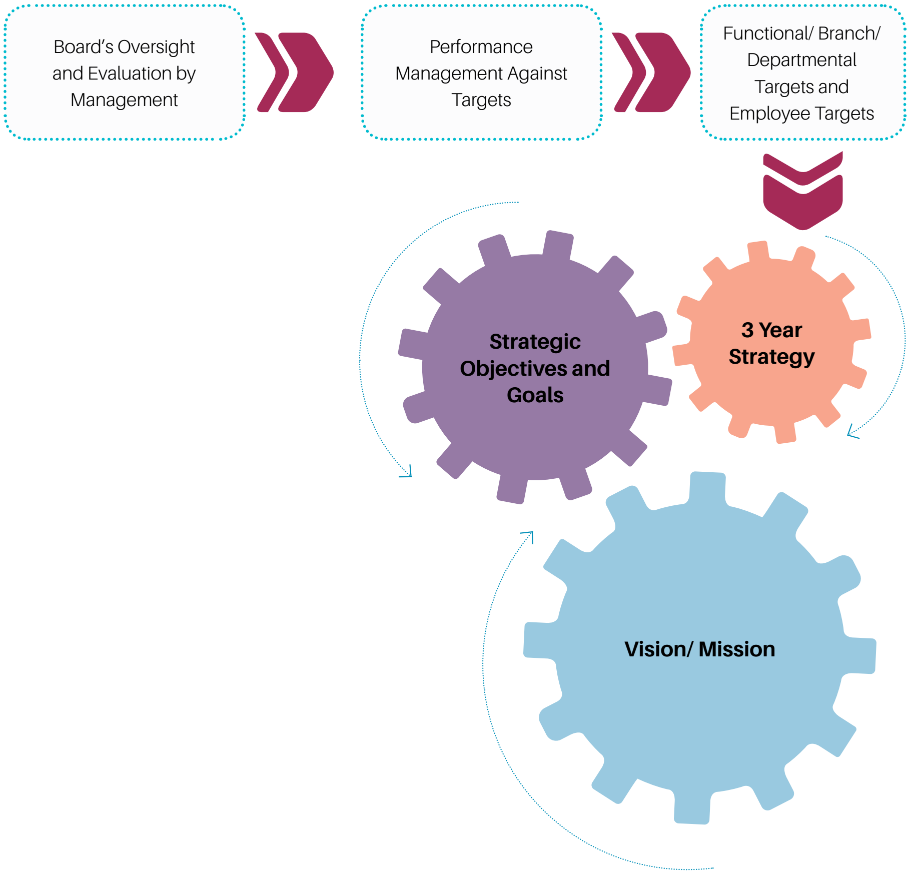
Management Committee	Assets & Liability Committee	Sustainability Governance Committee	IT Steering Committee	Head Office Credit Committee
Key Responsibilities				
◈ Review management information on performance. ◈ Identify early warning signals. ◈ Asset gaps between targets and actual performance.	◈ Evaluate 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. ◈ Asses 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 on new controls to improve system security. ◈ Review the performance of IT systems and identify the gaps to develop/ update the systems.	◈ Determine the credit risk appetite of the company. ◈ Develop a positive credit culture in MI . ◈ Identify lapses in credit evaluation with a view to overcome. ◈ Proactively involve in recovery process to improve the asset quality.
Actions for 2018/19				
◈ Financial and operational performance was reviewed on a monthly basis. ◈ Monthly performance review with respective cluster AGMs, Regional Managers and other Key Officers.	◈ Provided information to the Board on material risks related to liquidity levels. ◈ The Committee monitored the interest rate fluctuations and advised the treasury function to take necessary actions to minimise the interest rate risk. ◈ Reviewed liquidity risk and interest rate sensitivity if the Company and made recommendations on maintaining healthy liquidity levels within risk appetite limits.	◈ Initiated and completed various CSR projects under. ◈ Approved the list of CSR projects that are to be carried out during the 2018/19 financial year. ◈ Identified key sustainability focus areas.	◈ The committee acted proactively in safeguarding MI's IT systems and information. ◈ 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.	◈ Streamline the internal processes to improve a process driven system in credit department. ◈ Improve post disbursement follow up mechanism of the company. ◈ Identify skill gaps in terms of technical skills in credit analysis and initiate trainings.
Submission Status of the Board Papers				
4 Papers Submitted	4 Papers Submitted	1 Paper Submitted	3 Papers Submitted	12 Papers Submitted

Governance towards 2022 and Beyond

GRI | 102-26

Our governance approval and way forward is included in the 'Strategic Plan 2019-2022,' laying down clear, strategic, planned responses to anticipated changes in customer expectations, technology, competitive environment and regulations. The Strategic Plan was approved by the Board and was a collaborative effort of the staff across the Company, the Corporate Management team and the Directors. It provides the direction towards achieving MI's Vision, Mission and the Corporate Values while it paid adequate attention to foreseen economic, social and environmental impacts which enabled us to create sustainable value throughout the past.

Strategic Planning Process



The Role of the Managing Director

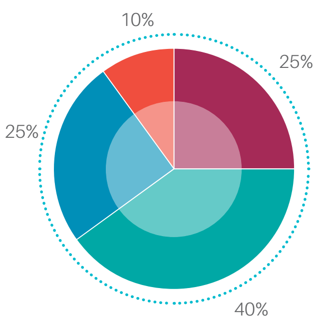
The Managing Director is the CEO of the Company. He is delegated with the authority by the Board, for detailed planning and development of the Corporate Plan. The Managing Director drives the Company and the workforce towards achievement of the Corporate Plan and strategic objectives. The responsibility 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 | 102-19

- Value creation for the investors, business partners and staff remained the primary focus of the Corporate Management Committee, which also worked towards balancing the interests of all stakeholders in a broader and sustainable manner.
- Effective people management continued to remain as one of the most 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 conducted performance appraisals of their staff against the key operational targets and skills expectations. Achievement of operational targets, maximum utilisation of staff skills and demonstration of corporate ethics and values eventually led to an improved financial performance of the Company.
- The Managing Director and other Executive Directors closely monitored the performance of each strategic unit through the Management Committee.
- The Corporate Management Committee worked closely with the Sustainability Governance Committee (SGC) to ensure that the operational targets and performance complement with our sustainability initiatives.

Corporate Management Meeting Focus



Employee Training on Regulations and Enriching Institutional Knowledge

GRI | 102-17, 102-16 & 102-27

The learning and development opportunities available at MI helped our staff to enhance their knowledge on technical matters and regulations as well as improving their skills. Beyond operational performance, the objective of our learning and development function was extended towards creating a behavioural impact that laid the foundation to build a favourable corporate culture enriched with ethics, values 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 and were responsible for reporting the relevant matters to the Board through the IRMC. (Refer Human Strength on pages 80 to 91 for more details.)

Performance Evaluation, Rewards and Recognition

GRI | 102-28, 102-35 & 102-36

- The responsibility of evaluating the performance and rewards of Directors lay with the Remuneration Committee which independently reviewed the performance of the Executive Board Members and the Managing Director for FY 2018/2019. The performance appraisal cycle is conducted on an annual basis.
- The annual performance review of the Board considered all the aspects of the Board's role, not restricting to shareholder value creation but also considered the value addition in terms of the wider economy, environment and society.
- Based on the performance evaluation conducted by the Executive Directors, the Remuneration Committee decided 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 were evaluated through a comprehensive performance management system where the performance was compared against predetermined targets and staff skills. These targets were directed at achieving MI's three-year strategic plan and ultimately the strategic goals and the Company's Vision.
- At the end of the performance evaluation process, employees were rewarded with changes in the remuneration annually and bonuses were decided on a bi-annual basis. (Refer pages 87 & 88).

Compliance

MI's robust Governance Framework set up by the Board together with business integrity and compliance with regulations played a pivotal role in establishing trust among the public. The standards of governance were maintained at all levels, by ensuring conformity to numerous external rules and regulations and internal policies and procedures. During the Financial Year 2018/19, no material breaches have been identified that require separate disclosure.

Key Internal Policies and Controls	Policy Reviewed/ Newly Issued During FY 2018/19
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	√
Credit Operation Manual	√
Internal Audit Charter	√
Terms of Reference of Remuneration Committee	√
Terms of Reference of Related Party Transaction Review Committee	√
Terms of Reference of Sustainable Governance Committee	√
Procedure to seek Independent Professional Advice	√
Procedure Manual – Deposit Department	√
Remuneration Policy	√
Finance Payment Procedure Manual	√
IT Procedure Manuals	√
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 of ALCO	√
Communication Policy of the Company	√
Customer Protection Framework Policy	√
Terms of Reference of Head Office Credit Committee	√
Valuation Policy	√

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 by Institute of Chartered Accountants of Sri Lanka (ICASL)	√
Finance Companies (Corporate Governance) Directions issued by CBSL	√
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

MI's compliance with external regulations and best practices on corporate governance are reflected in the next section of our Corporate Governance Report. This includes four separate sections to illustrate the Company'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.

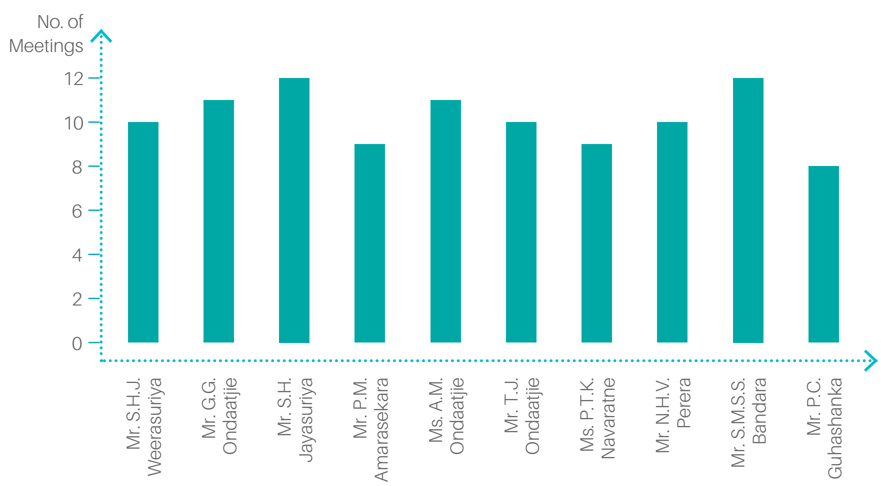
Part three provides disclosure on the Company's level of compliance with section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE) on Corporate Governance.

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

GRI | 102-18, 102-22

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Section 1 **The Company:** **A. Directors** **A.1. The Board**	**Principle A.1**	Adopted	The leadership for the Company is provided by an effective Board of Directors comprising experienced and influential individuals with diverse backgrounds and expertise. The Board of Directors provides the necessary leadership in moving towards its visionary thinking, setting the strategic direction for the Company, upholding a successful business model that is encompassed by effective strategic management with sound controls, upholding good governance. The profiles of the Board members with their qualifications, competencies and experience is provided on pages 158 to 161. MI's Board comprises an Independent Non-Executive Chairman who heads the Board and is well supported by an Executive Managing Director and Directors both Executive and Non-Executive in capacity, maintaining a sound balance of independence.
Board meetings	Code A. 1.1	Adopted	The MI Board met 12 times during the financial year (FY) 2018/19, at monthly intervals, reviewing performance and to take decisions for the prudent management of Company affairs. A formal Notice of Meeting with agenda is sent by the Company Secretary at least seven days prior to the meeting, with all Directors expected to be present. There were no special Board meetings held during the FY 2018/19.

Attendance at Board Meetings



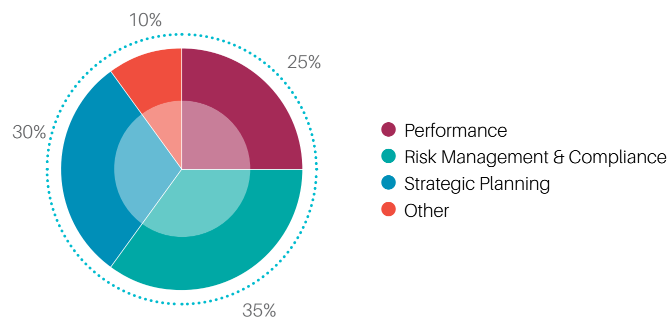
Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Board responsibilities	Code A. 1.2	Adopted	The Board being the apex decision-making point in the Company hierarchy, is responsible for setting the overall strategy and risk appetite and approves capital and operating plans presented by the Management, for the achievement of the objectives it has primarily set. Apart from providing leadership to the Corporate Management in setting the long-term strategic goals, the MI Board ensures adequate resources are available to meet these objectives.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Formulation and implementation of a sound business strategy			During FY 2018/19 a revised medium-term 'Strategic Plan' covering financial periods 2019/20 to 2021/22 was approved by the Board. For the period under review, the guiding document in governing business activity remained the medium-term FY 2018/19 to 2020/21 Strategic Plan. By devising the fresh Strategic Plan, the Board intends to put into perspective MI's enhanced Corporate Vision and Mission, setting forth overall business objectives, business strategies, policies and processes with tactical operational plans for the various divisions and employees to adhere and concentrate implementing proposed strategy moving forward in the medium term. The Corporate Objectives along with Corporate Values and Strategies were communicated to the Corporate Management team via the circulation of the Strategic Plan, for its implementation under the close supervision of the Board. The budget is approved annually and the achievement of the targets set out therein and the business plan is reviewed by the Executive Directors at periodic meetings with the updates given by the Senior Management. The Board has given delegated authority to Board committees, enabling them to oversee specific responsibilities, in order to discharge Board stewardship and fiduciary responsibilities in an effective and timely manner. MI's actual financial performance highlights against annual budgeted targets for financial year 2018/19 has been provided for in financial highlights on pages 14 & 15.
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			The Managing Director (MD) who acts as the Chief Executive and the Corporate Management team possess extensive knowledge and skill with widespread experience in the finance company sector in order to execute the set forth strategy, in order to achieve the organisational objectives. A brief biographical particulars of each member of the Corporate Management team is provided for on pages 162 to 165.
Adoption of an effective CEO and Senior Management succession plan			Succession for the Key Managerial Positions (KMPs) primarily focuses on developing and grooming people internally so as to have adequate options within the Company for replacement of KMPs. The Board-approved succession planning process as well as the organisation structure of the Company facilitated this process during the financial year under review. (Refer Organisational Structure in MI website) *Corporate Structure*
Approving budgets and major capital expenditure			The Board handled the key strategic financial decisions in relation to funding, pricing, liquidity and decisions on capital expenditure and reviewing of the annual budget. By approving the next three-year plan, the budget including capital expenditure was established by the Board for FY 2019/20.

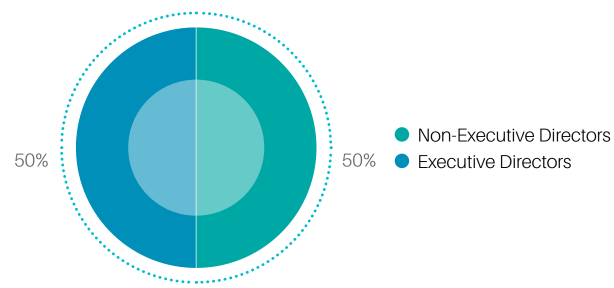
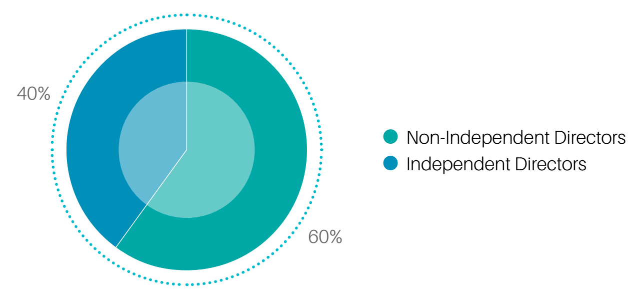
Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
◈ Determining the matters expressly reserved to the Board and those delegated to the Management including limits of authority and financial delegation			The role of the Board and matters expressly reserved to the Board are clearly laid out in the "Board Responsibility Document" and Executive Directors detailed role of the organisation, 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 staff heading respective divisions. The powers vested are governed by the Corporate Policy, procedures and other instructions issued by the Board from time to time.
◈ Effective systems to secure integrity of information, risk management and internal controls			A comprehensive set of Board-approved internal control policies have been adopted by MI to instil 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 ultimate objective is to safeguard stakeholder interest and this importantly involves protecting shareholders' investment and the Company's assets whilst securing the reliability and integrity of information. In order to undertake the detailed monitoring of the controls and to report to the Board on its findings, the Board of Directors has delegated their authority to the Audit Committee. At the same time, the Integrated Risk Management Committee (IRMC) reviews the wide spectrum of risks affecting MI's business and takes prompt corrective actions to mitigate the negative effects of specific risks. The following reports provide a comprehensive overview in this regard; ◈ Risk Management Report on pages 235 to 250 ◈ Board IRMC report on pages 251 & 252 ◈ Board Audit Committee Report on pages 255 & 256 ◈ Report by the Board on Internal Control on pages 272 & 273 ◈ Auditor's Assurance Report on Adequacy of Internal control on Financial Reporting on page 274 ◈ Integrity of management information and its privacy on page 206.
◈ Compliance with laws, regulations and ethical standards			MI's is compliance function is headed by the Head of Risk Management and Compliance, who is also the Compliance Officer (CO) of the Company and responsible for monitoring and assessing the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. He independently reports to the IRMC on a quarterly basis on divergent risk factors effecting MI's business with due recommendations and also reports on MI's compliance status to the regulatory environment.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
All stakeholder interests are considered in Corporate decisions			The Board-approved 'Communication Policy' of MI applicable to the period under review clearly specifies the way information about stakeholder expectations should be gathered and finally disseminated, to ensure our Corporate responsibilities to shareholders and other stakeholders is discharged in a timely and appropriate manner. The two-way Communication Policy is an effective mechanism applied by the Company in order to gain a clear understanding of the latest developments in stakeholder interests. Refer: Alliance on pages 69 to 79 and Stakeholder Engagement pages 48 & 49.
Sustainable business development in Corporate Strategy, decisions and activities and adopting 'Integrated Reporting'			The Board as a practice reviews current trends in the finance business field and was able to recognise sustainable business development areas/projects needing attention such as development of new products and services and pursuing new markets to serve as a corporate strategy within its defined business and financial boundaries. In keeping to fundamentals, MI's business strategy is directed at creating long-term sustainable growth and enhancing stakeholder value over time as a constant exercise. MI's integrated business model articulated on pages 32 to 33 highlights the integrated thinking and business process adopted by the Company in order to create sustainable stakeholder value.
Ensuring the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations			In order to be in line with the new developments in the LFC sector and changing business requirements, MI's accounting policies are annually reviewed by the Audit Committee. Through this committee, the MI Board ensured that the Financial Statements of the Company are prepared in accordance with the approved accounting policies, accounting standards and internal practices. Adoption of new standards which include SLFRS-9 took place effectively, with the guidance of the Audit Committee headed by a Chartered Accountant. Refer Independent Auditors' Report on pages 275 to 277 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 pages 272 & 273.
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 practice they instructed and guided Corporate Management to identify gaps and specified means of bridging them. Toward this endeavour, Executive Directors and other department/functional heads reviewed financial budgets, departmental/functional plans and changes in risk profiles to ensure up to date evaluation of the progress while establishing clear communication lines among employees. (Refer MDA Financial Wealth on pages 58 to 68)
Process of Corporate reporting on annual and quarterly basis or more regularly			Through the Finance Department, monthly management accounts including supportive information is circulated to the Board for reviewing the financial status of the Company to 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 quarterly in keeping with regulations.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Fulfilling other Board functions are vital given the scale, nature and complexity of the organisation			The MI Board was dedicated throughout the year in fulfilling its obligations towards all stakeholders and enhancing performance of the Company. The main focus areas were maximising shareholder returns, maintaining credit ratings and instilling sound corporate governance processes and doing this with minimal risk impact to the Company. Key strategic financial decisions by the Board involved funding, pricing, liquidity, decisions on capital expenditure and reviewing annual budgets. All key policy documents were updated and necessary Board sanction obtained. (Refer page 181).
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 on compliance to applicable laws and regulations is given on page 266 by the Directors. The Board reviewed and reapproved the policy established for Directors to obtain independent professional advice. They have full access to all relevant information and can take independent professional advice, if necessary, at Company's expense. This procedure enhances the level of independence of the decisions made by Directors and improves the quality of decisions as it seeks expert opinion or advice when necessary.
Company Secretary	Code A. 1.4	Adopted	Mrs. Sonali Pethiyagoda has been appointed by the Board as the Company Secretary since 1999. She is a qualified Chartered Secretary with over 20 years' experience in the related field. All Board members have full access to the Company Secretary to ensure proper Board procedures are followed and all applicable rules and regulations are complied with. Company Secretary is mainly responsible for advising the Board on corporate governance issues, Board procedures, and compliance with applicable laws and regulations. She also co-ordinates scheduling of Board meetings and other subcommittee meetings, keeping minutes, and other relevant records. Currently, the role prescribed under schedule F of the Code for Company Secretaries is undertaken by Mrs. Pethiyagoda, in executing her routine functions. Please refer page 162 for the profile of the Company Secretary.
Independent judgment	Code A. 1.5	Adopted	All Directors are provided an equal opportunity to express their views independently, and they bring forward their independent judgment to bear at Board proceedings. The Directors have ample time to review Board papers and other circulated information prior to a meeting. Majority of Executive and Non-Executive Directors hold memberships in Board Subcommittees hence assist in strategy formulation, financial compliance and governance matters on a periodic basis.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Dedication of adequate time and effort by the Board	Code A. 1.6	Adopted	All Directors have been allocated sufficient time enabling them to discharge their responsibilities effectively for Board and Board Sub-Committee meetings, to fulfil their duties and obligations owed to the Company. Accordingly the Directors have attended majority of the meetings and have devoted their time adequately. Information pertaining to Directors' participation levels at Board meetings and Board Sub-Committee meetings is given on pages 182 & 176. **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 2018/19.
Training needs of Directors	Code A. 1.8	Adopted	Throughout this period, all Directors regularly updated themselves on evolving Non-Banking Finance Sector operations and regulatory aspects. Non-Executive Directors serving on key committees were updated continuously on matters particularly related to the respective Committee by the Corporate Management. A personalised approach to training and development of Directors was applied throughout this period. A comprehensive induction program is in place for any new Directors, who are planned to be appointed to the Board. This program apprises them comprehensively on the values and the culture of the Company, business and operations and its strategy, policies, governance framework and processes and their responsibilities as a Director in terms of the applicable rules and regulations.
A.2 Chairman and Chief Executive Officer	**Principle A.2**	Adopted	The roles of the Chairman and Managing Director/Chief Executive Officer have been segregated since 2012, ensuring a balance of power and authority in such a way that no individual has unfettered power of decisions. The Chairman leads the Board and is responsible for governance and the effective operations of the Board. The Managing Director is responsible and accountable for day-to-day management of the affairs of the Company.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Division of responsibility between the Chairperson and MD/ CEO	Code A. 2.1	Adopted	The roles of the Chairperson and Chief Executive have been kept separate at MI. The Chairperson's main responsibility is to lead, direct and manage the Board ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities. The Managing Director (MD) is in charge of the Company's Chief Executive role, managing the day-to-day operations of the Company. As part of his role, he leads the Corporate Management team in making and executing operational decisions. The MD is also responsible for recommending strategy to the Board.
A.3 Chairman's Role GRI | 102-23	**Principle A.3**	Adopted	Mr. Saro Weerasuriya, the Chairman of the Board, is an Independent Non-Executive Director. He leads and manages the Board, ensuring that it discharges its legal and regulatory responsibilities effectively, preserving order and facilitating the effective discharge of Board functions.
Chairperson's role in conducting Board proceedings	Code A. 3.1	Adopted	The Chairman is responsible for preserving good corporate governance and organising the Board in an orderly and effective manner. In order to achieve its objective he handles specific duties which are critical in nature. 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 is being provided to the Directors ◈ Obtained advice from across the Board and ensure the address of critical issues in a timely manner ◈ Prepared and circulated a formal agenda for the Board under his supervision ◈ Conduct the AGM within the specified regulatory timeframe and ensure active communication with the shareholders ◈ Ensure Directors' responsibilities and Board Sub- committee terms and reference are clearly set forth.
A.4 Financial Acumen Availability of sufficient financial acumen and knowledge within the Board	**Principle A.4**	Adopted	Each Director at MI brings a particular range of diversified skills and expertise to the Boardroom, which ranges from accounting and auditing, financial services and insurance, business administration, engineering, recoveries, legal and human resources. The Board possesses a highly-qualified Finance Director to advise them on matters relating to finance. It demonstrates vast experience in financial management, accounting and financial reporting expertise in the finance field. Please refer Directors' profiles on pages 158 to 161.
A.5 Board Balance	**Principle A.5**	Adopted	As per the 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.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Presence of Non-Executive Directors	Code A. 5.1	Adopted	Five out of 10 Directors on MI Board are Non-Executive Directors including the Board Chairman. This ensures the importance and materiality of the Non-Executive Directors' opinion in the decision-making process of the Board. **Executive Vs. Non-Executive Directors** 
Independent Directors	Code A. 5.2	Adopted	Four out of five Non-Executive Directors are independent in terms of the criteria defined by CSE Listing Rule 7.10.4 on corporate governance. The ratio of 40%, Independent Non-Executive Directors to total Directors maintained throughout the year is well above the minimum guidelines prescribed by the code, which requires one-third of the Non-Executive Directors to be independent. **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 independency in decision making. The Independent Non-Executive Directors complied with independency criteria stipulated by the CBSL, SEC, CSE and ICASL guidelines during financial year 2018/19.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Signed Independence declaration by the Non-Executive Directors	Code A. 5.4	Adopted	During FY 2018/19, each Non-Executive Director of the Company has made written submissions as to their independency as per schedule J of the code.
Determination of independence of Non-Executive Directors	Code A. 5.5	Adopted	According to the self-declarations submitted 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 31 March 2019. 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 2018/19.
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	During the year under review Chairman met the Non-Executive Directors once without the presence of Executive Directors.
Recording of concerns in Board minutes	Code A. 5.10	Adopted	Board concerns raised during Board meetings were discussed and recorded by the Company Secretary in the Board Minutes. There were no issues or concerns raised that could not be unanimously resolved, requiring same to be recorded.
A.6. Supply of information	**Principle - A.6**	Adopted	Comprehensive information is an essential part of the decision-making process. At MI financial and non-financial information are analysed and circulated seven days prior to the Board meeting to make informed and accurate decisions.
Information to the Board by Management	Code A. 6.1	Adopted	The Senior Management of MI ensured that the Board was provided with timely, accurate, relevant and comprehensive information before the Board meeting every month, through Board papers and other updates. This gives the Board adequate time to review the same and prepare for discussions and to make inquiries for additional information from the Management when necessary.
Adequate time for effective Board meetings	Code A. 6.2	Adopted	The Company Secretary ensured that the required Notice of Meeting, agenda and information documents including Board papers are circulated to all Directors at least seven days prior to holding of Board meetings. This ensured that the Board members had adequate time to study and analyse the related papers and prepare thoroughly for Board meetings. From this financial year Board minutes were circulated to Directors within two weeks of the Board meeting.
A.7. Appointments to the Board GRI | 102-24	**Principle - A.7**	Adopted	The Nomination Committee was established in 2013 with the chairmanship of Mr. Saro Weerasuriya, who is also the Independent Non-Executive Chairman of MI. The terms of reference of the committee provides a formal and transparent procedure for the appointment of new Directors to the MI Board.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Nomination Committee	Code A. 7.1	Adopted	After a comprehensive examination and an extensive screening process, the Nomination Committee recommends potential candidates who are eligible as new appointments to the MI Board. Based on such recommendations final decisions on appointment/re-election are made by the Board in an objective and transparent manner. Refer Board Committee table on Pages 176 & 177 which provides 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 2018/19 is given on page 254.
Assessment of Board Composition by the Nomination Committee	Code A. 7.2	Adopted	The Board made a comprehensive evaluation of its members, by using the annual self-assessment process, to assess whether the experience and the exposure of the Directors are adequate to meet the strategic demands faced by the Company and findings of these assessments are taken into consideration in the appointment of new Directors. 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	The shareholders will be kept informed of all new appointments to MI's Board, with sufficient details, via immediate notification to the Colombo Stock Exchange and subsequently through the Company's Annual Report. Prior approval for appointment of new Directors is obtained from the Central Bank of Sri Lanka in terms of the applicable regulations. There were no new Board appointments for the year 2018/19.
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, the following Directors retire by rotation in the financial year 2018/19 and eligible for reappointment: 1. Mr. S.H.J. Weerasuriya 2. Mr. S.H. Jayasuriya 3. Mr. P.C. Guhashanka
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 2018/19.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
A.9 Appraisal of Board Performance	**Principle A.9**	Adopted	The necessity of periodical assessment of the Board members on their own performance in order to ensure that Board responsibilities are satisfactorily discharged has been recognised by the Board as an essential aspect. The self-assessment process established encourages all Directors to make a full and active contribution to 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.
Appraisal of Board performance	Code A. 9.1	Adopted	The Board carried out a comprehensive self-assessment for the FY 2018/19, of its performance and its committees. This year the criteria of the assessment was revised and enhanced to keep up with the developments of the LFC sector specifics. The assessment mainly focused on the Board's contribution towards developing and monitoring strategy, Board 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 made 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 2018/19 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 the both the Board and Remuneration Committee meeting held on 26th March 2019 for future consideration.
Process to review the participation, contribution and engagement of individual Directors at time of re-election	Code A. 9.3	Adopted	The Nomination Committee reviewed the level of participation of Directors coming up for re-election, their 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's 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 tabulated by the Company Secretary and the findings were presented to the Board in March 2019. 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	The disclosure of information pertaining to all MI Directors is made available to the shareholders through the Annual Report.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Director information	Code A. 10.1	Adopted	The following information pertaining to Directors are provided in the Annual Report: **Information** — **Pages** Brief Profile with Qualification, Experience and Expertise — 158 to 161 Composition of the Board Sub-Committees — 176 & 177 Directors' Interest in Transactions — 267 to 269 Directors' Shareholdings — 375 Directors' Remuneration — 302 Directors' Attendance at Board Meetings — 182 Directors' Attendance at Sub-committee Meetings — 176
A. 11 Appraisal of the Chief Executive Officer	**Principle A. 11**	Adopted	As the apex executive of the Company, the Managing Director (MD)/CEO is responsible for the day-to-day operations of MI with the assistance of the Corporate Management team. He is accountable to the Board to recommend the Company's strategy and its subsequent implementation and Company performance and to ensure that appropriate internal controls are in place to manage risk and ensure regulations are complied with a consistent basis.
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 revised Strategic Plan of the Company for the next three years, specified its corporate objectives and annual forecasted targets and expects to attain these aspirations through the Managing Director and the Corporate Management Team. Performance of the Managing Director is reviewed on an ongoing basis by the Board, evaluating the extent to which organisational objectives have been achieved 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 | 102-37 **B.1 Remuneration Procedure**	**Principle B.1**	Adopted	The MI Board recognises that the existence of a formal and transparent remuneration procedure effectively aligned Directors' interests with those of shareholders. Having a clear process and guidelines ensured 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 authorised to evaluate, assess, decide and recommend to the Board the Executive Directors' remuneration. Please refer the Remuneration Committee Report on page 253.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Remuneration Committee composition	Code B. 1.2 and 1.3	Adopted	The Remuneration Committee comprises the following three Non-Executive Directors: ◈ S.H.J. Weerasuriya (Chairman) ◈ P.T.K. Navaratne ◈ N.H.V. Perera The report of the Remuneration Committee is given on page 253, while the details of meetings held and participation status are given on page 176.
Remuneration of Non-Executive Directors	Code B. 1.4	Adopted	The Board as a whole decides the remuneration of the Non-Executive Directors. 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 did not require external professional advice to expedite its duties for FY 2018/19.
B.2 The level and make up of remuneration structure	**Principle B.2**	Adopted	Top executive positions are filled with individuals of high calibre, who will be attracted, retained and motivated by the Board together with the Remuneration Committee. In order to do so the Board is aware that the level and make up of remuneration affect human motivations and decisions, and consequently, risk outcomes that are ultimately borne by shareholders. The Company Remuneration Policy has been devised in a way that it considers retention requirements. Individual performance based on respective officer's targets and goals was appraised annually. Bonuses, increments and career advancement opportunities were linked therefore on such appraisals. Through an external HR consultancy firm, the Company plans to implement an enhanced performance management system that will link Corporate goals with employee rewarding.
Managing Director's Remuneration	Code B. 2.1	Adopted	The Remuneration Committee ensured the alignment of Executive Director remunerations with MI's Business Strategy. To ensure fair policy on remuneration, all Executive Directors including the Managing Director are afforded with a suitable and competitive remuneration package. The MI Board is aware that the remuneration of Executive and Non-Executive Directors should reflect market expectations and concluded that it is sufficient enough to attract and retain the quality of personnel needed to run the Company.
Executive Directors' remuneration should be designed to promote the long-term success of the Company	Code B 2.2	Adopted	Please see B.2.1 above.
Comparison of remuneration with other institutions	Code B. 2.3	Adopted	Taking the fiercely-competitive environment into consideration, the Remuneration Committee as well as the Board is aware that reward strategies and remuneration structure should be designed to attract, motivate and retain high-calibre people, at all levels of the organisation. Therefore, the remuneration structure of the Company is reviewed from time to time in comparison to that of peers in the industry. This mechanism ensures remuneration packages of the Executive Directors is on par with the industry/market while ensuring alignment of rewarding with strategic and short-term objectives of the Company.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
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. However, pay levels of peer Directors within the Company are considered when deciding on Executive Director remunerations.
Executive Director's 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	No executive share option schemes were offered to any Director during 2018/19 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. (See 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, which 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 2018/19.
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 2018/19.
B.3 Disclosure of Remuneration	**Principle B.3**	Adopted	The MI Remuneration Policy is fair and competitive and reflects the performance of the business. A statement on the Remuneration Policy of the Company is provided on page 253. Details of remuneration of the Board as a whole is mentioned in Code B. 3.1 below.
Names of members in the Remuneration Committee and remuneration paid to Directors	Code B. 3.1	Adopted	Details of the Remuneration Committee composition with meetings held and participation status of members is provided on page176. Details relating to remuneration paid to Executive and Non-Executive Directors in aggregate is disclosed on page 302, in Financial Statements, Notes under 'Related Party Disclosure'.
C. Relations with shareholders **C.1 Constructive use of AGM**	**Principle C.1**	Adopted	The Board deems necessary that there is a constructive relationship with its shareholders, being MI's foremost stakeholder. Therefore through the AGM, both MI and the shareholders have the opportunity to communicate with each other. As per MI's policy, shareholders are encouraged to participate at AGMs and convey their views and make recommendations, in order to achieve this purpose, the Notices of Meetings are dispatched to the shareholders within the prescribed time periods. (Refer page 394 for further information in this regard)

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
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 2018/19 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	The Company proposes separate resolutions for all substantially separate matters to provide shareholders an opportunity to deal with each material issue separately with the option of voting either for or against the resolution or withholding their vote. A separate resolution is passed for the adoption of the 'Report of the Directors' and 'Statement of Accounts' and '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 that is released with adequate prior notice to all shareholders in accordance with 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. A comprehensive disclosure is provided on number of votes for or against or withheld for each resolution and number of proxy appointment in the Company's website from this financial year.
Availability of all Board Sub-Committee Chairmen at the AGM	Code C. 1.4	Adopted	All Board members, including Chairpersons of all the Board Sub-Committees, namely, Audit Committee, Integrated Risk Management Committee, Nominations Committee, Remuneration Committee, Related Party Transaction Review Committee and Credit Committee, were present at the AGM held the previous year 2017/18 to answer any questions coming under the purview of their Committee.
Voting procedures at General Meetings	Code C. 1.5	Adopted	The Company has sent the procedure relating to voting at Annual General Meetings, which is clearly mentioned in the Notice of Meeting itself to each shareholder of MI. The Notice of Meeting for the AGM for FY 2017/18 which contained the procedures governing voting was sent to the shareholders 15 working days prior to the date of the AGM.
C.2 Communication with Shareholders	**Principle C.2**	Adopted	A meaningful engagement with all stakeholders is recognised as a top priority of the Board, and hence the Board continues to have an effective ongoing dialogue with all key parties, other directly or through various corporate communication methods as given on pages 48 & 49. Therefore, building and maintaining good stakeholder relationships helps the Company manage and respond to expectations, minimise reputational risk and help build strong partnerships, all of which support the commercial sustainability of the organisation.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
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 dealt with promptly. As per the revised Communication Policy 2019, financial information such as Annual Reports and 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 Meetings of shareholders.
Policy and methodology for communication with shareholders	Code C. 2.2 & C. 2.3	Adopted	A Board-approved 'Communication Policy' which specifies communication methods and channels has been adopted which specifies an interactive method with MI shareholders. The Communication Policy document was made available to divisional heads, who in turn adopt policies through their subordinates.
Disclosure of contact person for shareholders	Code C. 2.4	Adopted	The persons who are responsible for communications with different stakeholders of MI are clearly specified in the MI Communication Policy. The main point of contact for the shareholders for their concerns and clarification is the Company Secretary who will act as the intermediary between shareholders and the Board.
Process to make aware of major issues and concerns of shareholders	Code C. 2.5	Adopted	Major issues and concerns impacting shareholders are communicated via meetings with shareholders in accordance with the Communication Policy document. All shareholders are encouraged to attend the Annual General Meeting and other meetings of shareholders to discuss MI's progress and concerns. Shareholders may send enquiries to the Board in writing or by completing the attached Shareholder Feedback Form given at the end of the Annual Report and sending it to the given contact point.
Person to contact in relation to shareholder matters	Code C. 2.6	Adopted	The Company Secretary is the main point of contact for shareholders to raise matters. According to the Open Door Policy of the Company, shareholders are welcome to contact any Executive Director or members of the Corporate Management to obtain clarifications for their concerns.
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	The Code requires the Directors to disclose any proposed material transactions that would alter or vary the net asset position of the Company either through its Audited Financial Statements or in interim publication or by making an announcements to the Colombo Stock Exchange.
Disclosure of material facts on major transactions	Code C. 3.1	Adopted	There were no material proposed related party transactions or corporate transactions involving acquisitions, mergers or disposal of greater than one-third of the value of the Company assets. Any such significant transaction that would materially affect MI's net assets if it were to occur will be disclosed to shareholders to obtain approval.
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 and C 3.1, MI had not engaged in any material related party transactions and therefore there was no necessity for a special resolution or disclosure.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
D. Accountability and Audit **D.1 Financial reporting and Annual Reporting**	**Principle D.1**	Adopted	To present a balanced and understandable assessment of MI's financial position, performance and prospects that prevail, MI has published a comprehensive Annual Report which incorporates the Audited Financial Statements together with comprehensive Management commentary on the performance and 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	In presenting a true and fair set of Financial Statements that provide a sound overview of MI's financial performance and position for the financial year ended 31 March 2019, the Company complied with applicable Sri Lanka Accounting Standards (LKAS) and other regulations specified in the Finance Business Act No. 42 of 2011, Companies Act No. 07 of 2007 and Colombo Stock Exchange Listing Rules. During the FY 2018/19, 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 submitted promptly during this period.
Balanced and understandable assessment of the Company	Code D. 1.2	Adopted	The Annual Report of the Board of Directors on the Affairs of the Company is given on pages 260 to 266 covering all areas of this section. 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's (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 in 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 and is given on page 271.
Directors' Report	Code D. 1.4	Adopted	The Annual Report of the Board of Directors (Directors' Report) provides an affirmation on the Company's compliance with laws and regulations, confirms the going concern assumption and the effectiveness of the internal control system that is in place. (Refer pages 260 to 266)
Directors' and Auditors' Responsibility Statement	Code D. 1.5	Adopted	The Statement of Directors' Responsibilities is given on page 270 while Auditors' responsibility is clearly specified in the Auditors' Report to the Financial Statements issued by Messrs. Ernst and Young, Chartered Accountants given on pages 275 to 277, while the responsibility of Directors over internal controls is given in the Directors' Statement on Internal Control on pages 272 & 273.
Management Discussions and Analysis	Code D. 1.6	Adopted	'Management Discussion and Analysis' given on pages 29 to 154 covers all the requirements of this section by providing a comprehensive commentary of the Company's performance according with the International Integrated Reporting Framework covering MI's business model, industry risks and opportunities, SWOT analysis and futuristic predictions.
Calling of an EGM when net assets fall below 50% of shareholders' funds	Code D. 1.7	Adopted	The net assets of the Company totalled Rs. 8.7 Billion and was well above this requirement during the year 2018/19 and the likelihood of such an adverse situation is remote. However, if such a situation were to arise, an EGM will be called and shareholders will be notified.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
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. (Refer Related Party Transactions Review Committee Report, given on page 257 for the detailed committee information and the Note, given on pages 342 to 347 for details on related party transactions during the FY 2018/19)
D.2 Risk management and maintaining a sound system of internal controls	**Principle D.2**	Adopted	MI understands the importance of internal controls in managing risks and has established an ongoing process for identifying, evaluating and managing significant risks faced. This process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. These controls have been embedded as part of MI's compliance culture. Employees, irrespective of hierarchy, are required to ensure strict compliance to set procedures of internal controls.
Reviewing effectiveness of risk management and internal control system	Code D. 2.1	Adopted	There is a periodic review over the adequacy and effectiveness of internal controls of the Company carried out by MI's own Internal Audit team in parallel with PricewaterhouseCoopers (Private) Ltd. Findings of audits are finally followed up by 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 provides feedback to the Board on matters deemed material. Statement on Internal Controls provided on pages 272 to 273 complies with content of Schedule L of the Code. The MI Board was able to make due assessment of the adequacy and effectiveness of the Company's internal control mechanism and obtain clarification of any significant matters from External Auditors as well. The IRMC in parallel, in keeping to its scope, continued to oversee MI's risk management process and MI's level of preparedness against potential risk to mitigate possible losses. The Integrated Risk Management Committee Report on pages 251 to 252 provides further information with this regard.
Robust assessment of the principal risks faced by the Company	Code D. 2.2	Adopted	A clear assessment of the Company's risks and the process of risk identification, measurement and controls are given on pages 235 to 250 in the Risk Management Report.
Internal Audit function	Code D. 2.3	Adopted	MI's own in-house Internal Audit Department is headed by a Chartered Accountant who is responsible to ensure independent audits are conducted in areas of high risk focusing on Head Office and branches in keeping to the annual audit plan supported by PricewaterhouseCoopers (Private) Ltd. Refer page 221 for audit coverage.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Audit Committee to review process and effectiveness of risk management and internal controls and to report to the Board	Code D. 2.4	Adopted	MI has 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. The 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 pages 272 & 273 complies with the contents in Annexure L of the Code. Some of the salient aspects highlighted therein are: ◈ External Auditors review 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 and internal controls and maintain 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 and functions relating to internal and external audits. The terms of Reference of the Audit Committee, which is periodically reviewed and revised with the concurrence of the Board of Directors, clearly defines the role and the responsibility of the Audit Committee. The selection and application of accounting policies, corporate reporting structure and content was thoroughly reviewed under the guidance of the Audit Committee. Adequate guidance was given during the SLFRS-9 transition and adoption this year.
Audit Committee composition	Code D. 3.1	Adopted	The Audit Committee comprised of three Directors, all of whom are Non-Executive. Two Directors of the Committee are 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 176.
Terms of reference of the Audit Committee	Code D. 3.2	Adopted	The MI Board reviewed and approved the terms of reference issued to govern all activities of the Audit Committee for the financial year under review. The Terms of Reference have been drawn after giving due reference to the 'Code of Best Practices on Audit Committee' issued by CA Sri Lanka. Refer Audit Committee Report on pages 255 & 256.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
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 on pages 218 to 223. The names of Directors forming the Audit Committee and their participation level at meetings are disclosed on page 176. Report of the Audit Committee is given on pages 255 & 256. In keeping to this section, the Report specifies the determination made by the Committee in relation to External Auditors' independence.
D.4 Related Party Transaction Committee	**D.4**	Adopted	Related Party Transaction Review Committee was established in 2015 to review all the material related party transactions of the Company on a quarterly basis.
D.4.1 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 KMPs (Key Management Personnel) Refer pages 228 & 342 to 347. ◈ Directors' Interest in Contracts refer pages 267 to 269. As per LKASs 24, CBSL and CSE regulations.
D.4.2 Composition of Related Party Transaction Review Committee	D.4.2	Adopted	Refer Related Party Transactions Review Committee Report, given on page 257 for the detail Committee information including the Committee Composition.
D.4.3. Terms of reference of Related Party Transaction Review Committee	D.4.3	Adopted	The terms of Reference of the Related Party Transaction Review Committee, which is periodically reviewed and revised with the concurrence of the Board of Directors, clearly defines the role and the responsibility of the Related Party Transaction Review Committee.
D.5 Code of Business Conduct and Ethics	**Principle D.5**	Adopted	A comprehensive Board-approved Human Resource Policy document is in place defining HR policies and procedures to all staff. The HR Policy document at MI upholds best corporate practices on HR management and expects employees to uphold sound business conduct. A value led performance and leadership culture is brought to life by a set of core values and behaviour competencies, ethics plus purpose is closely monitored.
Compliance with requirements on business conduct and ethics GRI | 102-16	Code D. 5.1	Adopted	The Company has in place a comprehensive HR Policy on Business Conduct and Ethics applicable to all Directors and employees at MI. The Human Resource Policy Document'' outline rules on conduct and values, for staff to adhere, has already been circulated to all the Directors and employees. A declaration was made by the Board stating, "All members of the Board of Directors and Key Management Personnel have complied with the Code of Business Conduct and Ethics introduced in the HR Handbook," in 2018/19 in the Annual Report of the Board of Directors (Director's Report) on pages 260 to 266. The Board-approved 'Customer Protection Policy' also specifies a clear Code of Conduct for all customer-handling officers both front-end and back office to protect customer rights.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
Process of reporting of material and price sensitive information to the regulators	Code D. 5.2	Adopted	As a listed entity in the Colombo Stock Exchange, MI abides by the requirements of the regulator to detect and report any price sensitive information promptly. Refer comments given on code C.2.7, C.3 and C.3.1 on page 197.
Policy and process for monitoring and disclosure of Directors' and KMPs' share purchases	Code D. 5.3	Adopted	All the dealings of the Directors are disclosed to the CSE by the Company Secretary promptly as per the CSE Listing Rule 7.8. All share transactions were monitored through the changes in the share register and reported to the CSE promptly.
Affirmation by Chairman that no individual has violated business conduct and ethical requirements of the Company	Code D. 5.4	Adopted	Please refer the 'Chairman's Review' on page 167 for the affirmation that the Code of Conduct and Ethics has been introduced Companywide and no individual has violated business conduct and ethical requirements of the Company.
D.5 Corporate Governance Disclosure	**Principle D.6**	Adopted	The MI Board of Directors upholds adopting sound corporate governance practices, while enhancing overall governance year-on-year.
Disclosure on Corporate Governance	Code D. 6.1	Adopted	MI's Corporate Governance Report of FY 2018/19 provides a comprehensive disclosure on the Company's Corporate Governance Framework and practices indicating MI's level of compliance with 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 a 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.
Constructive dialogue between shareholders and the Company	Code E. 1.1	Adopted	MI has given liberty to its shareholders to express their views at AGMs freely and communicate any matter even outside the agenda related to the Company at such meetings. The Board carries out dialogue with shareholders at general meetings. Under the supervision of the Chairman, the Company Secretary's division minutes discussions and views of all that is expressed at AGMs. Shareholders' views and other matters are taken up at Board and Sub Committee depending on materiality and urgency of matter at hand. Being the communication agent, the Board Chairman performs a crucial role to communicate the opinions and views of shareholders to both Board and Corporate Management concisely.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
E.2 Evaluation of Governance Disclosure	**Principle E.2**	Adopted	As mentioned in Code E.1.1. above, views and other material matters of shareholders are subsequently taken up at Board meetings as necessary. Based on such deliberations, due weightage would be given to matters raised on governance framework and disclosure structures including Board composition raised by any shareholder at AGM.
F. Other Investors F.1 Individual shareholders	**Principle F.1**	Adopted	MI places a high degree of importance on maintaining good relationships and communications with individual shareholders and ensures that they are kept informed of significant developments of the Company as well as the LFC sector itself. Individual shareholders are encouraged to carry out their own analysis or seek independent advice on investing, holding or divesting decisions. Quarterly published accounts in the CSE site will assist the retail investors to make judgments on the performance of the Company.
F.2 Shareholder voting	**Principle F.2**	Adopted	MI's shareholder base comprises a small base of investors comprising very few individual investors. All investors are encouraged to participate in general meetings of the Company.
G. Internet of things and cybersecurity			
G.1 Process of identify cybersecurity risk within the organisational network and from outside	**Principle G.1**	Adopted	MI has identified the significance of cybersecurity as an emerging risk category and therefore has considered as a material concern in topic selection (Refer pages 50 to 55) its requirements as a core component in our overall operational risk profile. The IT department has dedicated resource and device strategies to cope with cybersecurity risks.
G.2 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 16 years' experience in the related field. Under his oversight, an IT Security Policy is in place and is reviewed each year by the Board. The Policy covers cybersecurity aspects of the Company and contingency plans and is well-informed to all the relevant officers in charge.
G.3 Allocation of adequate time on Board agenda for cyber security	**Principle G.3**	Adopted	The IT Steering Committee established in 2016 met regularly to discuss IT-related potential and emerging risk at local and global level within the FY 2018/19. The IT Steering Committee through the Finance Director, who is the chairman of the committee, reports to the Board on any cybersecurity-related threat or potential risk through IRMC.
G.4 Effectiveness of cyber security risk management process	**Principle G.4**	Adopted	Annual internal audit plans have given prominence to the importance of having an IT audit for the Company which covers cybersecurity aspects as well. Furthermore, the External Auditor also conducted an IT system review in FY 2018/19. The Company conducted a thorough IT internal audit using PricewaterhouseCoopers (Private) Ltd. in the financial year under review which encompassed a cyber-security review.
G.5 Annual Report disclosure on process of cyber security risk identification	**Principle G.5**	Adopted	Refer Risk Management Report on pages 235 to 250.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2018/19 Update)
H. Environment, Society, and Governance (ESG)			
H.1 ESG Reporting	**Principle H.1**	Adopted	MI, as a responsible corporate, believes in ensuring that its responsibilities towards all its stakeholders, namely, shareholders, clients, employees, suppliers and the community, are met through its business activities not only in the short-term but also in the long-term. Hence, it strives to create a sustainable society and environment not only with regard to the financial performance of the Company, but also in the areas of environmental conservation and social development. MI's business model is structured to deliver sustainable value over time in terms of economic, social and environmental facets. See governance structure and reporting on pages 167 to 233.
Relevance of ESG factors to Company's business model	Code H. 1.1	Adopted	Refer MI Business Model on pages 32 & 33
H 1.2 Environmental Factors	Code H. 1.2.1	Adopted	Refer Nature on pages 102 to 106
H 1.3 Social Factors	Code H. 1.3.1	Adopted	Refer Overview and Stakeholder Engagement on pages 48 to 49, Alliances on pages 69 to 79, Human Strength on pages 80 to 91.
H 1.4 Governance	Code H. 1.4.1	Adopted	Refer Business model on pages 32 & 33, Overview, Stakeholder Engagement and material topics and its reference to approach and monitoring on pages 48 to 55 and Corporate Governance Report on pages 167 to 233.
H 1.5 Board's role on ESG factors	Code G. 1.5.1	Adopted	Please refer Purpose, Vision, Mission, Values and Principles on pages 10 & 11, Board's Role in Managing Social and Environmental Factors on page 172 and About Our Integrated Report on pages 02 to 06.

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 GRI | 102-26 a) Approving, overseeing and communicating the finance company's strategic objectives and corporate values.	Complied	In March 2019 , MI approved a three-year strategic plan which specified strategic objectives and corporate values that were derived from MI's Vision and Mission statements. Refer strategy on pages 34 to 43 and corporate values on page 11. The strategic objectives, corporate values and proposal strategy were communicated to the strategic business units and support divisions. Through the delegation of the corporate plan, each head of division together with their support staff were able to devise their separate detailed operational plans and set staff-wise goals and targets for the year under review. MI Board provided oversight over key matters including strategy by delegating key areas to its Board sub-committees and Corporate Management. These committees provided continuous feedback on all concerns and made recommendations to Board upon which final decisions were made.
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 28th February 2018, while the strategic plan covering the three-year period from FY 2019/20-2021/22 was approved on 26th March 2019. Separate strategies were formulated for each core business area and support function for the attainment of corporate objectives with measurable goals and timelines. The Risk Management Policy of the Company addresses how risks are identified and defines the risks of the Company and the procedures and processes to manage and/or mitigate the risks and bring them within tolerance of acceptable levels to safeguard MI's six forms of capital and to prudently manage MI operation. It clearly defines the risk appetite of the Company in setting limits for the key risks identified. On 28th February 2019, a revised policy was approved by the Board. (Refer Risk Report pages 235 to 250)
c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Complied	The Board places significant importance in shaping the Company's Risk Management Policy and procedures to effectively manage risks arising from executing strategy and related operational activities. The Integrated Risk Management Committee, on behalf of the Board, identified risks and provided oversight to ensure the implementation of appropriate systems and processes to manage risks prudently and reports to the Board on a quarterly basis. The committee obtained information directly from both the Head of Risk Management and Compliance and the Corporate Management. (The process or risks identification and measurement established to manage risk prudentially is explained on pages 235 to 250.)

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied	The Communication Policy with stakeholders was reviewed, updated with the changes in business environment and regulations and approved by the Board on 28th February 2018. The policy specified the communication approach and methods to be adopted when dealing with various external parties, describing effective communication methods and channels in dealing with the Company's list of stakeholders that include shareholders, customers, depositors, creditors, suppliers, borrowers, society and environment.
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	The Board has established a comprehensive system of internal controls to manage risks associated with the business. The Board has delegated its authority to the Audit Committee, which on behalf of the Board monitors the effectiveness of the internal control systems on a continuous basis and reports to the Board on its findings. The Board-approved procedures are well embedded into the work ethic and culture of the organisation and tested periodically for effectiveness and compliance through the Internal Audit process conducted throughout the year and also through the statutory External Audit. The audit findings were discussed in detail with the Board Audit Committee with the Management being given the opportunity to respond to the audit findings. There is a continuous review of the Company's management information systems, with specific focus on the accuracy, timeliness and security of the systems. During the FY 2018/19 PricewaterhouseCoopers (Private) Ltd. conducted a comprehensive IT general control audit during July 2018.
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.	Partially Complied	The Directors, Senior Management 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. HR policy will be amended to cover all aspects of this direction in future.
g) Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.	Complied	A document titled 'The Board's Responsibility' has been prepared illustrating each Board member's role, specifying job descriptions for the Managing Director, Chairman, Executive Directors and Non-Executive Directors. Executive Directors and the Corporate Management are expected to carry out their duties and responsibilities based on the delegated authority of the Board and in line with their formal job description designed for each of the top managerial positions and in keeping with limits of authority prescribed for the carrying out of business operations. JDs of all Key Management Personnel were updated based on changes to job functions and new responsibilities and approved by the Board on 28th February 2019.

Direction Requirement (With Section Number of the Direction)		Compliance Status	Extent of Adoption
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	At monthly Board meetings, the Directors review the Company's performance and monitor the key areas of business on an ongoing basis. Board feedback was provided through Board papers, MIS reports, etc. on material matters. Further, periodic activity reports were tabled by various Board sub-committees appointed by the Board to provide oversight and monitoring of strategic issues and functional areas of business. The Board, through the delegation of authority to the Managing Director, has given him accountability in implementing the decisions of the Board and managing the performance and affairs of the Company in line with his delegated limits of authority. The Managing Director in turn delegated the responsibility of managing the key operational functions to senior heads at Corporate Management level in overseeing performance and managing operations effectively as per the approved limits of authority. The Directors either directly or through the Board sub-committees initiated periodic meetings with the Corporate Management. Department specific meetings were held and included credit, marketing and recoveries meetings that enabled the Senior Management to keep a close watch on the operations on an ongoing basis.
i) I. II. III.	Periodically assessing the effectiveness of its governance practices, including: the selection, nomination and election of Directors and appointment of Key Management Personnel; the management of conflict of interests; and the determination of weaknesses and implementation of changes where necessary.	Complied	MI has put in place a strong Corporate Governance Framework as explained in this supplement. 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 257) 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.
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	Apart from Board meetings, Directors communicated with fellow Directors on an ongoing basis. Executive Directors meet with each other and Line Management frequently on routine matters. Executive Directors dealt with Corporate Management on a frequent basis at least weekly to assess performance and to decide on key matters. The purpose of Management Committee meetings included benchmarking MI's performance against industry and monitoring performance against set goals and targets which included assessing of the Assets and Liability Management actions and risk implications.

Direction Requirement (With Section Number of the Direction)		Compliance Status	Extent of Adoption
l)	Understanding the regulatory environment.	Complied	Through regular Board meetings the Directors were appraised of new developments and changes in the regulatory environment by fellow Directors and by the members of the Corporate Management via circulars, reports and presentations. As part of the Company's training and development program, Directors, Corporate Management and other key officers underwent continuous training on key technical aspects and other requirements including regulatory matters. Head of Risk Management and Compliance, as the Compliance Officer (CO) through the IRMC, followed up on the Company's adherence to regulations related to money laundering and also updated the Board on a monthly basis through the Finance Director on the compliance status of the Company in relation to CBSL directions, rules and other requirements. The advice of the Legal Division was sought by divisions as and when required and also when new regulations were imposed or when changes to existing regulations occurred. Divisions maintained 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	The hiring and oversight of the External Auditors is handled by the Audit Committee on behalf of the Board. Messrs. Ernst and Young, Chartered Accountants, was re-appointed by the Audit Committee as the External Auditors of the Company for the financial year 2018/19, in accordance with CBSL regulations on selecting External Auditors for the sector that is approved by the regulator. The committee evaluated the independence and quality of work carried out by External Auditors, reviewing the quality of the audit work carried out annually. The deliverables such as the Management Letter and other opinions and reports issued by the External Auditors were also reviewed in this context.
2.1	Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	Complied	The functions and responsibilities of the Non-Executive Chairman and the Chief Executive Officer have been separately defined and approved by the Board. The Chief Executive Officer's role is performed by the Managing Director who leads the Executive Management team of the Company. The Chairman provides leadership to the Board to ensure the Board discharges its responsibilities effectively. The Managing Director on the other hand, being an Executive Director, oversees the effective running of the day-to-day operations of the Company.
2.2	Availability of a procedure determined by the Board to enable Directors to seek independent professional advice at the Company's expense. GRI | 102-17	Complied	Directors have the liberty to seek independent professional advice at the expense of the Company whenever needed. A formal procedure on seeking independent professional advice was approved by the Board and has been in effect since 2013 and was updated and approved on 26th March 2019. 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	The Board identified the importance of avoiding matters of conflict of interest, between obligations to the Company and the personal interests of the Directors of the Board. The Board took steps to ensure that when such situations arise, Directors disclose such instances to the Board. In such instances a Director is expected to refrain from voting or presenting their views on such matters. In keeping to best practices on the identification of related party transactions, a separate 'Related Party Transaction Review Committee (RPTC)' was set up in 2015 to monitor related party transactions and report any concerns to the Board. The related parties would be disclosed by Directors at the time of on-boarding and at any time such a conflict arises. These related parties will noted by the Company Secretary and informed to the Finance Department. The Compliance Officer will collect RPTC details and submit report on a quarterly basis, 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 | 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 pages 260 to 266. The Company fulfilled its obligations to all its depositors and creditors, thus there was no necessity to inform the regulator in this regard. 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 was well above statutory limits throughout the year (Refer page 243 & 244) and was 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 Corporate Governance Report given from page 167 to page 233 provides a comprehensive disclosure of the Company's compliance status, in compliance with the direction issued by CBSL for the financial year 2018/19.
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	The Board implemented its self-assessment mechanism, which required each Director to evaluate their performance as well as the Board's performance collectively for the financial period 2018/19. The summary of findings together with areas for further improvements was tabled for the deliberation of the Board.

Direction Requirement (With Section Number of the Direction)		Compliance Status	Extent of Adoption
3)	**Meetings of the Board**	Complied	Twelve (12) Board Meetings were held for the financial period 2018/19.
3. 1	The Board shall meet at least 12 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.		Please refer section A.1.1 of the CA code given on page 182 for full disclosure in this regard. Board papers seeking approval of the Board are taken up at Board meetings and approved after necessary deliberation. Urgent matters needing the Directors review and approval between monthly Board meetings was obtained via circulation by the company secretary.
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	The agenda prepared by the Company Secretary under the guidance of the Chairman incorporates all proposals submitted by Directors. All Directors are provided an equal opportunity to submit proposals with regard to all key areas of business they head and to table proposals pertaining to new business development and risk management.
3.3	Notice of at least seven 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	For regular Board meetings, at least seven days of notice is given to all Directors, providing them with adequate time to review circulated Board papers and to take up concerns and raise other matters of importance. The Company Secretary ensures reasonable notice is given for any other meetings held by the Board other than regular 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. 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 attending at least two-thirds of the meetings held for the financial year 2018/19. No Directors have been absent from three consecutive Board meetings during financial year 2018/19. 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 182.
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 by her to the Board is given on page 186 section A.1.4 of the CA Code.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
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 responsibility for the preparation of the agenda for Board meetings has been delegated to the Company Secretary under the supervision of the Chairman. She took a coordinating role to circulate the agenda, dealing with Directors and Corporate Management to incorporate key matters to be taken up in the agenda. Prior to circulation, she obtained the Chairman's approval for the notice of meeting and the 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	The Company Secretary attended all Board meetings during the financial year 2018/19 and was readily accessible to all Directors when they required her advice and services. 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 company secretarial responsibilities.
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	Duly perfected minutes of all Board meetings were kept by the Company Secretary, which is maintained in safe custody at the Company Secretary Division. The Board of Directors can inspect Board minutes at any point in time. She obtained approval of the Chairman for the minutes prior to its circulation to Directors.
3. 9 Minutes of Board meetings shall be recorded in sufficient detail.	Complied	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.
4) Composition of the Board GRI | 102-22 4. 1 Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than five and not more than 13.	Complied	The Board comprised 10 Directors in keeping with the provisions of this section and did not fall below five or exceed 10 Directors due to resignations or appointments during the year. The Board composition remained unchanged with the composition that prevailed over the previous financial year.

Composition of MI Board Last 3Years

<table>
<tr><th colspan="2">Direction Requirement (With Section Number of the Direction)</th><th>Compliance Status</th><th>Extent of Adoption</th></tr>
<tr><td>4. 2</td><td>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 Directors' periods 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 2019</th></tr>
<tr><td>Mr. S.H.J. Weerasuriya</td><td>Chairman(Independent Non-Executive Director)</td><td>8 years completed</td></tr>
<tr><td>Ms. P.T.K. Navaratne</td><td>Independent Non-Executive Director</td><td>7 years completed</td></tr>
<tr><td>Mr. N.H.V. Perera</td><td>Non-Executive Director</td><td>7 years completed</td></tr>
<tr><td>Mr. S.M.S.S. Bandara</td><td>Independent Non-Executive Director</td><td>7years completed</td></tr>
<tr><td>Mr. P.C. Guhashanka</td><td>Independent Non-Executive Director</td><td>5 years and 9 months completed</td></tr>
</table></td></tr>
<tr><td>4. 3</td><td>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>There is equal 50% representation by both Executive Directors (five Directors) and Non-Executive Directors (five Directors) and is within the provisions of this section.</td></tr>
<tr><td>4. 4</td><td>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.</td><td>Complied</td><td>The Board consists of four 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 190 of section A.5.5 of the CA Sri Lanka Code for information pertaining to Independent Non-Executive Directors.)</td></tr>
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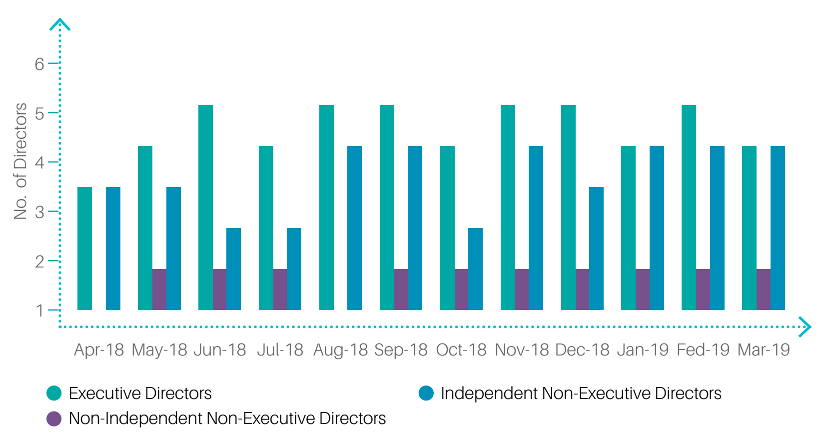
Direction Requirement (With Section Number of the Direction)		Compliance Status	Extent of Adoption
4. 5	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive 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 judgement 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 158 to 161 provide a brief on the profile of Non-Executive Directors, outlining their qualifications and experience and the positions they hold in other institutions. Respective Directors also hold senior positions in various other organisations and attend MI 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	In complying with this section, in all Board meetings convened during financial year 2018/19, the number of Non-Executive Directors present was more than one-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	All corporate communications including the Annual Report disclose names of Directors and expressly identify Non-Executive Directors. The Annual Report clearly specifies each Independent Non-Executive Director in the Corporate Governance Report given on page 190 and the Directors' brief given on pages 156 to 161. Following disclosures cover requirements of this section; ◈ Composition of Board ◈ Category of Directors ◈ Names of the four Independent Non-Executive Directors are mentioned on page 190 of the Corporate Governance section A.5.5.
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	All new appointments and re-elections to the Board have to be approved by the Nomination Committee. Please refer page 190 to 193 section A.7 of the CA Code for details on the Nomination Committee composition, duties, related matters of the Committee and appointments to the Board. The Board Nomination Committee Report is given on page 254.
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 2018/19.
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 Director resignations took place this period that required reporting to CBSL. All Director resignations will be duly informed to the Department of Supervision of Non- Bank Financial Institutions and also to the Colombo Stock Exchange by the Company Secretary to comply with this section and related provisions as per Colombo Stock Exchange rules.

Direction Requirement (With Section Number of the Direction)		Compliance Status	Extent of Adoption
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 172 provides the age profile of the Board of Directors.
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 MI Board holds office in over 20 companies contravening the provisions of this section. Page 158 to 161 provides a schedule detailing Directorships held by each MI Director in other companies as at 31st March 2019.
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 made necessary assessment of delegated authority especially assessing capabilities of various Board sub-committee limits given on credit disbursements, payment authorisations, authorisation on rebates and approving authority for various corporate documents including issue of deposit certificates. No material changes were affected to the delegation process in financial year 2018/19. The delegated authority given to Executive Directors, Corporate Management or other key officers did not vary from previous period.
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 three years commencing from 1 January 2009.	Complied	A Board-appointed Independent Non-Executive Director acts as the Chairman of the Company in keeping to this section while the Managing Director acts in the capacity of Executive Director, keeping the two roles separate. Please refer pages 187 & 188 section A.2 and A.3 of the CA Code for further details.

Direction Requirement (With Section Number of the Direction)		Compliance Status	Extent of Adoption
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	The Chairman of MI Board, Mr. Saro Weerasuriya, being an Independent Non-Executive Director was appointed to the Board in January 2011 continued to operate as the Chairman this period.
7.3	The Board shall disclose in its 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.
7.4 a) b) c)	The Chairman shall: Provide leadership to the Board; Ensure that the Board works effectively and discharges its responsibilities; Ensure that all key issues are discussed by the Board in a timely manner.	Complied	The Chairman of the Company has led from the front, dealing closely with other Directors in all key matters for the Board to effectively discharge its responsibilities. The Chairman in conducting affairs of the Board obtained fullest cooperation of other fellow Directors. At the same time he sought advice of Company Secretary on Board procedures when necessary. At monthly meetings, the Chairman ensured that focus and adequate attention was given for matters with strategic importance to the Company. Please refer pages 187 to 188 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	A formal agenda is prepared for Board meetings by the Company Secretary under the supervision of the Chairman. The agenda covered key matters to be taken up, supported by information necessary to ensure adequate information, is provided to Board Directors to maximise their contribution at the Board meetings. (Refer pages on 187 & 188 for key areas focused in Board meeting during 2018/19)

Direction Requirement (With Section Number of the Direction)		Compliance Status	Extent of Adoption
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 leads from the front, in encouraging active participation of all Directors, in governing the affairs of the Company and acting 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 himself effectively contributed to the Board, through their immense experience and the wide knowledge base that they possess within the finance industry as well as experience gained from their professional fields. There was constructive relationship among all categories of Directors. Apart from Board meetings, Directors meet at other Company events that enable them to maintain close rapport with each other. All Directors were able to attend a majority of Board meetings and contributed to matters brought up at meetings, individually as well as collectively. They were able to raise concerns, recommend suitable solutions, and deliberate with each other to make effective decisions.
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 did not involve himself with direct supervision of Key Management Personnel or handle executive duties. The duties of the Chairman have been defined and approved by the Board. This does not involve executive duties whatsoever.
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 views of shareholders were primarily obtained at the AGM dated 29th June 2018 where they had the opportunity of expressing their views, voicing their concerns and making recommendation for the betterment of the Company. Matters raised by shareholders at the AGM are taken up subsequently and responded to in writing by the Company Secretary under the supervision of the Chairman of the Board depending on its relevance and materiality. Shareholders are also able to meet with the members of the Board on a one-to-one basis, on obtaining a formal appointment.

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<tr><td>7.11</td><td>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.</td><td>Complied</td><td>Managing Director Mr. Gerard G. Ondaatjie functions as the apex executive in charge of managing routine operations of the Company (in place of a Chief Executive Officer). He works closely with other Executive Directors and Corporate Management with regard 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 on 28th February 2019 .</td></tr>
<tr><td>8)

8.1</td><td>Board-appointed Committees

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>MI Board has established six sub-committees for closer supervision of Company affairs. The Board-appointed sub-committees' level of compliance with this section can be summarised as follows;

<table>
<tr><th>Subcommittee</th><th>Page Reference Number</th></tr>
<tr><td>Audit Committee</td><td>255 & 256</td></tr>
<tr><td>Integrated Risk Management Committee</td><td>251 & 252</td></tr>
<tr><td>Remuneration Committee</td><td>253</td></tr>
<tr><td>Nomination Committee</td><td>254</td></tr>
<tr><td>Related Party Transactions Review Committee</td><td>257</td></tr>
<tr><td>Credit Committee</td><td>176 & 177</td></tr>
</table></td></tr>
<tr><td>8.(2)

8.2 a)</td><td>Audit Committee
The following shall apply in relation to the Audit Committee:

The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.</td><td>Complied</td><td>The Chairman of the Audit committee, Mr. S.M.S.S. Bandara, is a qualified Chartered Accountant and an Independent Non-Executive Director of the Company. While possessing two accounting qualifications, he has a wealth of experience in the field of audit and financial reporting. Being a partner of B.R. De Silva Chartered Accountants, he is able to effectively oversee the Committee's functions and discharge of its duties.</td></tr>
<tr><td>8.2 (b)</td><td>The Board members appointed to the committee shall be Non-Executive Directors.</td><td>Complied</td><td>All three members forming the Audit Committee are Non-Executive Directors who operate independently to ensure impartiality of the Committee. The Committee's composition remained unchanged throughout the period.
Please refer page 200 & 201 of section D.3 of the CA Sri Lanka Code for details.</td></tr>
</table>

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
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.	Complied	The Audit Committee made the following recommendations in relation to this section: I) The Committee made recommendation for the re-appointment of Auditors Ernst and Young, Chartered Accountants, for 2018/19. The Committee made this recommendation on the basis that this is the second year for the External Auditors. 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, the committee ensured that there is sufficient disclosure, both qualitative and quantitative, to cover SLFRS 09, a new standard taking effect from the financial year under review. IV) The Audit Committee decided on the audit fee for the financial year 2018/19. The committee noted that no resignation or dismissal of the auditor took place during the financial year under review.
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 External Auditors' independence and objectivity and the effectiveness of the audit process were monitored and reviewed by the Audit Committee, mainly focusing on relevant professional and regulatory requirements specific to the LFC sector. The External Auditor, Ernst and Young, Chartered Accountants, submitted a Declaration of Independence in the Audit Process to the Audit Committee for FY 2018/2019.
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 2018/19.
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 Auditors, Messrs. Ernst and Young, Chartered Accountants, four times during the financial year 2018/19. The Committee finalised the nature and scope of the audit with the audit partner before the commencement of the audit. Areas needing special attention and recommendations of the auditors were incorporated into the discussions and were included in the audit plan.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
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 periodically reviewed the financial information of the Company in order to monitor the integrity of the Annual Report, financial statements of the Company and other financial disclosures. Proposed 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 has reviewed the Company's Annual Report as well as the Quarterly Financial Statements before submission thereof to the Board for approval.
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 2018/19, Committee met the External Auditors four 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 FY 2017/18 Management Letter issued by the External Auditors together with Management responses to ascertain material concerns that exist that require their immediate attention for resolution, in the presence of the Finance Director. The committee took up key concerns with the Management, which 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 was submitted two separate audit programmes by MI's outsourced Internal Auditors, PricewaterhouseCoopers (Private) Ltd. and the Internal Audit Division of the Company for the financial year 2018/19, which were affirmed by the committee. The scope, functions and resources allocated for the Internal Audit Department were assessed based on the newly-issued 'Outsourcing Business Operation' CBSL Direction. The Committee met two times and reviewed full audit/spot review reports in the presence of both audit teams. As and when required Corporate Management was called when their related observations were discussed, to ensure corrective action was initiated.

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<tr><td>ii.)</td><td>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;</td><td>Complied</td><td>The Audit Committee reviewed the findings of the two internal audit teams for the financial year 2018/19 which included the evaluations made by the Internal Audit Department on the adequacy of the Company's internal controls and compliances. The Audit Committee met six times with the Internal Auditors and reviewed the full audit/spot review reports. In order to review the adequacy of scope and the risk based approach, separate audit programmes were submitted by PricewaterhouseCoopers (Private) Limited and the Internal Audit Division of the Company for the financial year 2018/19, which were approved by the committee. Necessary corrective actions were taken by MI management on the internal audit findings and recommendations that were made during the year under review.

Audit Coverage 2018/19<table><tr><th>Type of Audit</th><th>Coverage %</th></tr><tr><td>Full Audits</td><td>100</td></tr><tr><td>Spot Audits</td><td>100</td></tr></table></td></tr>
<tr><td>iii.)</td><td>Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</td><td>Complied</td><td>The head of the Internal Audit Department as well as the senior staff members were appraised for their performance as usual in the annual performance appraisal conducted by the Audit Committee. The annual bonuses and the annual increments of department were decided purely on the quality of the audit findings and the timeliness with which the audits were carried out. The performance of PricewaterhouseCoopers (Private) Limited was also reviewed by the Audit Committee for the FY 2018/19. The committee concluded that all required audit deadlines were met and that the quality of reports was satisfactory.</td></tr>
<tr><td>iv.)</td><td>Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</td><td>Complied</td><td>The services of PricewaterhouseCoopers (Private) Limited continued to be obtained by the Audit Committee in parallel with the Company's own Audit team, to ensure Head Office and the entire branch network were reviewed at least once annually. The level of resources allocated by PricewaterhouseCoopers (Private) Limited was accepted by the committee and no queries were raised.

Considering the increasing of the level of scope of the Company's own Internal Audit Department due to the change of 'Outsourcing Business' Direction of CBSL, the committee recommended to increase the number of staff to compensate the increasing workload. Additionally the committee also considered providing more internal and external technical training for the Company's own Internal Audit staff to improve quality of the Internal Audit function.</td></tr>
<tr><td>v.)</td><td>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;</td><td>Complied</td><td>No senior staff members of the Internal Audit Department or senior officers from PricewaterhouseCoopers (Private) Limited handling the Company's Internal Audit function resigned during the year.</td></tr>
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Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
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 independent as the department reports directly to the Audit Committee. Messrs. PricewaterhouseCoopers (Private) Limited is an independent institution engaged in the provision of audit services and has the resources and expertise to handle internal audit services impartially with professionalism. They too report directly to the Audit Committee and have access to the Board in the event any matters 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	Based on the reports submitted by the Internal Audit Department, the Audit Committee reviews and considers audit findings on internal investigations and the Management's responses thereto. However, no such major audit findings have been reported during the year 2018/19.
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) Limited, while the Company's own Internal Audit officers were also present to discuss the audit findings. The committee also met with the External Auditors two times this year without the presence of the Executive Directors in keeping with 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 mandates explicit authority to investigate any matter within its purview and take necessary action thereto. Refer: Board Audit Committee Report on pages 255 & 256 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 seven times during the financial year under review. The report of the Audit Committee given on pages 255 & 256 provides details on how the committee records its decisions.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
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 page 176 & 177 in the Board committee table. Further information covering requirements of this section is disclosed in Section D.3 of the CA Code on the committee's scope of activities. The Audit Committee Report for financial year 2018/19 is given on pages 255 & 256.
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 and 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 | 102-17	Complied	The Whistle-Blowing and Corporate Fraud Policy was revised by Human Resource Department in coordination with the Internal Audit Department and was approved by the Board on 21st September 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. A clear formal process is laid down by which employees could raise concerns of a possible fraud and how the investigation process would take place. During the financial year 2018/19, 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 one Non-Executive Director acting as the chairman, while three Executive Directors 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. The Corporate Governance Report provides additional information pertaining to the IRMC on Board Committee Overview (Refer page 176 & 177). The members of IRMC work closely with Key Management Personnel of the Company to assess situations which arise on 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 risks through appropriate risk indicators. IRMC reviews the risk reports submitted by the Head of Risk and Compliance on a quarterly basis and in the event such risks exceed established risk tolerance levels as highlighted by the reports submitted to the committee, the IRMC takes prompt corrective actions to mitigate the negative effects. Please refer section 8.3 (a) above on scope and tasks handled by the Committee. Refer the Board Committee Overview on page 176 & 177. Please refer the Risk management Report on pages 235 to 250 for a wider explanation on the Company's 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-and Liabilities 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 the Management Committee; studying management information presented at weekly forums and also reviewed the effectiveness of the Assets and Liabilities Management Committee and the Credit Committee. The Assets and Liability Committee (ALCO) of the Company reviews and monitors the liquidity risk and the market risk based on the risk tolerance levels (risk limits) established. The Credit Committee revised the credit authority levels with prescribed credit approval limits incorporated in the Company's Credit Policy, to evaluate the customer applications based on the nature of credit risk and the amount of the facility. Refer: IRMC Report on pages 251 & 252 for the scope of the committee and its activities during the year 2018/19. Refer the Risk Management Report on pages 235 to 250 for a wider explanation on the Company's Risk Management Framework and approach.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
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	The IRMC of the Company has determined risk tolerance levels which are updated on a timely basis considering the factors such as strategic objectives of the Company, changes in regulatory requirements, competitiveness in the business environment and future economic conditions. Each risk category in the risk profile of the Company has been reviewed against the risk tolerance levels by the Committee and recommendations have been made when specific risks exceeded risk appetite limits to the Board. This is cascaded downward to the Management level through appropriate communication channels. 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 Risk and Compliance. Summary of variances are disclosed on pages 240 & 244.
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 the FY 2018/19 on a quarterly basis. Page 176 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	The IRMC did not come across any material violations by staff in relation to a breakdown in internal controls, noncompliance with risk management procedures and not taking appropriate measures to avoid material risks during the financial year under review.
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	As per the Risk Policy of the Company, an 'activity report' was submitted by the IRMC to the Board within seven days after having an IRMC meeting, detailing a summary of key risks identified for the period, specifying risk mitigating actions proposed by the committee for the Board's views. Accordingly, four activity reports have been submitted to the Board for the 2018/19 financial year.
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.	Partially Complied	The company has established a compliance function to assess 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 12 status reports were submitted in during the financial year 2018/19 under review.
A dedicated compliance officer selected from Key Management Personnel shall carry out the Compliance function and report to the committee periodically.	Not Complied	HR policy will be amended to cover all aspects of this direction in future. Please refer Compliance Management, on pages 168 to 181 for the framework and activities of the Compliance function.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
9) Related Party Transactions GRI | 102-25 9. 1 The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies		During FY 2018/19, 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 269 about RPTC Committee.)
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. 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 257.
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 Transactions 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". Required disclosures on related party transactions have been disclosed in the Notes to the Financial Statements, while pages 267 to 269 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. Refer section 9.2 above that refers to Related Party Transactions and Directors' Interests in Contracts disclosures.

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
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 accounting standards including the new SLFRS requirements introduced by CA Sri Lanka. The Financial Statements also conform to other regulatory requirements including the Finance Business Act, the Companies Act and rules specified by Colombo Stock Exchange. Quarterly publications of interim results were published in all three languages and conform to the regulatory interim publication format and the 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 270 provides an affirmation that the annual audited Financial Statements have been prepared in accordance with the applicable accounting standards and applicable regulatory requirements.
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.	Complied	The Report by the Board on Internal Controls stating the effectiveness of the Company's internal controls mechanism over financial reporting, given on pages 272 & 273 in the Annual Report, provides the required disclosure to comply with this section.

<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 (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 certification on the effectiveness of the internal control mechanism over financial reporting was obtained for the financial period 2018/19. No significant matters needing attention were 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 274 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 information including their names and other details are provided on page 156 to 161 while their transaction details are disclosed under the Directors' Interest In Contracts on pages 267 to 269 and in Related Party Disclosures in the Notes to the Financial Statements on pages 342 to 347.</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 remuneration paid to Directors on an aggregate basis is disclosed on page 302 in the Notes to the Financial Statements.</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>% Against Company Capital Funds</th></tr>
<tr><td>Key Management Personnel</td><td>29,896</td><td>0.37</td></tr>
<tr><td>Associates Companies</td><td>-</td><td>-</td></tr>
<tr><td>Other</td><td>60,408</td><td>0.75</td></tr>
</table>

There have not been related party transactions exceeding 10% of the equity during the financial year 2018/19.</td></tr>
<tr><td>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.</td><td>Complied</td><td>The aggregate value of remuneration paid and transactions carried out by Key Management Personnel during financial year 2018/19 disclosed below:

<table>
<tr><th></th><th>KMPs including Executive Directors (Rs. '000)</th></tr>
<tr><td>Accommodations</td><td>29,896</td></tr>
<tr><td>Deposits</td><td>751,756</td></tr>
<tr><td>Remuneration</td><td>162,097</td></tr>
</table></td></tr>
</table>

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
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 260 to 266 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 261 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	None so requested 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 Accountants 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 2018/19.

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 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	260 to 266
7.6 (ii)	Principal activities of the Entity during the year and any changes therein	Significant Accounting Policies	Complied	284 to 295
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	375
7.6 (iv)	The Public Holding percentage, number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement.	Investor Relations	Partially Complied	375
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	260 to 266

Rule No	Disclosure Requirement	Section Reference	Status of Compliance	Page Reference
7.6 (vi)	Information pertaining to material foreseeable risk factors	Risk Management	Complied	239
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Human Strength	Complied	80 to 91
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	322 to 329
7.6 (ix)	Number of shares representing the Entity's stated capital	Notes to the financial statements (Note No. 39) Investor Relations	Complied	337
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	374
7.6 (xi)	Equity Ratios Market Value	Investor Relations Investor Relations	Complied	33 & 379
7.6 (xii)	Significant changes in the Equity's fixed assets and the market value of land, if the value differs sustainability from the book value	Notes to the financial statements	Complied	284 to 295
7.6 (xiii)	Details of funds raised through Public issues, Rights issues and Private Placements during the year	Investor Relations	Complied	374 to 376
7.6 (xiv)	Information in respect of Employee Share Option Plan and Employee Share Ownership Plan	Notes to the financial statements	Complied	265
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	231 to 233
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	376

Listing Rule No. 7.10 - Contents of the Annual Report at Glance

CSE Rule No.	Requirement	Compliance Status	Extent of Adoption (FY 2018/19 update)
7.10	Overall compliance position in relation to SEC 7.10 (Corporate Governance)	Complied	a) The company is in compliance with the corporate governance rules specified by CSE for all listed companies and also complies with section 7.10 requirements specified under this section. b) The company has complied with CBSL Corporate Governance Direction. Compliance status is given on pages 205 to 229.

CSE Rule No.	Requirement	Compliance Status	Extent of Adoption (FY 2018/19 update)
7.10.1	**Non- Executive Directors of a Listed Company**	Complied	The Board of Directors of the Company comprised of five (5) Non-Executive Directors out of ten (10) Directors at MI. The company maintained a 50% composition of Non-Executive Directors on 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	Of the five (5) Non-Executive Directors at MI as at 31st March 2019 four (4) were Independent Non-Executive Directors.
	(b) Submission of a declaration of independence by Independent Non-Executive directors as per prescribed format		All Non-Executive Directors have submitted declarations to the company as per the format provided in the CSE code on corporate governance for 2018/19 financial year.
7.10.3	**Disclosures Related to Directors** (a) Disclosure of the names of Independent Non- Executive Directors	 Complied	 As per section 7.10.4, names of all four Independent Non-Executive Directors are mentioned on Page 190 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 2018/19.
	(c) Disclosure of a brief resume of Directors in Annual Report		Please Refer: Corporate Governance, Pages 158 to 161 for Director Profile
	(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 itemised in paragraphs (a), (b) and (c) above.		The requirement will be complied with, upon appointment of a new Director to the MI Board.
7.10.4	Criteria for Defining "Independence"	Complied	The eight criteria of defining independence stipulated in this section have been fulfilled by all four (4) Non-Executive Directors of MI.
7.10.5	**Remuneration Committee** **A listed entity should have a Remuneration Committee.**		Details of the remuneration committee is provided on page 253.

CSE Rule No.	Requirement	Compliance Status	Extent of Adoption (FY 2018/19 update)
	(a) Composition of the Remuneration Committee		Two (2) out of three (3) members in the Remuneration Committee are Independent Non-Executive Directors. The Board Chairman who is an Independent Non-Executive Director is the Chairman of the Remuneration Committee.
	(b) The Remuneration Committee shall recommend the remuneration of the Managing Director of the Company.		Page 194 section B.2.1 of the SEC and ICASL Code provides necessary information
	(c) Disclosure of the Remuneration Committee in the Annual report ◈ Name of the Directors serving in the Committee	Complied	 Names of Directors in the Remuneration Committee are provided on page 176.
	◈ Statement of Remuneration Policy		Please refer page 253 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 page 302.
7.10.6	**Audit Committee** **A listed entity should have an Audit Committee.** Composition of the Audit Committee	 Complied	 Particulars relating to MI's Audit Committee is provided on pages 255 & 256.
	◈ Audit Committee shall comprise of Non-Executive Directors, a majority of whom shall be independent		The Audit Committee comprised of three of Non-Executive Directors, two of whom are independent.
	◈ One Non-Executive Director shall be appointed as Chairman of the Committee		The 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 2018/19, 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 recognised professional accounting body.		The chairman of the Audit Committee is a chartered accountant, with years of experience behind him in the Financial and Auditing field, and is a partner of B. R. De Silva, Chartered Accountants.
	(b) Functions of the Audit Committee		Functions of the Audit Committee are disclosed on pages 255 & 256.
	(c) Disclosures in Annual Report ◈ The Name of the Directors comprising the Audit Committee		 Composition of the Audit Committee is provided on page 176.
	◈ The Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination		Please refer page 201, section D.3.3 of the ICASL Code for disclosure in this regard.

CSE Rule No.	Requirement	Compliance Status	Extent of Adoption (FY 2018/19 update)
	◈ 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 255 & 256 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.

Submission of CBSL Web Returns

All required CBSL web returns were submitted by the Company on or before the due dates for submission. The compliance table is available on the MI website www.mi.com.lk.

Returns Submitted as per Prevailing Regulations for LFC Sector

The information table has been provided on 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 19th June 2019.

S. Pethiyagoda
Company Secretary

Ramidu Costa
Head of Compliance and Risk Management

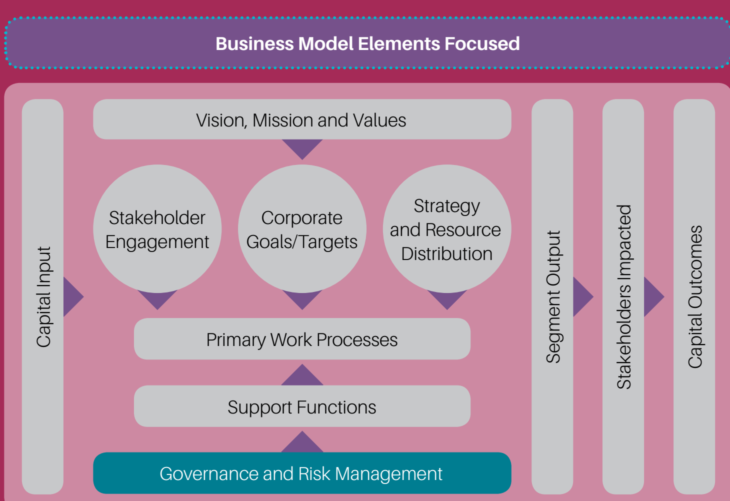
Saro Weerasuriya
Chairman

19th June 2019
Colombo

Submission of CBSL web returns and returns submitted as per prevailing regulations

Risk Management Report

To face a highly sophisticated industry like ours, we have adopted an effective risk management approach with adequate safety mechanisms to sustain anticipated performance growth whilst keeping negative impacts minimal. This section take reader through our risk management journey and our standings.



Sub Section Index

Risk Management Report

RISK MANAGEMENT HIGHLIGHTS FOR FY 2018/19

- Revised policy documents to ensure the operations are consistent with the changes in business and regulatory environment.
- Introduced a new risk scoring calculation mechanism to credit proposals.
- Enhancing the contingency funding arrangements using standby facilities
- Recruitment and allocation of new staff to strengthen the Risk functions of the company.
- Streamlining of the customer profiling and KYC procedures to facilitate new KYC regulations.

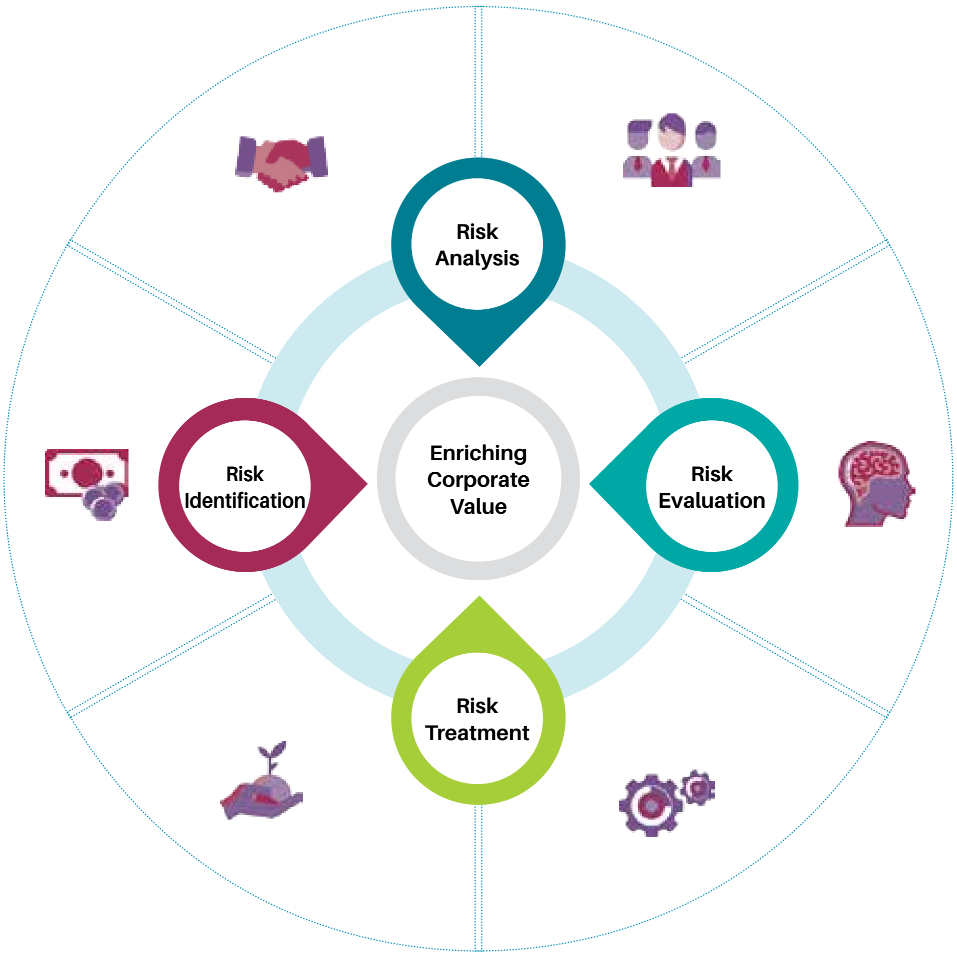
Integrated Risk Management Framework

GRI | 102-30

As a responsible corporate in the finance sector, we reflected our accountability and fulfilment of responsibilities towards our customers, investors, employees and the wider society. In doing this, we integrated our Risk Management Framework with the business strategy and executed actions in keeping to our unique business model.

Throughout our journey over 50 years, we committed ourselves towards creating sustainable value and addressed the interests of our six business capitals in a more responsible manner.

By incorporating risk management in every aspect of our business, today we are well-equipped to handle risks associated with our business to grab emerging opportunities, broaden our market share and create long-term value for our investors, while complying with regulations and 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 adopted an effective approach to address all the key risks associated with the business, which enabled us to identify, analyse, evaluate and finally take action (risk treatment) to avoid or mitigate the risks. The Head of Risk and Compliance, who is the Risk Officer of the Company, is responsible for driving the framework across the entire organisation.

Risk Strategy

GRI | 102-31

While we were focusing on mitigating the risks attached to our business, we were also mindful about its impacts on returns, thus our Risk Strategy was carefully developed, considering the inputs and feedback received from all business departments. This enabled us to design the most appropriate Risk Strategy for the Company and maintain a healthy balance between risks and returns without hindering any business opportunities.

As a company in the LFC sector, our business operations are exposed to a number of risks for which we have developed and agreed upon risk appetite levels. Accordingly, we closely monitored and reported all types of risks that were identified and triggered as per our Risk Management Strategy. In support of the Risk Strategy, the Company devoted significant resources, formed a number of committees to ensure governance, promoted a strong risk culture and also integrated the aspects of risk management into decision-making and strategy-setting.

As part of the Corporate Strategy and managing envisaged risks, core divisions are required to follow Board-approved policies and procedures in coordination with the Risk Unit. This is an important component in our risk management process in managing various risks attached to our profitable business operations, ensuring that the desired value creation happens in an economically, socially and environmentally sustainable manner.

Risk Appetite

We have developed a pre-defined set of risk appetite levels that provide measurable targets and thresholds of risks that MI is willing to accept in the process of achieving the firm's business plans. The main aim of setting risk appetites 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 continuation of the Company's uninterrupted journey and fulfilment of responsibilities towards economic, social and environmental sustainability.

The Company's risk appetite levels were approved by the Board as part of the annual corporate planning process, incorporating necessary amendments made after a series of discussions between business line heads, the relevant Board sub committees and the Risk Officer, in coordination with the Corporate Planning Unit. (Refer risk appetite versus actual risk levels under each key risk).

Risk Policies and Guidelines

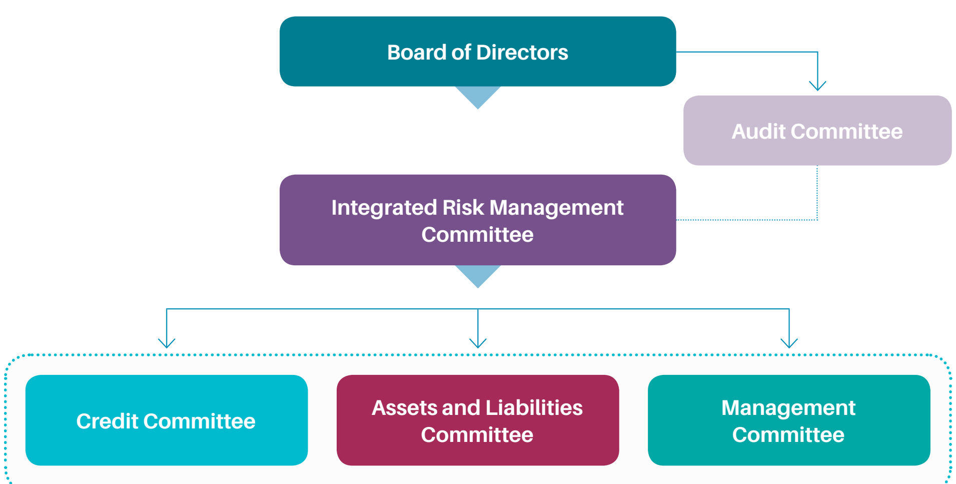
The Risk Management Policy of the Company clearly defines the objectives and outlines priorities, processes and roles of the Board and Management in managing risk and shaping the risk culture of MI. The Risk Policy and guidelines were regularly reviewed by the IRMC not only to fulfil regulatory requirements but also to respond to changes in business needs.

The Risk Guidelines facilitate the implementation of policies with in-depth operational details 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.

Our Risk Policy addresses the key risks faced by the Company and its compliance with all regulatory requirements including the Finance Business Act No. 42 of 2011, other Acts applicable to our business rules and guidelines issued by the regulators.

Risk Governance

The ultimate responsibility of MI's risk management lies with the Board of Directors, while the Board Audit Committee, under delegated Board power, reviewed the entire risk management process from an independent perspective and reports to the Board its findings. The Board's authority in risk management is delegated to several Board-appointed sub committees. The Integrated Risk Management Committee (IRMC) reviewed all the risk areas and provided recommendation on risk management which were then executed through management committees.



The Board's Role in Governing an Effective Risk Management Framework

GRI | 102-29, 102-30, 102-31

As the Board remained with the ultimate responsibility for risk management, it set the risk appetite limits for the Company. The effectiveness of the Risk Management Framework was also reviewed by the Board in order to ensure its agility towards the economic, social and environmental dynamism in the business environment. Establishing necessary Board Sub-Committees to which part of the responsibilities are delegated, the MI Board kept close watch and vigilance over existing risks and emerging potential threats.

The Board appointed sub committees provided periodic feedback on MI's progress towards managing key risks deemed material and requiring Board attention. In monitoring and managing these risks, the Board was advised and assisted by the Integrated Risk Management Committee (IRMC).

Role Played by the Committees in Risk Management

Integrated Risk Management Committee: IRMC assisted the Board in fulfilling its role in risk management. In doing this, the IRMC determined the risk appetite, monitored and managed key risks, and reviewed MI's approach to risk management periodically. The Credit Committee, ALCO and Management Committee reported their risk concerns to the IRMC through quarterly and ad hoc risk reports prepared by MI's risk management function.

Audit Committee: Reviewed Company-wide risks and control environment while maintaining an independent position as MI's third line of defence against risks. The Audit Committee evaluated the adequacy of internal controls and their effectiveness and reviewed the Management's compliance with internal and external regulations.

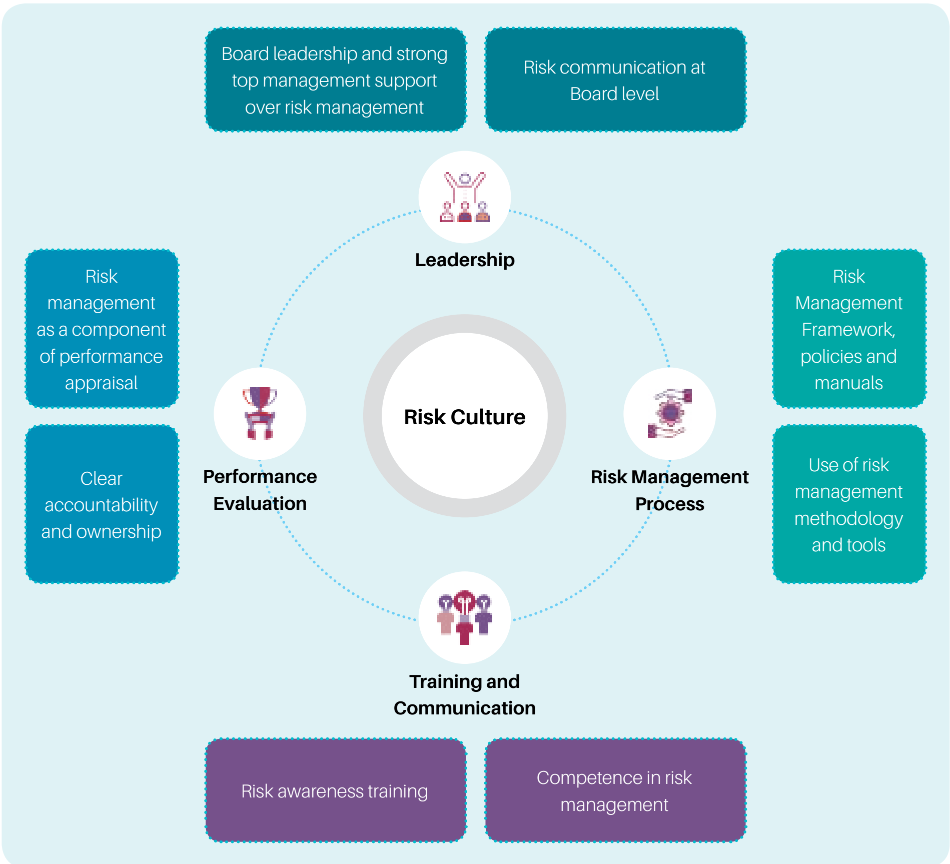
Credit Committee: Reviewed transactions with high credit risk, monitored material overdue accounts and proposed recovery strategies. The committee reviewed MI's credit policy with the aim of ensuring our Credit Policy addresses the changes urged by business and the changing economic landscape.

Assets and Liabilities Committee: The committee held the responsibility for overseeing MI's liquidity position and related risks, including interest rate risk, to ensure that we possess sufficient liquidity at optimised cost efficiency levels. The committee also reviewed pricing of products and expected margins and assessed the sensitivity of MI's profits to market variables.

Management Committee: The committee reviewed the Company's progress in achieving strategic targets. The committee also actively evaluated and implemented risk treatment actions to tackle the risks primarily impacting corporate profitability, core business operations, and asset quality and core margins.

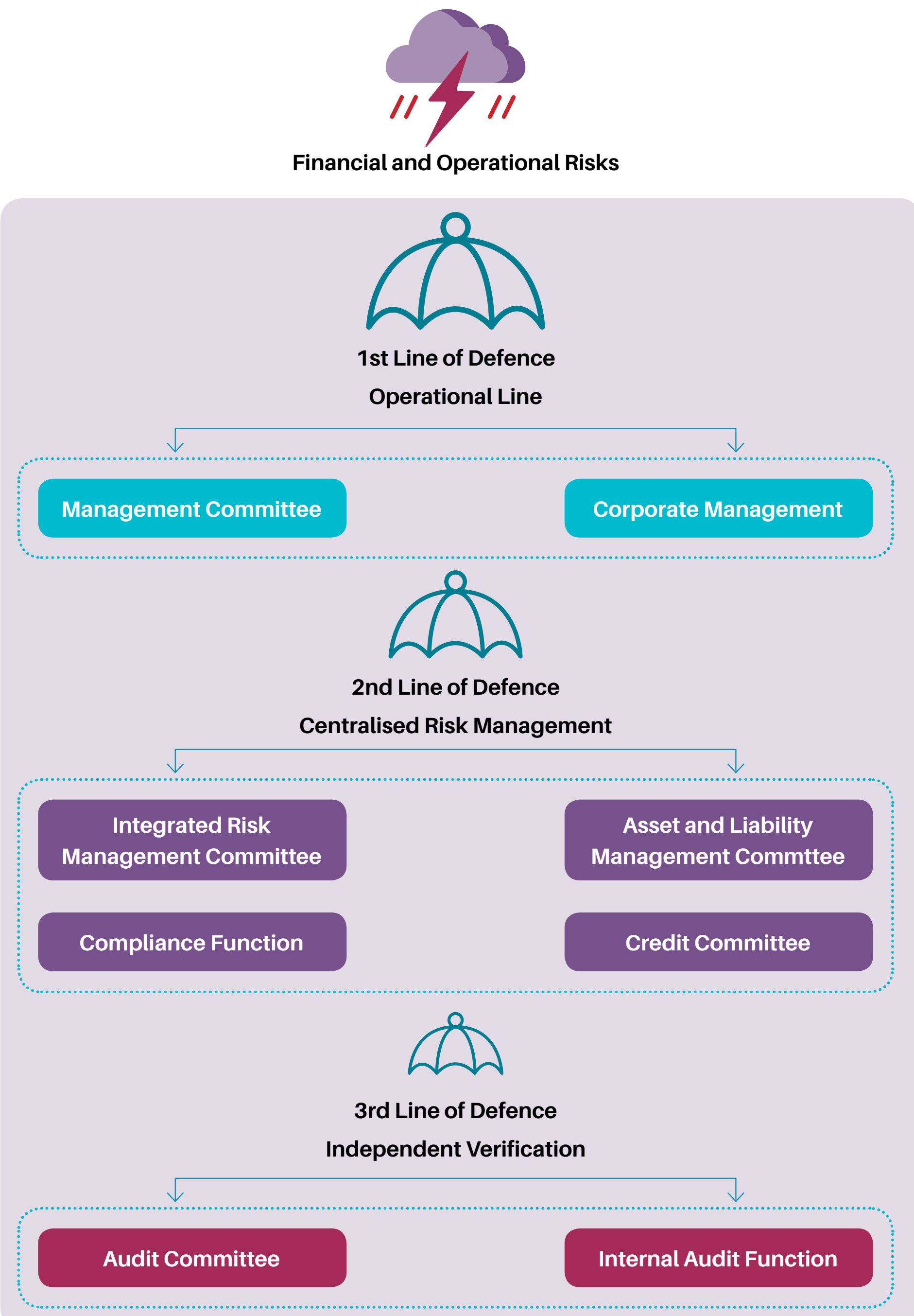
Risk Culture

We strive to ensure that all our staff is engaged in managing risks at each level, because we believe that our risk culture is fully dependent on the risk awareness, experience, curiosity and ability of sound judgment of every employee. This year, too, we nurtured our risk culture with numerous training events, especially in the areas of anti-money laundering and financial crime.



Three Lines of Risk Defence

MI's Risk Management Framework is executed through a three lines of defence approach. This contributed to the overall risk management of the Company by acting as a safety mechanism against unexpected risks and losses, protecting the organisation's assets and stakeholder interests. Under this approach, every employee becomes accountable for proactively managing the risks within their capacities, which in turn promoted a strong risk culture among the employees across different business functions.



It is the first line of defence that is in deemed the best position to identify the risks triggering in their respective areas, thus the frontline of our business is considered as the first line of defence. While identifying the risks at its source, employees in the initial line of defence are well empowered in managing risks that does not require escalation. However, material risks were filtered upwards to the second line of defence for further investigation and better treatment of risk.

This line of defence represents the centralised supervision 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 procedures exercised across all areas.

The third level consists of the internal audit function and the Audit Committee which reviews, recommends and reports to the Board. This last level defends MI from current and potential risks that are deemed material by conducting independent review on the risk management/compliance processes and operational practices of the Company.

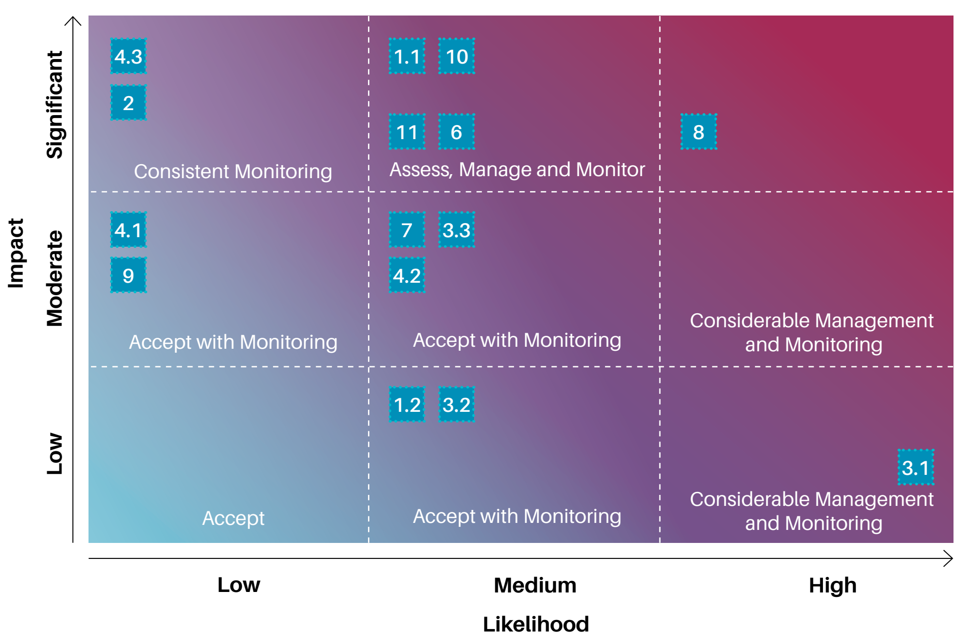
Risk Prioritisation Process

In order to manage our resources effectively while not compromising on the effectiveness of our Risk Management Framework, we prioritised the risks we have identified as material for our business. In doing this, we carried out risk assessments covering a broad range of financial and operational risks that helped us better evaluate the likelihood and potential impacts of those risks. Risk treatment actions were also prioritised accordingly, allocating more resources to business segments towards managing high risk areas. (Refer to 'Resource Allocation' pages 44 to 45)

Business Segment Assessed	Key Risk Areas	Resource Allocation
Lending	Credit risk Interest rate risk Operational risk	More resources were allocated to tackling these risks, prioritising credit evaluation to manage credit risks.
Investments	Interest rate risk Liquidity risk Operational risk	Resource allocation in this segment revolved around investments evaluation.
Workshop	Operational risk	Greater emphasis was placed on relationship management and process enhancements.
Insurance	Operational risk	Greater emphasis was placed on relationship management and process enhancements.

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 on and on-going basis. The Risk Heat Map below reflects the results of our risk assessment process for the current year which evaluated various risks. Risks, of which 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.

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**
6. **Technology Risk**
7. **Reputational Risk**
8. **Competitor Risk**
9. **Human Resource Related Risk**
10. **Compliance Risk**
11. **Strategic Risk**

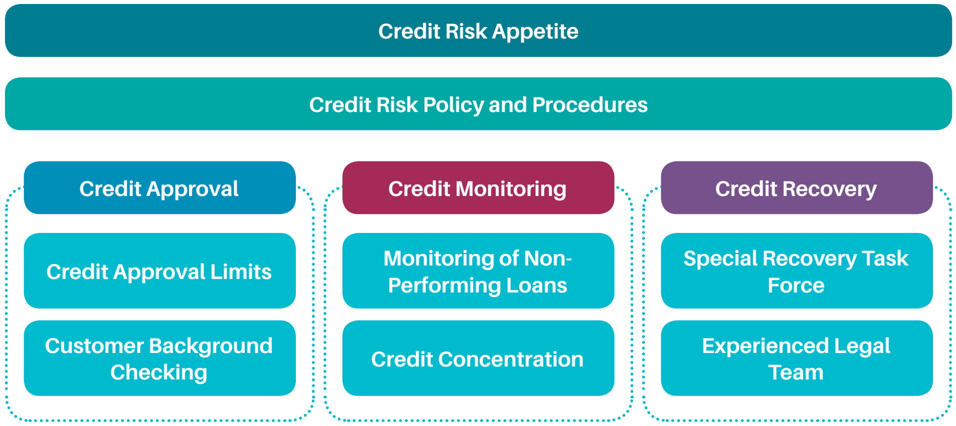
Credit Risk

The assets which are exposed to credit risk at MI are primarily related to the lending business segment lending products that include leases, hire purchases, property mortgage loans, vehicle loans and other loan receivables. Each of these asset types carry different levels of risks which were carefully analysed and treated by our dedicated risk officers. Senior Manager Credit Risks acts as the main cog in analysing high risks credit and providing his input before disbursement. In doing this a Board-approved Policy for Credit Risk Management is in place which was developed based on the Company's risk appetite which also sets the foundation for deriving key credit risk indicators. This paved the way for a stringent credit risk management process which acted as the Credit Risk Mitigation Strategy for the Company.

Credit Risk Highlights of the Year

- Recruitment and allocation of new staff to strengthen the Credit risk functions of the company
- The Credit Policy was revised during the year with improved controls for risk management.
- Introduced a new credit risk scoring model to improve the credit evaluation process.

Credit Risk Management Process



Key Credit Risk Indicators

The Credit Committee in conjunction with Director Credit (Non-Board) implements the risk appetite limits set by the Board of Directors. It is the responsibility of the Credit and Marketing Division to monitor and report risk profile changes to the Credit Committee and IRMC for their input.

Investment segment related equity risks and investments in Government security risks

Key Risk Indicators	Policy Range	Actual
Gross NPA%	Below 3.5%	9.62%
Net NPA%	Below 2%	2.99%
Provision Cover	Above 50%	60%
Credit Concentration-Sector-wise		
Agriculture	Below 6%	5%
Consumption	Below 5%	4%
Services	Below 51%	50%
Single Borrower Limit (Individual)	15% of the Capital Funds of the Company	8.60%

How We Manage Credit Risk

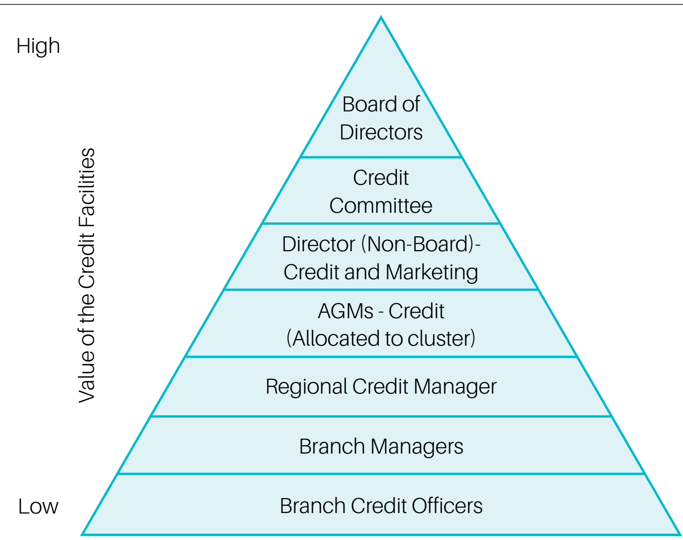
The guidance to address the risks related to the credit cycle was included in the Company's Credit Policy which acts as the governing document for credit risk management. During the year, the Internal Audit Department conducted reviews to ensure that the credit policy and procedures are kept effective and the internal controls were sufficient to face risks and comply with the industry regulations. The Director – Credit and Marketing and respective cluster AGMs – Credit took necessary actions to follow up on all significant concerns highlighted in the audit reports, under the supervision of the Audit Committee. Further, the Audit Committee and Risk Management Department appraised all material credit risk concerns and reported the findings to the Board. Credit review formed an integral review part of the Audit team's audit process as an ongoing exercise.

While the Credit Policy strives to address 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.

MI's Credit Approval Process

Our lending operations were based on an effective credit approval process and complied with the Credit Risk Manual. This comprehensive process ensured that MI has imposed adequate controls on all the stages of the credit cycle to optimise returns while addressing the associated risks. However, the methodology applied for assessing, approving and monitoring credit risk varies between customer, product types and segments as risk levels differ.

Credit Processing Stage	Actions to Manage Risks
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 and 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. ◈ Compare LTVs against limits set.
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.



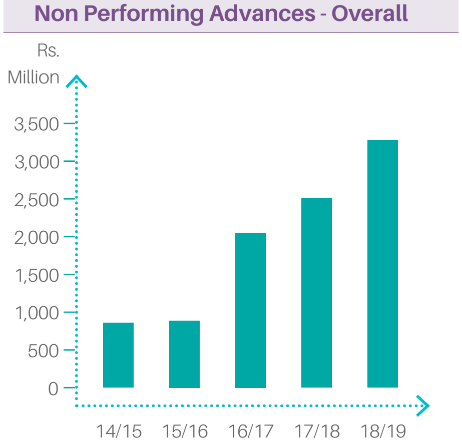
Credit Monitoring

Our experienced staff and IT systems play a key role in monitoring credit risk for more than 50,000 lending customers. The Credit Department of MI measured the risk level of credit portfolio on an ongoing basis which enabled MI to detect early warning signals and to minimise and manage possible deterioration of credit quality.

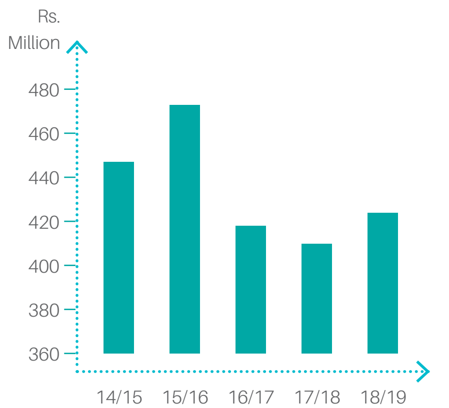
Credit quality was reviewed on a monthly basis with the involvement of Senior Management and quarterly risk reports were submitted to the Integrated Risk Management Committee (IRMC) by the Risk Department. The IRMC assesses the credit portfolio performance against risk tolerance levels to maintain the credit risk indicators within the stipulated tolerance levels.

During the year, slowdown of the national economy together with adverse movements of other macro-economic factors created a challenging environment for credit risk management, especially credit quality. As a result, non-performing advances ratio increased by approximately 2% but further assets quality determination was controlled through proactive credit and recoveries strategy. (Refer page 42). As almost 93% of all lending was secured with asset backing, management minimised its credit exposure significantly and attributed changing security values as the risks to mitigate in a volatile vehicle sales markets. The strict loan to values limits addressed this concern to a greater extent.

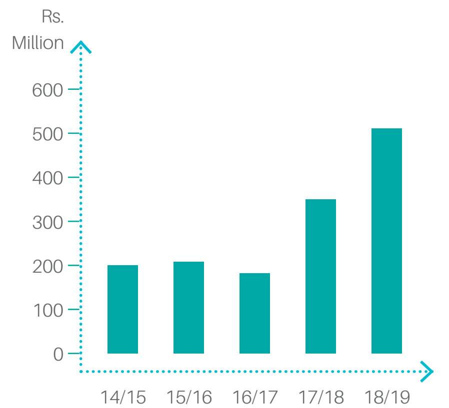
Non Performing Advances - Overall



Non Performing Advances - HP

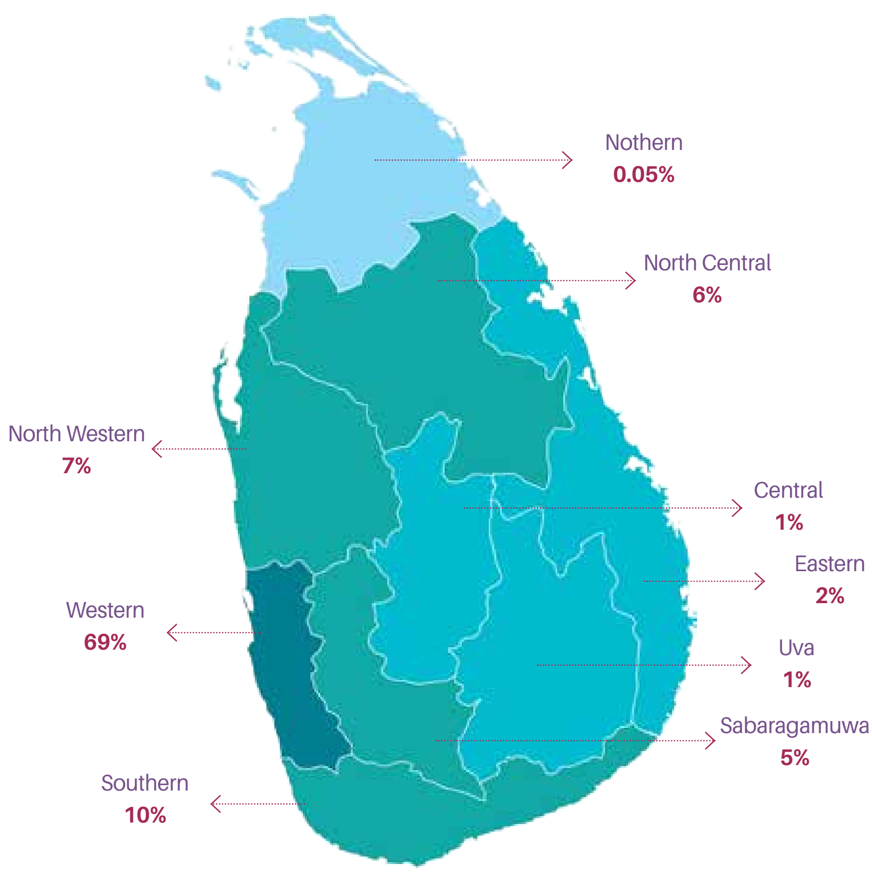


Non Performing Advances - Lease



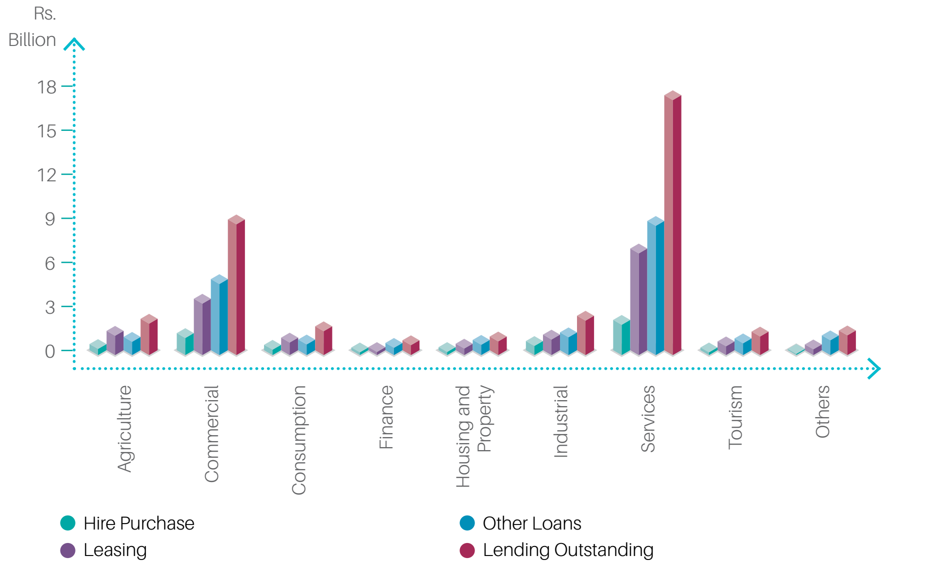
Credit concentration risk depends on the level of distribution of credit among different geographical regions and economic sectors or the distribution of credit among individuals and companies.

Geographical Concentration of Credit

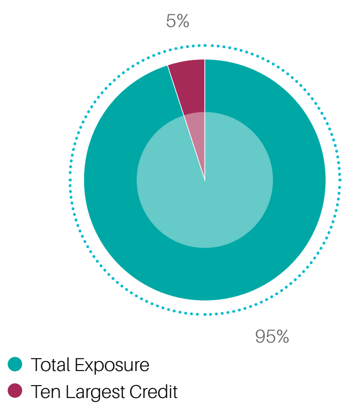


During the year, there were no significant changes in the credit concentration either region-wise or industry-wise. We also monitored the single name credit concentration and complied with the prescribed single and group borrower limits by the regulator.

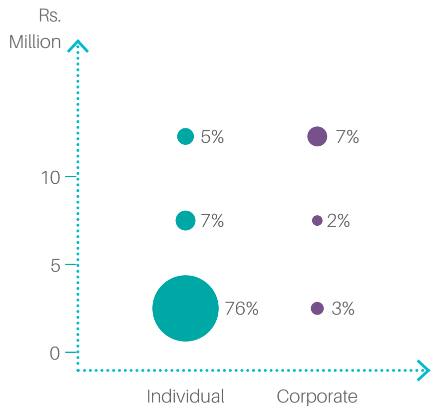
Concentration of Credit - Sector Wise



Exposure of 10 Largest Customers FY 2018/19



Credit Exposure by Counterparty 2018/19



Credit Recovery

The Company's Credit Recovery Division monitored the collection process closely and took necessary actions to ensure due arrears are covered. In doing this, credit recovery statistics were reviewed by the Credit and Recovery teams on daily, weekly and monthly basis and key points were taken up at weekly Management meetings. Borrowers with arrears were promptly informed via reminders to regularise any collection delays. A special recovery task force was in place to speed up the recovery process for overdue accounts. Further, legal actions were pursued in coordination with the Legal Department to ensure the recovery of problematic default accounts. (Refer page 66 in this regard).

Liquidity Risk

Liquidity risk could be seen as one of the most vulnerable risks for a financial institution, especially during challenging economic conditions. Therefore, during the year MI took vigilant actions to manage its liquidity position, mitigating any possibilities of liquidity defficiencies.

The level of liquidity risk faced by MI is dependent on factors such as the maturity profile of assets and liabilitiies, composition of funding sources and the size of the liquidity portfolio.

With the deposit base being the material funding source with a relatively higher percentage of deposits falling due in shorter tenors, it was necessary to manage resulting liquidity requirements with precision, managing the liquidity risks. In mitigating and managing risk within risk appetite limits, we closely monitored the less-than-one-year assets and liabilities maturity profile, deposit trends, customer behaviour and promoted managable ticket size. Though our borrowings carried a moderate degree of liquidity risk compared to customer deposits, we considered that it is equally important to ensure adequate levels of liquidity are available to meet our repayment obligations in a timely manner.

Liquidity Risk Highlights of the Year

- New funding lines were identified
- Enhancing the contingency funding arrangements using standby facilities
- Treasury function was further strengthened through improving the coordination of funding activities between the Treasury and the deposit mobilisation units to ensure the optimum liquidity management.

Liquidity Risk Indicators

Board-approved liquidity gap limits and other key risk indicators were used to benchmark our risk levels within the Company to ensure that we manage the liquidity risk within the risk appetite. By doing this, we were able to maintain adequate liquidity levels throughout the year not only to comply with Central Bank regulatory requirements but also to ensure smooth flow of funding to required areas of business.

Key Risk Indicators	Policy Range	Actual
Net Advances to Deposit	Below 140%	150%
Liquidity Gap (Cumulative);		
1-7 Days Bucket	750 Million	411 Million
1 Month Bucket	(2,500 Million)	(3,343 Million)
2-3 Month Bucket	(1,500 Million)	(4,069 Million)
4-5 Month Bucket	(3,750 Million)	(6,367 Million)
6-12 Month Bucket	(6,000 Million)	(4,560 Million)
Deposits Renewal Ratio	>75%	72.37%
Maximum Single depositor exposure	5%	3.18%

How We Managed Liquidity Risk

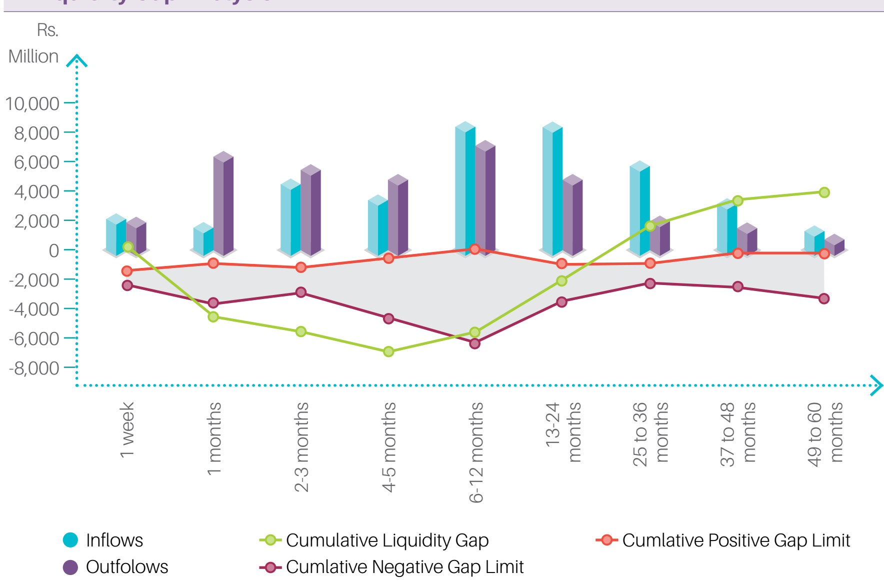
The Board-approved Liquidity Policy and Investment Policy are in place to provide the framework for managing MI's overall liquidity risk. The execution of the Liquidity Policy was carried out through different committees and functions, which included the Assets and Liability Committee (ALCO) being primarily responsible for overseeing the Company's overall liquidity position and managing within the Board-approved risk appetite.

The Liquidity Policy ensures the controls below are in place to mitigate and manage the credit risks faced by MI:

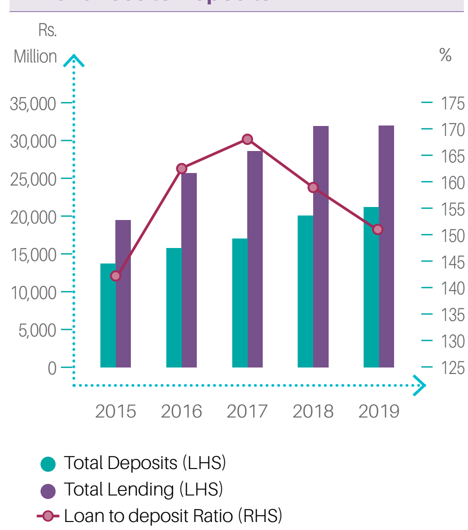
- Risk appetite limits
- Liquidity risk monitoring
- Liquidity risk reporting mechanism
- Clear duties for Treasury Division, Committees and Senior Manager
- Contingent funding lines

The impact on liquidity arising from all strategic and medium-term decisions taken by the Board and Corporate Management were evaluated by the ALCO comprising key divisional heads. The day-to-day monitoring of the liquidity position and carrying out of related funding transactions were the responsibility of the Treasury Department with the markets remaining constricted in terms of liquidity. MI's treasury was able to secure funding on an ongoing basis, while risk triggering items were escalated and managed promptly.

Liquidity Gap Analysis



Advances to Deposits



Liquidity Risk Monitoring
Liquidity position and related risks were monitored by the Treasury team on a regular basis. Different tools were used to monitor MI's maturity profile, quality of the deposit base and funding portfolio.

The Maturity Gap Analysis acted as the main tool for monitoring the liquidity risk which reflected contractual maturities of balance sheet assets and liabilities. The division, under the supervision of the CFO, monitored and took action to manage and maintain a healthy liquidity gap within the tolerance levels set by our liquidity risk appetite.

While the maturity of customer deposits is reflected at contractual maturity in the Maturity Gap Analysis depicted, MI closely observed the behavioural aspect of deposits refunds which have been used in preparing cash flow forecasts and evaluating the short-term liquidity position. In practice, having secured over 70% deposit retention levels, the behavioural maturity profile of customer deposits exhibited longer maturity than the contractual maturity.

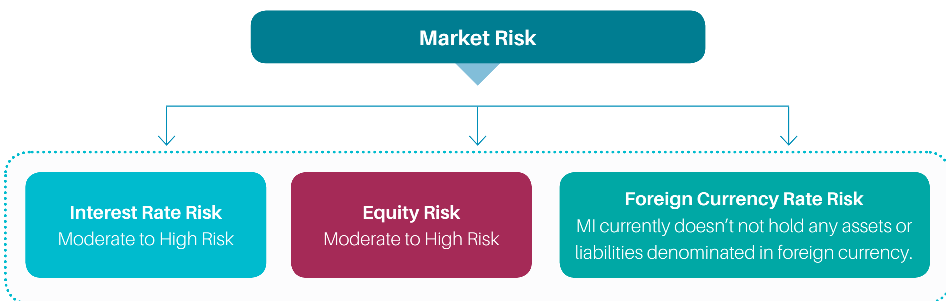
The deposit base was also analysed closely in order to minimise the liquidity risk arising from deposit concentration. Deposit promotional campaigns, social media and direct marketing strategies focused on attracting the youth and product extensions helped reduce concentration risk while allowing the deposit base to grow in a healthy manner. Moreover, our Corporate Plan up to 2022 sets the direction for innovation and technological advancements that will bring down the level of concentration on any specific customer group.

Contingent Funding Lines
Our Contingent Funding Plan primarily provided direction in managing temporary liquidity shortfall situations under Company-specific or market-specific stress scenarios. MI has been maintaining a portfolio of adequate unutilised facilities as a tool to manage any short-term liquidity deficits. As a precautionary action to face industry pressure and negative depositor sentiments that prevailed during the year, greater emphasis was placed on maintaining an adequate portfolio of unutilised borrowing facilities. This ensured the availability of liquidity to meet our obligations and also acted as a buffer to support any temporary shortfalls in liquidity.

Market Risk
Market risk is the possibility of profitability being impacted due to fluctuations in market variables. These market variables include the fluctuations in interest rates, equity prices, bond prices and foreign currency rates. The process of managing market risk forms a part of the assets and liabilities Management approach and other policies governing treasury and finance activities of the Company.

MI's market risk exposure arises through interest-bearing financial assets and liabilities, which include our lending products, deposit products, investment in Government bills and bonds and institutional borrowings. MI's equity investments portfolio is also exposed to changes in equity prices.

Market Risk Highlights of the Year
- MI obtained Rs. 1.2 Billion of fixed rate long term loans to fund matching fixed rate lending to mitigate the interest rate risk.
- Promoted shorter life cycle lending products to reduce the interest rate sensitive gap.

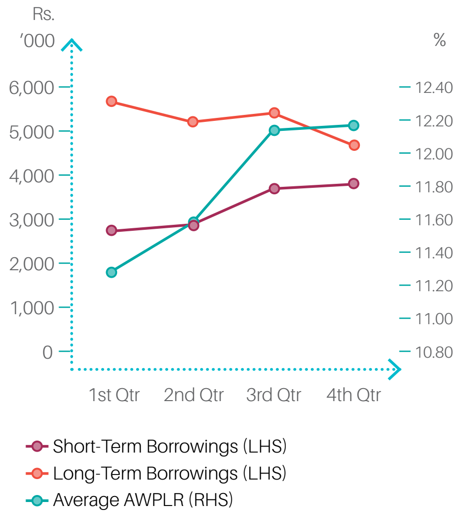


Interest Rate Risk
MI's exposure to interest rate risk arises from both the trading and non-trading portfolios, which include loans and advances. Our core business product portfolio comprises lending products with different interest rate characteristics. MI's loan portfolio primarily comprised fixed interest rate providers with varying settlement periods, but was predominantly of a longer duration compared to the deposit basis. Fixed deposits are the primary deposit product with over 99% contribution to the base, and FDs with shorter maturity periods were reprised at higher rates especially in the last quarter of FY 2018/19 with rates moving up by approximately 1.5%. Volatility of interest rates also impacts the interest yield and the fair value of MI's investment in Government bills and bonds.

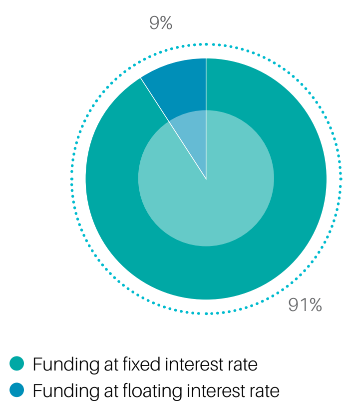
Key Risk Indicators

Key Risk Indicators	Policy Range	Actual
Interest Rate 1 %=(1%) Impact on Profitability (Rs Million)	<50	37.5
Net Interest Margin	>8%	10.04%

MI's Borrowing Cost of FY 2018/19



Floating and Fixed Interest Rates FY 2018/19



Monitoring of Interest Rate Risk

The Treasury Division reviews the interest rate risk from an operational perspective, measuring and analysing the exposures as per the risk appetite criteria set forth for treasury transactions while managing funding and optimising pricing decisions.

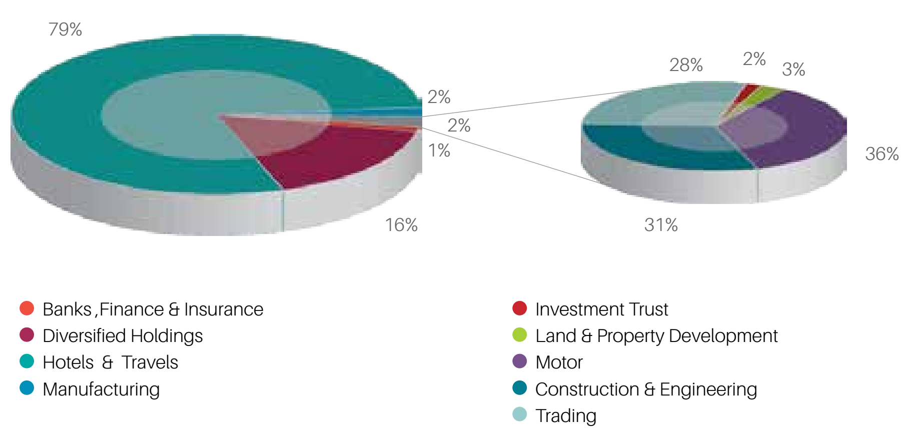
The Risk Management Unit, ALCO and IRMC are responsible for monitoring and reporting on the prevailing interest rate risks to the Board from a broader level and for initiating appropriate action plans to mitigate overall market risk exposures within the defined risk appetite.

Interest rate sensitivity was reviewed on a monthly basis and necessary actions were recommended and executed accordingly. With regard to basis risk, movements in interest rate indices such as the AWPLR are being proactively monitored and the observations used in deciding competitive lending and deposit rates.

Equity Risk

MI's investment segment transactions involve quoted equity shares investments, placed across various sectors. During the year, the Colombo Stock Exchange experienced a high degree of volatility in response to the slowdown of the Sri Lankan economy and weakened investor confidence. In order to manage our exposure towards these fluctuations in the stock market, we ensured that our equity investment portfolio was closely monitored to identify early warning signals.

MI Equity Portfolio 2018/19



Mitigation of Equity Risk

The Treasury Department is responsible for monitoring the market behaviour of equity transactions as a means of maximising returns whilst cutting down on sudden drops in share prices. Equity risk faced by MI was managed through the Company's Investment Policy which provided a comprehensive framework to manage associated risks within the risk appetite levels. Equity risk was monitored by analysing the fluctuations in the market prices, counterparty exposure and sector exposure as follows:

Operational Risk

During the year, we closely monitored our operational risk profile which includes the risks related to internal processes, people, systems and external events that may impact smooth flow of business operations. In doing this, we assessed different dimensions of operational risk such as human error, inability to deliver change, non-availability of technology services, fraud and theft, loss of customer data and natural and manmade disasters. Operational risk could also arise from a failure to adapt to changes in the regulatory environment. All four business segments are susceptible to operational risks and therefore were closely managed, with clarity on procedures and attention to detail.

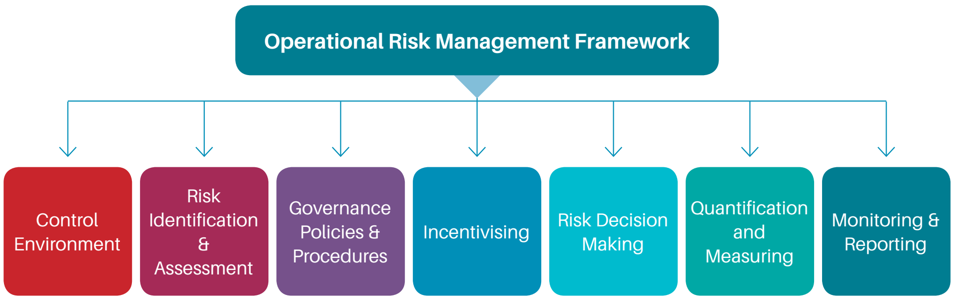
Key Operational Risk Indicators

Key Risk Indicators	Policy Range	Current Position	Actions
Internal Frauds	Below 3 incidents	02	◈ Strengthening the internal control policies and procedures ◈ Awareness programs on Whistle blowing and Fraud policy
External Frauds/ Theft	Below 2 incidents	01	◈ Installation of Security cameras ◈ Security officers at Head office and high risk branches.
Physical Assets Damages	Below 2 incidents	01	◈ Comprehensive insurance covers on Head office and branches
Business Disruptions due to System Failure	Below 2 incidents	Nil	◈ Redundant hardware and software for smooth function of the system.

Management of Operational Risk

The operational risks of our business segments that were prioritised by us during the year come under Legal and Compliance Risk, Technology Risk and Human Resources Risk boundaries. The key tools utilised to manage these operational risks included clear policy, procedures, control checks and feedback mechanisms. By following this structured approach, we were able to adopt necessary controls to manage and mitigate possible losses and business interruptions.

Operational Risk Management Framework



In executing MI's Operational Risk Management Framework, all the strategic business units and branches reported their operational risk concerns along with the status of compliance to established procedures and controls on a monthly basis. Through induction training and various other training targeted at behavioural skill development, we promoted a strong risk management culture that we believe is the most vital ingredient in managing our operational risks.

Legal and Compliance Risk

Our sound regulatory monitoring mechanism primarily functioned through both the Legal and Compliance Divisions to manage potential regulatory risks. Our corporate culture and Code of Conduct encouraged all staff at MI to understand and abide by the prevailing laws and regulations applicable to their duties. Moreover, our staff were regularly trained to gather knowledge about changes in statutes, regulations and also on changes in interpretation of statutes and regulations.

MI maintains zero tolerance when managing compliance risk. Through periodical reviews, MI assessed the Company's progression in eliminating or mitigating compliance risk. Moreover, the Compliance Division monitored the timely submission of reports to the Central Bank of Sri Lanka and other regulatory bodies, while auditors independently provided feedback on MI's regulatory compliance status to the Audit Committee and the Board.

Technology Risk

Our dedicated in-house IT Department is responsible for the implementation of the ICT Risk Management Framework. A comprehensive Disaster Recovery Plan is in place in preparation of any contingent risk incidents. As a result of our continuous efforts in managing ICT risk, we were able to ensure minimal system disruptions, with no significant impact on our operations. We were also cautious about managing the risk of fraud through system manipulation, cyber-attacks, and loss of data, data protection issues and use of obsolete system causing inefficiencies.

Main Components of MI's ICT Risk Management Framework

ICT 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: Optimised 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 in line with regulatory requirements
- IT procedures were strengthened and approved by the Board in December 2018

Human Resources Risk

With over 1,000 staff working at 40 locations, human resource risk is one of the key operational risks faced by MI as any delays in meeting talent requirements may disrupt the operations of our four business segments and related customer service and also restricts overall growth of the Company. In mitigating the human resources risk, we emphasised on three main areas that are fundamental to attracting and retaining the right pool of talent; managing recruitment, employee retention and succession planning.

MI's HR Process Proactively Reducing Human Resources Risk

HR Risk Management

Employee Retention
- Training opportunities
- Fair performance evaluation and performance-linked incentives
- Promoting work-life balance

Succession Planning
- Board approved succession plan for Key Management personell
- Back up created for all key elements of business processes

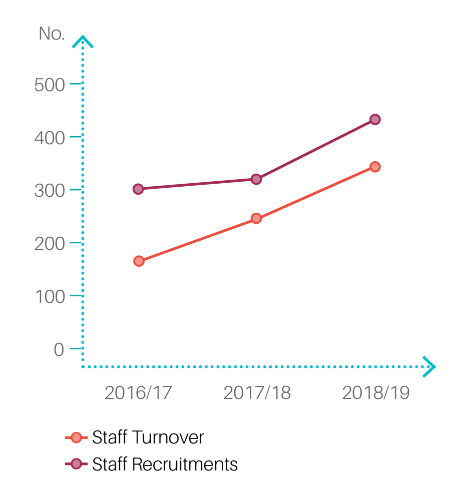
Hiring & Selection
- Specifically-designed interviews testing different technical and soft skills
- Employee background checks

Exit Management
- Information gathered at employee resignation used for continuous improvement of the HR risk management process

Our recruitment process not only considers the candidate's academic and professional background, but also the behavioural aspects such as cultural fit and connectivity. In order to ensure that we retain the right talent, the approach followed by our Human Resource Department improved employee motivation through a fair and transparent performance management system, recognising employee efforts with competitive remuneration packages, performance-linked pay and bonuses. Further, ample learning opportunities and a favourable work culture acted as key contributors in retaining our staff.

This year too, MI's Management continued to identify 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 was also analysed, where reasons for attrition were considered as input for further improving the effectiveness of the HR management process. A key highlight was the enhancement of the performance management system through an external consultant firm, to align corporate objectives with employee performance and rewarding.

Staff Turnover Vs Staff Recruitments



Managing Operational Risks: Business Continuity Planning (BCP)

In order to ensure MI's business contingency readiness, the Company has laid out a comprehensive plan to be followed in an event of a facilities disruption or disaster. In doing this, possible contingent events and related threats were identified and a plan was prepared prioritising critical functions of the Company's operations and listing actions to be taken with a defined committee to oversee emergency situations. The effectiveness of MI's ICT Contingency Plan is reviewed periodically and enhanced in line with evolving conditions.

Human Resource Risk Highlights of the Year

- Introduced well documented Job Descriptions with well-demarcated responsibilities with dual controls.
- Developed a comprehensive succession plan for Key Management Personnels of the organisation.

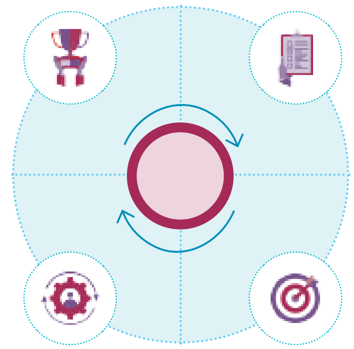
Lifecycle of Business Continuity Plan at MI

Testing & Exercise

- Develop testing exercises
- Conduct BCP tests and documentation of the results.
- Conduct training.

Business Impact Analysis

- Critical functions and the impacts are identified by gathering data from different departments and branches.
- Relevant data are gathered through questionnaires, and meetings.



Plan Development

- Comprehensive recovery plan
- Responsibilities for recovery teams are allocated.
- The plan is documented and reviewed periodically.

Recovery Strategies

- 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.

Reputational Risk

For more than five decades, we have sustained a strong brand and an unblemished track record that has created truly impressive reputational value in the industry and among the public. This is backed up by our effective management of risks coupled with our Communication Policy. We have formal communication channels in place to receive customer feedback and grievances and resolve them in a timely manner. MI's Whistle-Blowing Policy also encourages employees to report any malpractices which take advantage of loopholes, leading to reputational risks. The Company vigilantly monitors all the factors that may cause reputational risk as reputational risk is deemed highly dynamic due to constantly-changing stakeholder expectations.

Reputational Risk Management Framework

Elements of Reputational Risk	Reputational Expectations Vs. Reality Gap	Stakeholder Beliefs and Changing Expectations	Internal Coordination Weaknesses
Reputation Risk Management Mechanisms	Objective assessment of reputation vs. reality by identifying Company's reputation and actual performance. Restructuring processes to reduce the gap	Identification and assessing of changing stakeholder expectations	Explicit focus on reputational risk and brand management in a proactive and coordinated manner, by assigning a senior manager to manage associate matters

Strong and Sustainable Reputation

- Sustainability Governance Committee Initiatives
- Customer Relationship Building
- Brand Management
- Corporate Clientele Management
- Financial Institutions Associations
- Environment Management
- Compliance Culture
- Human Resource Management
- Branch Network Coordination

Strategic Risk

Our strategic planning process (Refer page 34) enabled us to assess the expectations of our stakeholders which were considered as the key ingredient for our strategic decisions. By doing this, we were able to identify the changes in the regulatory and macroeconomic environment such as new regulations, competitor actions, changing customer preferences, product obsolescence and technology developments. Accordingly the Strategic Plan until 2022 was developed in consultation with the heads of each department, who provided stakeholder insights relevant to their respective areas, providing the direction for the Company. The Board-approved Strategic Plan commencing FY 2019/20 will be executed through the Corporate Management team and divisional heads who will also inform the Board of the achievement status of strategic milestones and related risk concerns.

MI also 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 Executive Directors/Director (Non-Board) with due feedback to the Board.

Risk Measurement through Stress Testing

Stress testing provides an understanding of the potential impacts of 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 2018/2019, MI analysed the possible impact of credit, interest rates, liquidity and equity risk factors on the capital, earnings and liquidity position.

Base Data (All figures are in Rs. '000 and as 31st March 2019)	
Capital Adequacy Ratio (CAR)	16.69%
Capital Base	7,203,938
Risk Weighted Assets	43,172,781
Total gross NPA	3,290,483
Equity Market Value	999,087
Deposit Liability	21,176,433
Liquid Assets	3,129,049
Liquid Assets Ratio	14.77%
Gross Loans	34,204,719
NPL Ratio	9.62%

Stress Tests	Original Position 31st March 2019	Magnitude of shock		
		5%	10%	15%
	CAR %	Revised CAR %		
A. Credit Risk				
Negative shift in Non Performing Advances	17.36%	16.32%	15.96%	15.60%
B. Equity Price Risk				
Fall in stock market prices	16.69%	16.62%	16.55%	16.48%

Conclusion: No significant impact to capital adequacy due to shocks from credit risk or equity risk.

Stress Tests	Original Position 31st March 2019	Magnitude of shock		
		5%	10%	15%
	Statutory Liquid assets ratio %	Revised Statutory Liquid assets ratio %		
Liquidity Risk				
A. Fall in statutory liquid Assets	14.77%	14.04%	13.30%	12.56%

Conclusion : Even after worse case scenario the liquid asset ratio would remain above regulatory requirements.

Stress Test	Original Position 31st March 2019	Magnitude of shock		
		5%	10%	15%
	NPL %	Revised NPL %		
A. Credit Risk				
Negative shift in Non Performing Loans	9.62%	10.10%	10.58%	11.06%

Conclusion : Eventhough the Non-performing Loans ratio (NPL) will move up by approximately 1.44%, but the exposure will be significantly collateral backed.

Board Integrated Risk Management Committee Report

The Composition of the Integrated Risk Management Committee

The Committee consists of the following members:

Name	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 Risk Management & Compliance

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 Business Act No. 42 of 2011.

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 176.

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 and Reference' and 'Risk Policy' of the Company, following are the key responsibilities of the Integrated Risk Management Committee.

a. Set a comprehensive risk management framework and appropriate compliance policies and systems to create a strong risk-conscious culture, through
   - 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, market, liquidity, operational, information and strategic risks, including business continuity plan of the company 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 2018/19

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.
- Advised the IT Steering Committee on the implementation of system security features to reduce the risk of cyber threats and to improve system capability.

During FY 2018/19, the Committee continued to utilise 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 and liquidity management 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.
◈ **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.
◈ **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.
◈ **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

19th June 2019

Board Remuneration Committee Report

Committee Composition

The Committee comprises 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 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 govern the Committee on;

- Considering and recommending to the Board the broad policy for the remuneration and incentivisation package.
- Determining the policy for the terms of employment of the Executive Directors.
- Ensuring that the remuneration structures are equitable and aligned with the performance of the Company.
- Recommending and approving total remuneration package and short-term and long-term incentivisation packages of the Executive Directors.
- Ensuring the creation of sustainable performance and shareholder returns.
- Reviewing the Company's remuneration practices and policies to ensure fairness in Directors' remuneration.
- 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 advise the Committee.

Committee's Role

The Committee as part of its responsibilities reviewed the established Corporate Remuneration Policy and made 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.
- Implemented a competitive and fair remuneration package payable to the Executive Directors including the Managing Director of the Company, which is satisfactory to both the interests of the shareholders and the member in concern.
- Evaluated prevailing market remuneration levels when making Remuneration Policy amendments.

Guiding remuneration principles followed

In order to remunerate individuals in an effective manner, the MI Board set forth guiding principles which encompass alignment of policy to the following broader corporate objectives;

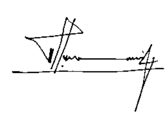
- Deciding on standard pay that will enable the Company to attract and retain high calibre personalities, necessary to achieve the objectives of the Company in a competitive environment.
- Remuneration was aligned in a way that it satisfies both shareholder and member interest.
- Periodic committee meetings to identify performance and recommend suitable remuneration changes.
- Evaluated the prevailing remuneration levels in the market in general when deciding on salary revisions.

Key Activities during FY 2018/19

- Based on the Board-approved Terms of Reference, the Remuneration Committee made revisions to remuneration levels of Executive Directors.
- Human Resource Remuneration Policies were revisited and the required changes were carried out to be implemented from the next financial year.
- Under the leadership of the Committee Deputy General Manager – HR and external consultants Hummingbird International, an organisation-wide 'Performance Management System' was implemented that aligns corporate goals, individual goals and rewards.

Meeting information

The number of committee meetings held during 2018/19 with attendance status of members is given on page 176 of the Annual Report.



Saro Weerasuriya
Chairman
Remuneration Committee

19th June 2019

Board Nomination Committee Report

Composition of the Nomination Committee

The Nomination Committee comprised the following Board Directors and a Committee Secretary, with no change observed in its composition this year.

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 Company's 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.

The Committee Duties, Responsibilities and Process

- To conduct continuing study of the size, structure and composition of the Board and make new due Directorship appointments or re-elect current Directors to the Board.
- Seek out possible candidates to fill Board positions and 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 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 2018/19

- The Committee revised the succession plan of the Key Management Personnel of the Company and obtained the Board's approval considering the requirement to maintain additional expertise on the Board and the succession arrangements.
- The Committee reviewed and obtained Board approval for the Terms of Reference of the Nomination Committee drawing due reference to the 'Code of Best Practices 2017 on Terms of Reference for Nomination Committees (Schedule A)' issued by CA Sri Lanka.
- During the year, the 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

The number of committee meetings held during financial year 2018/19 with attendance status of members is given on page 176 of the Annual Report.

Saro Weerasuriya
Chairman
Nomination Committee

19th June 2019

Board Audit Committee Report

The Board of Directors has established the Audit Committee in line with the Central Bank Direction No. 03 of 2008, complying with requirements for an audit committee. The Audit Committee comprises two independent Non-Executive Directors, a Non-Executive Director and a Secretary. 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 which stems from the scope of the Board Audit Committee have been 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 and External Auditors were present at meetings by invitation.

The Board of Directors has 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 effective risk management processes 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 ensures that whistle-blowing policies are in place to address issues relating to breach of ethics.

The Committee held 07 meetings during the financial year 2018/19 and performed the undermentioned tasks:

1. Reviewed Internal Audit reports on Head Office and branch activities and discussed measures to be taken on deficiencies and shortcomings 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 Ernst & Young, the External Auditors, at the conclusion of the annual audit and reviewed the Auditors' Management Letter together with the Management's response thereto.

4. Reviewed appropriateness of accounting policies and ensured adherence of statutory and regulatory compliance requirements and applicable accounting policies. Guidance was given during the SLFRS 09 implementation process done during this year.

5. Ensured the integrity of financial reporting and compliance with financial reporting requirements and other related regulations.

6. 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.

7. Ensured that sound corporate governance practices exist within the Company

The Audit Committee submitted 08 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 Division 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 followed-up with Management on material audit observation with recommendations.

The Internal Audit Department's resource requirements were assessed and performance appraisal of the Head Internal Auditor and other senior staff members of the Internal Audit team were reviewed.

Independence of External Auditors

The Audit Committee reviewed both audit and non-audit functions of the External Auditors which are segregated as those require independent view. Messrs. Ernst and Young, Chartered Accountant, External Auditors, does not handle a substantial volume of non-audit services of the Company, in keeping with 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 did not impair the independence and objectivity of External Auditors and that work was 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.

The 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 2020, 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. The Audit Committee's selection and review of the 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 the 2018/19 financial year and approved by the Board.

Activities during FY 2018/19

- The Committee revised and obtained Board approval for the Terms of Reference of the 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.
- Reappointed Messrs. Ernst and Young, Chartered Accountants as the External Auditor of the Company.
- Reappointed Messrs. PricewaterhouseCoopers (Private) Ltd. as the outsourced 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 a risk-based audit approach and internal controls of the Company.
- Committee revised the 'Whistle Blowing Policy' during the financial year and continuously emphasised on upholding ethical values of employees, drawing attention to the Code of Conduct of staff.
- Committee also reviewed the revised policy decisions relating to the adoption of new/revised accounting standards applicable to the Company, and made recommendations to the Board.
- The Committee also scrutinised best practices adopted by the industry and regulatory requirements and system in place to adhere to same.
- Assessed the Company's current and future ability to comply with new Basel II capital adequacy ratio recognition.

S. Bandara

S.M.S.S. Bandara
Chairman
Audit Committee

19th June 2019

Board Related Party Transactions Review Committee Report

Composition of the Committee

The Board-Related Party Transactions 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 Transaction issued by the Securities and Exchange Commission of Sri Lanka (SEC) in December 2013. BRPTRC comprises of the following;

Name of Director	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. 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 investors as a whole, through introduction of a formal mechanism to identify and report related party transactions and comply with requirements of the Code of Best Practice on Related Party issued by the Securities and Exchange Commission of Sri Lanka.

Scope of the Committee

Identify all related parties of the Company and review their transactions with the company to ensure that they are carried out on an arm's length basis. The committee aims to provide independent review, approval and oversight of Related Party Transactions of the company. 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.
- Adopting Related Party Transaction policies to uphold good governance for the best interest of the company and its stakeholders.
- Establishing guidelines to be followed by the Board and Senior Management in respect of ongoing related party transactions.
- Review proposed Related Party Transactions of the Company except those explicitly exempted by the Committee policies.
- 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.
- Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board or Shareholders of the Company.
- Draw the attention of the Board on concerning transactions, if any.

Committee Meetings and duties during 2018/19

The Committee revised and obtained the Board approval for the Terms of Reference of Related Party Transactions Review Committee drawing due reference to industry best practices during the financial year.

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 176. 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 finance department. Formulated the revised and approved policies on related party transactions.

S. Bandara

S. M. S. S. Bandara
Chairman
Related Party Transactions Review Committee

19th June 2019

Financial Reports

A journey in Creating Wealth

The financial reporting section provides readers with an in-depth view about MI's financial results for the period under review together with the independent audit report. The profitability and the accumulated wealth over the fifty plus years of successful business journey is displayed from the strong balance sheet capital position and supportive numbers and graphs.

Main Section Index

Financial Calendar

	2018/19	2019/20 (Proposed)
First interim dividend	-	September 2019
Second interim dividend	-	January 2020
Annual Report and Accounts for the year signed/to be signed	19th June 2019	16th May 2020
Annual General Meeting to be held	31st July 2019	28th June 2020

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	2018/19 Submitted on	2019/20 to be submitted on or before
For the 3 months ended 30th June – (unaudited)	26th July 2018	15th August 2019
For the 3 and 6 months ended 30th September – (unaudited)	26th October 2018	15th November 2019
For the 3 and 9 months ended 31st December – (unaudited)	31st January 2019	15th February 2020
For the 3 months and year ended 31st March – (unaudited)	31st May 2019	31st May 2020

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, 2019 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 Dirisavi board of the Colombo Stock Exchange since June 2011. 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 19 June, 2019.

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, 2019).

	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 284
II)	Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 (1) (b)	Refer pages 279 to 280
III)	Auditor's Report on Financial Statements of the Company and the Group.	Section 168 (1) (c)	Refer page 275 to 277
IV)	Any changes made to the Accounting policies during the year under review.	Section 168 (1) (d)	Refer page 284 to 295
V)	Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 (1) (e)	Refer page 264
VI)	Remuneration and other benefits paid to Directors of the Company during the period.	Section 168 (1) (f)	Refer page 302
VII)	Total amount of donations made by the Company during the period.	Section 168 (1) (g)	Refer page 302
VIII)	Information on Directorate of the Company during and at the end of the accounting period.	Section 168 (1) (h)	Refer pages 263 to 264
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 302
X)	Auditors' relationship or any interest with the Company.	Section 168 (1) (j)	Refer page 265
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 266

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

The company's Vision and Mission are given on page 10 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 03 new delivery points added (Nil in 2018), the total number of delivery points in country was 39 at the end of 2019 (36 at the end of 2018).

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 20 to 23 and Management Discussion & Analysis on pages 24 to 28 of this Annual Report.

Segment wise contribution to revenue, results, assets and liabilities is disclosed in Note 52 to the Financial Statements on page 349 to 351.

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% (2018 – 26.12%) holding in The Nuwara Eliya Hotels Company PLC which is a quoted public company and involving in the business of hotelliering. Details of the investments in associate is given in Note 29 to Financial Statements on page 320 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 280 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 279 to 372 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 270 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 260 to 266.

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 274.

2.6 Auditors' Report

Company's Auditors, Messrs Ernst & Young Partners performed the audit on the Financial Statements for the year ended March 31, 2019 and the Auditor's Report on the Financial Statements is given on pages 275 to 277 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, 2019, 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 284 to 295 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 Interests Register

The Interests Register is maintained by the Company, as per the Section 168(1) (e) of the Companies Act No 07 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 264 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. 0.523 Million (2018-Rs. 0.923 Million).The donations made to the Government approved charities from the above amounted is Rs. Nil (2018 –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 20 to 23 of this Annual Report.

3. Gross Income

The income of the company for the year ended 31 March, 2019 was Rs. 7,638 million (year ended March 31, 2018- Rs. 6,984 million). An analysis of income is given in Notes 6 & 7 to the Financial Statements on page 296 of this Annual Report.

4. Dividend and Reserves

4.1 Profit and Appropriations

The profit before income tax of the company for the year ended 2019 was Rs. 786 million (Rs. 858 million in 2018) and the profit after tax for the year ended 2019 was Rs. 458 million (Rs. 514 million in 2018)

The details of profit relating to the company are tabled below.

As at March 31	2019	2018
Profit before Tax	786,653	858,771
Taxation	328,580	344,706
Profit after Tax	458,073	514,065
Other Comprehensive Income	(13,552)	9,817
Balance brought forward	1,720,522	1,291,730
Available for Appropriation	2,165,043	1,815,612
Transfer to Statutory Reserve	(25,000)	(50,000)
Transfer to General Reserve	-	-
Impact of Adoption of SLFRS 9	(375,015)	-
Interim Dividend Paid	-	(45,090)
Balance carried forward	1,765,028	1,720,522

4.2 Dividend on Ordinary Shares

Details of information on dividends are given in Note 17 to the Financial Statements on page 306.

4.3 Provision for Taxation

Income tax for 2019 has been provided at 28% (2018 - 28%) 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% (2018 -15%), Crop Insurance Levy of 1% and Debt Repayment Levy 7% which was introduced from October 2018.

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 303 & 334 respectively, of this Annual Report.

4.4 Reserves

A summary of reserves of the company as at year ended 31 March, 2019 is as follows.

	2019	2018
Statutory Reserve Fund	736,400	711,400
Revaluation Reserve	1,527,486	1,527,486
Associate Company - reserve	597,049	400,764
General Reserve	4,086,430	4,086,430
Fair Value Through OCI Reserve/AFS Reserve	(75,529)	200,486
Retained Earnings	1,765,025	1,720,521

The company's total Reserves as at March 31, 2019 amounted to Rs. 8,672 million (2018 – Rs. 8,683 million). The movement of the reserves are given on page 281 under Statement of Changes in Equity & Note 39 to 44 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	2019	2018
Property, Plant & Equipment	257 million	88 million
Leasehold Property	Nill	Nil
Intangible Assets	31 million	52 million

Details of which are given in Note 31 to 33 on page 324 to 331 in the Financial Statements. Capital expenditure approved and contracted for is given in Note 45 to the Financial Statements on page 339 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 31 March, 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 326.

7. Stated Capital and Debentures

The stated capital of the company as at 31 March, 2019 was Rs. 36 million comprising 3,006,000 ordinary shares.(2018- Rs. 36 million).The details of the stated capital are given in Note 39 to the Financial Statements on page 337 of this Annual Report.

The company had settled 2,000,000 unsecured,subordinated ,redeemable debentures of Rs.100/- each to the value of Rs. 200 million on 30 November, 2018.

The Company did not issue any debenture during the financial year ended March 31, 2019.

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 14 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 374 to 377.

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 375.

8.3 Issue of shares

The company did not make any share issues during the year under review.

	Voting Ordinary shares	
Class of Shares	2019	2018
Number of share issued	Nil	Nil

9. Substantial Shareholdings

The list of 20 Largest Shareholders as at 31 March, 2019 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 capitalisation Rs. 817,522,641/-.

Compliant with the 10% minimum public holding percentage for "Dirisavi" Board and not compliant with the requirement of minimum number of public shareholders of 200.

MI is in the watch list of Colombo Stock Exchange (CSE) due to, deviation with CSE rule 7.13.1 since 8 August, 2018.

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 375.

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 31 March, 2019 comprised of Ten Directors (Ten Directors as at 31 March, 2018) with extensive financial & commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors – Profile' on pages 156 to 161 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 2019,as required by section 168(1) (h) of the Companies Act No 07 of 2007 are given below.

Name of the Director	Executive/Non Executive	Independence/Non Independency
Mr. S.H.J. Weerasuriya	Non Executive	Independent
Mr. G.G. Ondaatjie	Executive	Non Independent
Mr. P.M. Amarasekera	Executive	Non Independent
Ms. A.M. Ondaatjie	Executive	Non Independent
Mr. T.J. Ondaatjie	Executive	Non Independent
Mr. S.H. Jayasuriya	Executive	Non Independent
Ms. P.T.K. Navaratne	Non Executive	Independent
Mr. N.H.V. Perera	Non Executive	Non Independent
Mr. S.M.S.S. Bandara	Non Executive	Independent
Mr. P.C. Guhashanka	Non Executive	Independent

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 H J Weerasuriya, Mr. S H Jayasuriya and Mr. P C Guhashanka 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 182.

10.1.5 Board Sub-Committees

Information with regard to Board subcommittees is given under Corporate Governance on pages 251 to 257 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 255 to 256 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 pages 251 to 252 of this Annual Report.

Remuneration & Nomination Committee

The Report of the Remuneration & Nomination Committee is given on pages 253 of this Annual Report.

Related Party Transaction Review Committee

The report of the Related Party Transaction Review Committee is given on pages 257 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 31 March, 2019 is given in Note 13.1 to the Financial Statements on page 302 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

	2019	%	2018	%
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	

11.1.1 Mr. G.G. Ondaatjie serves as the Managing Director as well as Chief Executive Officer of the Company.

11.1.2 The number of ordinary shares held by the public as at 31 March, 2019 was 316,792 shares (2018- 316,792) which amounted to 10.54% (2018- 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 31 March, 2019. Further information is given on page 267 to 269 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 49 to the Financial Statements on pages 342 to 347 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 exceeded 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 51 to the Financial Statements on page 349 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 services.

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. 1,713,796/- is payable by the company to the Auditors for the year under review comprising Rs. 1,400,000/- as Audit fees, and expenses Rs. 313,796/- 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 353 to 372 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 255 to 256 of this Annual Report.

20.3 Appraisal of Board Performance

A Scheme of 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 collated by the Company Secretary, Which are submitted to the Board and discussed at the Board Meeting.

The Board also carried out 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 Best Practices on Corporate Governance.

Board evaluation for the year under review were discussed at the Board Meeting held in the month of March 2019.

20.4 Audit Committee

The composition of the Audit Committee and their report is given on page 255 to 256 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 167 to 233 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 167 to 233.

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 80 to 90 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 their knowledge the Board assures 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 1 April,2018.

The Directors evaluated the implications on adoption of the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" effective from 1 January, 2018 and developed the required financial models to assess the impairment on financial assets under the new framework.

25. 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.

26. Contingent Liabilities

Except as disclosed in Note 46 to the Financial Statements, there were no material contingent liabilities as at the reporting date.

27. Notice of Meeting

The details of the Annual General Meeting are given in the notice of meeting on page 394 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.

Gerard Ondaatjie
Managing Director

Angeline M. Ondaatjie
Director

Sonali Pethiyagoda
Company Secretary

Colombo
19th June 2019

Directors' Interests in Contracts with the Company

	Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2019 Rs. '000	As at 31.03.2018 Rs. '000
(a)	**Mr. G. G. Ondaatjie**				
	Mercantile Fortunes (Pvt) Limited	Deputy Chairman	Motor vehicle hire, repairs and others	1,934	2,956
	Tangerine Beach Hotels PLC	Director	Deposits	336,555	341,690
			Loan	-	1,075
			Motor vehicle hire, repairs and others	260	28
	Royal Palms Beach Hotels PLC	Director	Deposits	240,101	187,467
			Loan	-	466
			Motor vehicle hire, repairs and others	322	222
	The Nuwara Eliya Hotels Company PLC	Deputy Chairman	Deposits	673,963	674,339
			Motor vehicle hire, repairs and others	535	252
	Tangerine Tours (Pvt) Limited	Director	Deposits	103,198	152,718
			Motor vehicle hire, repairs and others	820	574
	Nilaveli Beach Hotels (Pvt) Limited	Deputy Chairman	Deposits	151,611	143,402
			Motor vehicle hire, repairs and others	(6)	3
	Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
			Motor vehicle hire, repairs and others	45	81
			Security expenses	2,824	2,498
	Mercantile Orient (Pvt) Limited	Deputy Chairman	Deposits	5,913	5,421
	Global Films Limited	Director	Deposits	1,431	1,348
	Fair View Hotel (Pvt) Limited	Chairman	Deposits	98,389	80,330
	Mercantile Fortunes Insurance brokers (Pvt) Limited	Chairman	Deposits	106	-
			Insurance commission receivable	55,279	-
			Insurance premium palable	172,993	-
			Motor vehicle hire, repairs and others	1,219	-
(b)	**Ms. A.M. Ondaatjie**				
	Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	1,934	2,956
	Tangerine Beach Hotels PLC	Managing Director	Deposits	336,555	341,690
			Loan	-	1,075
			Motor vehicle hire, repairs and others	260	28
	Royal Palms Beach Hotels PLC	Managing Director	Deposits	240,101	187,467
			Loan	-	466
			Motor vehicle hire, repairs and others	322	222

	Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2019 Rs. '000	As at 31.03.2018 Rs. '000
	The Nuwara Eliya Hotels Company PLC	Director	Deposits	673,963	674,339
			Motor vehicle hire, repairs and others	535	252
	Tangerine Tours (Pvt) Limited	Managing Director	Deposits	103,198	152,718
			Motor vehicle hire, repairs and others	820	574
	Nilaveli Beach Hotels (Pvt) Limited	Director	Deposits	151,611	143,402
			Motor vehicle hire, repairs and others	-	3
	Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
			Motor vehicle hire, repairs and others	45	81
			Security expenses	-	2,498
	Mercantile Orient (Pvt) Limited	Director	Deposits	5,913	5,421
	Global Films Limited	Director	Deposits	1,431	1,348
	Fair View Hotel (Pvt) Limited	Director	Deposits	98,389	80,330
(c)	**Mr. T.J. Ondaatjie**				
	Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	1,934	2,956
	Tangerine Beach Hotels PLC	Director	Deposits	336,555	341,690
			Loan	-	1,075
			Motor vehicle hire, repairs and others	260	28
	Royal Palms Beach Hotels PLC	Director	Deposits	240,101	187,467
			Loan	-	466
			Motor vehicle hire, repairs and others	322	222
	The Nuwara Eliya Hotels Company PLC	Director	Deposits	673,963	674,339
			Motor vehicle hire, repairs and others	535	252
	Tangerine Tours (Pvt) Limited	Director	Deposits	103,198	152,718
			Motor vehicle hire, repairs and others	820	574
	Nilaveli Beach Hotels (Pvt) Limited	Managing Director	Deposits	151,611	143,402
			Motor vehicle hire, repairs and others	(6)	3
	Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
			Motor vehicle hire, repairs and others	45	81
			Security expenses	2,824	2,498
	Mercantile Orient (Pvt) Limited	Director	Deposits	5,913	5,421
	Global Films Limited	Director	Deposits	1,431	1,348
	Fair View Hotel (Pvt) Limited	Director	Deposits	98,389	80,330

Company		Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2019 Rs. '000	As at 31.03.2018 Rs. '000
(d)	**Mr. S.H. Jayasuriya**				
	Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	1,934	2,956
	Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
			Motor vehicle hire, repairs and others	45	81
			Security expenses	2,824	2,498
	Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	106	-
			Insurance commission receivable	55,279	-
			Insurance premium palable	172,993	-
			Motor vehicle hire, repairs and others	1,219	-
(e)	**Mr. P.M. Amarasekara**				
	Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
			Motor vehicle hire, repairs and others	45	81
			Security expenses	2,824	2,498
	Fair View Hotel (Pvt) Limited	Director	Deposits	98,389	80,330
	Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	106	-
			Insurance commission receivable	55,279	-
			Insurance premium palable	172,993	-
			Motor vehicle hire, repairs and others	1,219	-
(f)	**Mr. N.H.V. Perera**				
	Tangerine Beach Hotels PLC	Director	Deposits	336,555	341,690
			Loan	-	1,075
			Motor vehicle hire, repairs and others	260	28
	Royal Palms Beach Hotels PLC	Director	Deposits	240,101	187,467
			Loan	-	466
			Motor vehicle hire, repairs and others	322	222

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 prepares 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 pages 255 and 256 of this Annual Report. The Financial Statements consisting of the Statement of Financial Position as at 31st March 2019 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 and 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 pages 279 to 283, they have adopted appropriate accounting policies and standards on a consistent basis and supported by reasonable and prudent judgments and estimates, so that the form and substance of transactions are appropriately reflected.

The Directors ensured 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 assets, preventing and detecting fraud and errors, and ensuring accuracy and completeness of the accounting records and timely preparation of reliable financial information during the financial year under review which is mainly executed through the Audit Committee. The Management assists the Board in the implementation of the Board's policies and procedures pertaining to internal control over financial reporting. Furthermore, the Directors instituted a comprehensive and effective risk management mechanism to identify, record, appraise and manage the potential and material risks faced by the Company, which was mainly executed through Integrated Risk Management Committee (IRMC Report given on pages 251 and 252).

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 the specified period of time required by Rule No. 7.5 (a) & (b) of Listing Rules (The Colombo Stock Exchange). 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 CA Sri Lanka, the Board of Directors is 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 275 and 276 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
Sonali Pethiyagoda
Company Secretary

19th June 2019

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 reclassified 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.

With effect from 01st April 2018, MI applied the Sri Lanka Accounting Standard SLFRS 9 on "Financial Instruments", which replaced the Sri Lanka Accounting Standard LKAS 39 on "Financial Instruments; Recognition and Measurement" which was effective until 31st March 2018. The adoption of Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" had a significant impact on the calculation of impairment of financial instruments on an "expected credit loss model" compared to the "incurred credit loss model" which was applied until 31st March 2018 under the Sri Lanka Accounting Standard LKAS 39 on "Financial Instruments – Recognition and Measurement". As permitted by the paragraph 7.2.15 of the Sri Lanka Accounting Standard SLFRS 9 on "Financial Instruments", MI has opted not to restate Financial Statements of prior periods, and has recognised the difference between the previous carrying amount under the Sri Lanka Accounting Standard LKAS 39 on "Financial Instruments – Recognition and Measurement" and the carrying amount at the beginning of the annual reporting period Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments "that includes the date of initial application, in the opening retained earnings as at April 1, 2018 as disclosed in Note 47 on pages 340 to 342. Accordingly, comparative information has not been amended to comply with the current presentation.

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 2019, as required by the Finance Companies (Corporate Governance) Direction on No. 3 of 2008, result of which is given on pages 272 to 273 of this Annual Report, the 'Directors Statement 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 275 to 277 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 on pages 339 to 340 of the Financial Statements and matter referred in investor relation on page 374 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 2019 have been paid or where relevant accrued.

Gerard Ondaatjie
Managing Director

Deva Anthony
Chief Financial Officer

19th June 2019

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 in the design, operation 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 maintaining a strong control environment 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 financial reports in line 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 periodically to review Internal Auditors observations 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 on the 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 in line with corporate objectives, policies and established procedures.
- Under the oversight of the Head of Compliance, policies and procedures are reviewed and updated by the relevant heads of departments and, are approved by the Board or Board approved subcommittees. 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 2018/19.
- 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 Accounting Standards - SLFRS 9 on "Financial Instruments" which was effective from 01st January 2018 as it has a significant impact on the impairment of financial instruments calculation on an "expected credit loss model compared to LKAS 39" financial instrument recognition and measurement based "incurred credit loss model" which was applied till 31st March 2018.

- The Company carried out a "Gap Analysis" assignment with the assistance of an external consultant to identify the potential impact arising from this standard. Considering complexities involved with the implementation of SLFRS 9 standard, MI initiated the implementation journey in 2016 with the assistance of the external consultant. In keeping to the implementation plan "Impairment Steering Committee", was formed under the leadership of the Finance Director/CFO to develop statistical models to calculate the expected credit loss as required by SLFRS 9. The Company successfully completed the initial assessment of the possible impact on its Financial Statements for the year ended 31st March 2018, resulting from the application of SLFRS 9 with the assistance of the external consultant. As a part of the above assessment, the impact of the additional impairment provision on the Financial Statements as at 31st March 2018, resulting from the application of SLFRS 9 has been disclosed in the Financial Statements on page 342 which verified by external auditor, Messrs. Ernst & Young. The progress of the implementation of SLFRS 9 on the Company is reviewed by the Board Audit Committee continuously. The policies, procedures and controls of SLFRS 9 implementation are being developed and fine-tuned.

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 31st March 2019 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.M.S.S. Bandara
Chairman
Audit Committee

Saro Weerasuriya
Chairman

Gerard Ondaatjie
Managing Director

19th June 2019

Independent Assurance Report on the Directors' Statement on Internal Control

Building a better working world

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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF MERCANTILE INVESTMENTS AND FINANCE PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Mercantile Investments and Finance PLC ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2019.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with section 10 (2)(b) of the Finance Companies (Corporate Governance) Direction no.3 of 2008/ section 10 (2)(b) of Finance Leasing (Corporate Governance) Direction no.4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities and Compliance with SLSAE 3051

Our responsibility is 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 design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the institute of Charted Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of Work Performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 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 3051 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.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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

19 June 2019
Colombo

Independent Auditors' Report

Building a better working world

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BW/UM/MHM

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MERCANTILE INVESTMENTS & FINANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mercantile Investments & Finance PLC ("The Company"), which comprise the statement of financial position as at 31 March 2019, and the statement of profit or loss and statement of comprehensive income, statement of changes in equity and, statement of cash flows for the year then ended, Notes to the Financial Statements including a summary of significant accounting policies.

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 2019, 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

Key Audit Matter	How our Audit Addressed the Matter
Impairment of loans and advances	
We considered the impairment allowance for loans and advances as a key audit matter. Significant judgements and assumptions were used by the management to determine the impairment allowance and complex calculations were involved in its estimation. The higher level of estimation uncertainty involved, materiality of the amounts reported in the Company's financial statements, and impact of transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it a Key Audit Matter. As at 31 March 2019, Loans and advances amounted to Rs. 31.9 Billion (net of impairment). These collectively contributed 77% to the Company's total assets. Note 10 of the financial statements describes the basis of impairment allowance and assumptions used by the management in its calculation. The impact on transition to SLFRS 9 on the Company's financial statements has been quantified and presented in Note 47 of the financial statements.	To assess the reasonableness of the allowance for impairment, our audit procedures (among others) included the following: ◈ We evaluated design, implementation and operating effectiveness of controls over estimation of impairment of loans to and receivables from other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management ◈ We test-checked the underlying calculations and data. ◈ In addition to the above, following focused procedures were performed: For loans and advances from other customers individually assessed for impairment: ◈ Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries.

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Key Audit Matter	How our Audit Addressed the Matter
	For loans to and receivables from other customers collectively assessed for impairment: ◈ We tested the accuracy and completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT system and re-performing the calculations. ◈ We also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. We assessed the adequacy of the related financial statement disclosures as set out in Note(s) 23 - 25

Other information included in the Company's 2019 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. The Company's 2019 Annual Report is expected to be made available to us after the date of this Auditor's Report.

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.

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 relevant 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 2440.

Ernst & Young

19 June 2019
Colombo

Financial Information-Index

Statement of Comprehensive Income

Year ended 31 March	Note	2019 Rs.'000	2018 Rs.'000
Gross income	6	7,638,497	6,984,093
Interest income	7.1	7,436,054	6,564,038
Interest expenses	7.2	(3,861,878)	(3,703,776)
Net interest income		3,574,176	2,860,263
Fee and commission income	8	94,955	89,797
Net fee and commission income		94,955	89,797
Other operating income	9	107,488	330,258
Total operating income		3,776,619	3,280,318
Impairment charge/(reversal) for loans and receivables and equity investments	10	(681,648)	(426,353)
Net operating income		3,094,971	2,853,964
Less: Operating expenses			
Personnel expenses	11	(923,352)	(844,689)
Depreciation and amortisation	12	(99,494)	(93,746)
Other operating expenses	13	(962,136)	(847,904)
Total operating expenses		(1,984,982)	(1,786,340)
Operating profit before value added tax and NBT on financial services		1,109,988	1,067,624
Value Added Tax ,NBT & DRL on financial services	15.2	(403,059)	(283,667)
Operating profit after value added tax and NBT on financial services		706,929	783,959
Add: Share of associate company's profit	14	79,724	74,812
Profit before taxation from operations		786,653	858,771
Less: Income tax expenses	15	(328,580)	(344,706)
Profit for the year		458,073	514,065
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)
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods		-	(56,158)
Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods			
Changes in fair value of financial investments through OCI		(276,015)	-
Net change in revaluation surplus		-	890,093
Deferred tax effect on revaluations surplus on Land & building		-	(447,581)
Share of other comprehensive income of associates (net of tax)		196,285	(49,323)
Actuarial gain/(loss) on retirement benefit obligation (Note 38)		(24,304)	14,095
Deferred tax effect on actuarial gain		10,752	(4,278)
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		(93,282)	403,006
Other comprehensive income/(expenses) for the year (net of tax)		(93,282)	346,847
Total comprehensive income/(expenses) for the year (net of tax)		364,791	860,912
Earnings per share			
Basic earnings per share (Rs.)	16	152.39	171.01
Diluted earnings per share (Rs.)	16	152.39	171.01
Dividend per ordinary share (Rs.)	17	-	15.00

Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 284 to 372 form an integral part of these financial statements.

Statement of Financial Position

As at 31 March	Note	2019 Rs.'000	2018 Rs.'000
Assets			
Cash and cash equivalents	20	1,196,226	763,819
Placement with banks at Amortised cost	21	241,376	218,102
Financial investments - at Fair Value through OCI	22	2,863,058	2,768,053
Loans and receivables at Amortised Cost	23	15,913,287	14,549,748
Finance leases receivables at Amortised Cost	24	12,722,875	12,016,981
Hire purchase receivables at Amortised Cost	25	3,308,315	5,368,388
Financial investments - at Fair Value through OCI (unquoted)	22	70,427	70,427
Other financial assets	26	499,594	506,326
Inventories	27	23,231	6,762
Other assets	28	96,740	104,102
Current tax refunds		-	21,676
Investment in associates	29	1,267,430	1,006,506
Investment property	30	198,431	172,795
Property, plant and equipment	31	2,848,159	2,691,612
Leasehold property	32	41,207	41,672
Intangible assets	33	64,211	48,979
Total assets		41,354,567	40,355,948
Liabilities			
Bank overdraft		186,276	254,238
Deposits due to customers at Amortised Cost	34	21,176,433	20,073,010
Debt instruments issued and other borrowings at Amortised Cost	35	8,957,478	9,327,958
Other financial liabilities	36	955,246	814,105
Current tax liabilities		290,338	-
Deferred tax liabilities	37	830,950	980,970
Other liabilities		46,870	39,104
Retirement benefit obligations	38	238,112	183,477
Total liabilities		32,681,703	31,672,861
Shareholders' funds			
Stated capital	39	36,000	36,000
Revaluation reserve	40.1 & 40.2	2,124,535	1,928,250
Statutory reserve fund	41	736,400	711,400
General reserves	42	4,086,430	4,086,430
Retained earnings	43	1,765,028	1,720,522
Fair Value through OCI reserve	44	(75,529)	-
Available for sales reserve	44	-	200,485
Total shareholders' funds		8,672,864	8,683,087
Total liabilities and shareholders' funds		41,354,567	40,355,948
Net assets per share (Rs.)		2,885	2,889
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.

Deva Anthony
Chief Finance Officer

The Board of Directors is responsible for these Financial Statements.
The financial statements were authorised for issue by the directors on 19 June 2019. The directors have the power to amend and reissue the financial statements.
Signed for and on behalf of the Board by;

Gerard G. Ondaatjie
Managing Director

Shermal H. Jayasuriya
Finance Director

The significant accounting policies and the notes from pages 284 to 372 form an integral part of these financial statements.

19 June 2019
Colombo

Statement of Changes In Equity

	Stated Capital Rs.'000	Revaluation Reserves Land and Buildings Rs.'000	Associate Company Reserve Rs.'000	Statutory Reserves Rs.'000	General Reserves Rs.'000	AFS Reserve Rs.'000	Fair Value through OCI Reserve Rs.'000	Retained Earnings Rs.'000	Total Rs.'000
As At 01st April, 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	-	442,512	(49,323)	-	-	(56,158)	-	9,817	346,846
Total comprehensive income	-	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	200,486	-	1,720,521	8,683,086
Transfer	-	-	-	-	-	(200,486)	200,486	-	-
Impact of Adoption of SLFRS 9	-	-	-	-	-	-	-	(375,015)	(375,015)
Restated Opening Balance as at 1st April 2018	36,000	1,527,486	400,764	711,400	4,086,430	-	200,486	1,345,506	8,308,071
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	-		458,073	458,073
Other comprehensive income/(expenses)	-	-	196,285	-	-	-	(276,015)	(13,552)	(93,283)
Total comprehensive income/(expenses)	-	-	196,285	-	-	-	(276,015)	444,520	364,790
Dividends paid to equity shareholders	-	-	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	25,000	-	-	-	(25,000)	-
As At 31st March, 2019	36,000	1,527,486	597,049	736,400	4,086,430	-	(75,529)	1,765,028	8,672,864

Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 284 to 372 form an integral part of these financial statements.

Statement of Cash Flow

Year ended 31 March	Note	2019 Rs.'000	2018 Rs.'000
Cash flow from operating activities			
Interest and commission receipts		7,531,009	6,653,836
Interest payments		(3,861,878)	(3,703,776)
Cash receipts from customers		48,877	41,435
Cash payments to employees, suppliers and tax authority		(2,258,216)	(1,950,459)
Operating profit before changes in operating assets and liabilities (Note A)		1,459,792	1,041,036
(Increase) / decrease in operating assets			
Deposits held for regulatory control purposes		(390,582)	(897,540)
Funds advanced to customers		(1,049,858)	(3,590,582)
Other receivables		(2,375)	(81,628)
Increase / (decrease) in operating liabilities			
Other payables		187,663	36,739
Deposits from customers		1,103,423	3,055,335
		1,308,063	(436,640)
Income taxes paid		(210,757)	(77,444)
Net cash from operating activities		1,097,306	(514,084)
Cash flows from investing activities			
Dividends received	9	48,197	69,863
Dividends received from associates	29.1	15,085	14,961
Proceeds from sale of non-dealing securities and government securities		-	2,013,968
Purchase of non-dealing securities		(3,712)	(188,546)
Proceeds from sale of property, plant and equipment		29,879	13,488
Purchase of property, plant and equipment and investment property	30 & 31	(284,943)	(117,032)
Acquisition of intangible assets	33	(30,965)	(52,187)
Net cash from investing activities		(226,457)	1,754,514
Cash flows from financing activities			
Borrowings obtained during the year		13,955,000	13,819,158
Borrowings repaid during the year		(14,325,479)	(14,657,037)
Dividends paid		-	(45,090)
Net Cash from financing activities		(370,479)	(882,969)
Net increase in cash and cash equivalents		500,369	357,461
Cash and cash equivalents at the beginning of the period		509,581	152,120
Cash and cash equivalents at the end of the period (Note B)		1,009,950	509,581

Year ended 31 March	Note	2019 Rs.'000	2018 Rs.'000
Reconciliation of profit before tax with cash inflow from operating activities (Note A)			
Profit before tax		786,653	858,771
Capital gain from sale of quoted shares and treasury bonds	9	-	(219,327)
Dividend from investing securities	9	(48,197)	(69,863)
Share of profit of associates company	14	(79,724)	(74,812)
Net gain/loss on sale of property, plant and equipment	9	(10,414)	368
Depreciation of property, plant and equipment and investment property	12	83,295	77,493
Amortisation of leasehold property	12	465	468
Amortisation of intangible assets	12	15,734	15,785
Provision for impairment charges	10	681,648	426,353
Retirement benefit provision	38.1	41,452	35,163
Retirement benefit paid	38.1	(11,121)	(9,362)
		1,459,792	1,041,036
Cash and cash equivalents at the end of the period (Note B)			
Cash in hand		715,399	483,582
Balance with bank		480,827	280,237
Bank Overdraft		(186,276)	(254,238)
		1,009,950	509,581

The significant accounting policies and the notes from pages 284 to 372 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 31 March, 2019 was 1040 (951 as at 31 March, 2018).

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 31 March, 2019 (including comparatives) were approved and authorised for issue by the Board of Directors on 19 June, 2019.

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.slaasc.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 these 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 280.

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 279).

- Statement of financial position providing the information on the financial position of the company as at year end (refer page 280).

- A statement of changes in equity depicting all changes in shareholders' equity during the year under review (refer page 281).

- 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 utilisation of those cash flows (refer page 282)

- Notes to the financial statements comprising accounting policies used and other explanatory information (refer pages 284 to 379).

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.
Financial investments at FVOCI	Fair value	22
Land and buildings	Stated under revaluation model	31
Defined benefit obligations	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation.	38

2.3.1 Changes in Accounting Policies and Disclosures

In these Financial Statements, the Company has applied SLFRS 9 and SLFRS 15, effective for annual periods beginning on or after 1 April, 2018 for the first time.

SLFRS 9 – Financial Instruments

SLFRS 9 replaces LKAS 39 for annual periods on or after 1 April, 2018. The Company has not restated comparative information for 2018 for Financial Instruments in the scope of SLFRS 9. Therefore, the comparative information for 2018 is reported under LKAS 39 and is not comparable to the information presented for 2019. Differences arising from the adoption of SLFRS 9 have been recognised directly in Retained Earnings as of 1 April, 2018 and are disclosed in Note 47.

SLFRS 15 – Revenue from Contracts with Customers

Since 1 April, 2018 the Company has also adopted SLFRS 15. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from customers and the related assets and liabilities recognised by the Company. Hence, the impact of comparative information is limited to new disclosure requirements.

Apart from the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these Financial Statements.

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 53 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 recognised amount and there is an intention to settle on a net basis, or to realise 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. The impact derived on the comparative information due to the adoption of SLFRS 9 and SLFRS 15 are mentioned in the note 47.

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 Judgements, Estimates and Assumptions

The preparation of the company's financial statements requires management to make judgements, 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 recognised prospectively.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised 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 instruments are 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 Expected Credit Loss (ECL applicable after 1 April, 2018 onward) an incurred loss (applicable before 1 April, 2018).

A collective assessment of impairment takes into account data from the advance portfolio (such as credit quality, levels of arrears, credit utilisation, advances to collateral ratios etc.), and concentrations of risk and economic data (including levels of unemployment, Inflation, GDP Growth Rate, country risk and the performance of different individual groups). The impairment charged on loans and receivables is disclosed in more detail in Note 10 to the Financial Statements.

The impairment provision on loans and receivables is disclosed in more detail in the Note 23, 24 and 25 to the financial statements.

2.11.4. Impairment of available for sale investments (Policy applicable prior to 1 April, 2018).

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 recognised for unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, 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 is 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. Defined benefit obligation is disclosed in more details in the Note 38 to the financial statements.

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 depend 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 recognised 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 marketplace. Those trades are initially recognised 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 - SLFRS 9 on "Financial Instruments".

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 recognises 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 recognised, the 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using "Effective Interest Rates" (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

a. Financial Instruments (Policies applicable after 1 April, 2018)

(i) Classification and Subsequent measurement of Financial Assets

The Company classifies its Financial Assets into the following measurement categories:

- Measured at fair value (either through other Comprehensive Income, or through Profit or Loss); and

- Measured at amortised cost.

The classification depends on the Company's business model for managing Financial Assets and the contractual terms of the Financial Assets' cash flows. The Company classifies its Financial Liabilities at amortised cost unless it has designated liabilities at fair value through Profit or Loss or is required to measure liabilities at fair value through Profit or Loss such as Derivative Liabilities.

(ii) Financial Assets measured at amortised cost

Cash and Cash equivalent, Placements, Loans and Receivables from Customers and Other Financial Assets are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and profits on the principal amount outstanding; and

- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note (V) Impairment of Financial Assets.

(iii) Financial assets measured at fair value through other Comprehensive Income

Equity instruments

Investment in equity instruments that are neither Trading Financial Assets recognised through Profit or Loss, nor contingent consideration recognised by the Company in a business combination to which SLFRS 3 'Business Combination' applies, are measured at fair value through other Comprehensive Income, where an irrevocable election has been made by management. For portfolios where management does not consider an irrevocable election of adopting fair value through other Comprehensive Income, by default such investments shall be measured at fair value through Profit and Loss.

Amounts presented in other Comprehensive Income are not subsequently transferred to Profit or Loss. Dividends on such investments are recognised in Comprehensive Income Statement.

Debt Instruments

Investment in debts instruments are measured at fair value through other Comprehensive Income.

Amounts presented in other Comprehensive Income are not subsequently transferred to Profit or Loss. Interest on such investments are recognised in Comprehensive Income Statement.

(iv) Fair Value through Profit or Loss

Fair Value through Profit or Loss comprise:

- Financial Investments - For Trading;

- Instruments with contractual terms that do not represent solely payments of principal and Profit.

Financial Instruments held at fair value through Profit or Loss are initially recognised at fair value, with transaction costs recognised in the Statement of Profit or Loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the Statement of Profit or Loss as they arise.

Where a Financial Asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

(a) Financial Investments - For Trading

A Financial Investment is classified as Financial Assets recognised through Profit or Loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of Financial Instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

(b) Financial Instruments designated as measured at fair value through Profit or Loss

Upon initial recognition, Financial Instruments may be designated as measured at fair value through Profit or Loss. A Financial Asset may only be designated at fair value through Profit or Loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring Financial Assets or Liabilities on a different basis.

A Financial Liability may be designated at fair value through Profit or Loss if it eliminates or significantly reduces an accounting mismatch or:

- Host contract contains one or more embedded derivatives; or

- Financial Assets and Liabilities are both managed, and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

(v) Impairment of Financial Assets

The Company applies a three-stage approach to measuring Expected Credit Losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

- Instruments measured at amortised cost and

- Fair value through other Comprehensive Income.

ECL is not recognised on equity instruments.

Financial Assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL
For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Company determines 12 month ECL from customers who are not significantly credit deteriorated (i.e. less than 30 days past due)

Stage 2: Lifetime ECL – not Credit Impaired
For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the Financial Asset) is recognised.

In being consistent with the policies of the Company, significant deterioration is measured through the rebuttable presumption of 30 days less than 90 days past due in line with the requirements of the standard.

Stage 3: Lifetime ECL – Credit Impaired
Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and Financing Income is calculated by applying the Effective Rate to the amortised cost (net of provision) rather than the gross carrying amount.

In being consistent with the policies of the Company, credit impaired stage is measured through the rebuttable presumption of more than 90 days past due in line with the requirements of the standard

Determining the stage for Impairment
At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment loss reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Company's policy criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for impairment loss for these Financial Assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off is shown as an income in the Statement of Profit or Loss.

The Company assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, Financial Instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, product type, collateral type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

Measurement of ECLs
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial Assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the Financial Asset discounted by the Effective rate. The cash shortfall is the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

- Financial Assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the Effective rate.

- Undrawn commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.

For details on the effect of modifications of loans and receivables on the measurement of ECL refer to Note 47 of the Financial Statement.

ECLs are recognised using a provision for impairment loss account in Statement of Comprehensive Income.

The mechanics of the ECL calculations 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 derecognised and is still in the portfolio.

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of capital and financing income, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued financing income from missed payments.

LGD: The 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 cash flows due and those that the Company would expect to receive, including the realisation of any collateral.

(vi) Recognition and de recognition of Financial Instruments

A Financial Asset or Financial Liability is recognised in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and Receivables are recognised when cash is advanced (or settled) to the borrowers.

Financial Assets are recognised initially at fair value plus directly attributable transaction cost.

The Company derecognises a Financial Asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the Financial Asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred Financial Assets that is created or retained by the Company is recognised as a separate asset or liability.

A Financial Liability is derecognised from the Statement of Financial Position when the Company has discharged its obligation, or the contract is canceled or expires.

(vii) Offsetting

Financial Assets and Liabilities are offset and the net amount is presented in the Balance Sheet when the Company has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously. Refer to Note on Financial risk management - Offsetting of Financial Assets and Liabilities.

3.1.3. Classification and subsequent measurement of financial assets (policies prior to 1 January 2018)

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 recognised 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 recognised 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 Banks.

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 amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'interest income' in the statement of comprehensive Income. The losses arising from impairment of such investments are recognised 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 (policies prior to and after 1 April, 2018)

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 amortised cost

The subsequent measurement of financial liabilities depends on their classification.

Details on different types of financial liabilities recognised 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 amortised 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 amortisation is included in 'interest expenses' in the statement of comprehensive income. Gain and losses too are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation 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 canceled 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

The company recognises 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 amortised 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, recognised 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 recognised 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 collateralised 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 realised 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 recognised, the previously recognised 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.

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.

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 collaborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognised 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 recognised in equity up to the extent of any previously recognised revaluation gains.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised 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 recognised 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 recognised. 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 fulfillment 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 recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Contingent rental payable is recognised 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 capitalised 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 recognised 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.

Amortisation recognised during the year in respect of intangible assets is included under the item of amortisation of intangible assets under depreciation and amortisation 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 recognise 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 capitalised 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 recognised 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

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 March, 2019.

SLFRS 16- Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('Lessee') and the supplier ('Lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new Standard requires a lessee to:

- Recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value

- Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating lease or finance lease, and to account for those two types of leases differently

SLFRS -16 will become effective on 1 January, 2019. The company is currently assessing the impact on the implementation of the above Standard.

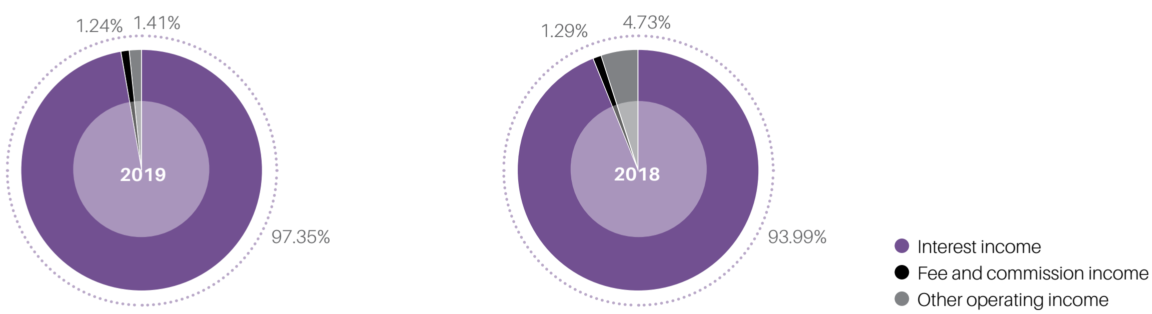
6. Gross Income

Accounting policy

Revenue is recognised 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.

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Interest income (Note 7.1)	7,436,054	6,564,039
Fee and commission income (Note 8)	94,955	89,797
Other operating income (Note 9)	107,488	330,258
Total	**7,638,497**	**6,984,094**

Gross Income 2018/19



7. Net Interest Income

Accounting policy

Recognition of income and expense

For all financial instruments measured at amortised cost and interest bearing financial assets classified as FVOCI, 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.

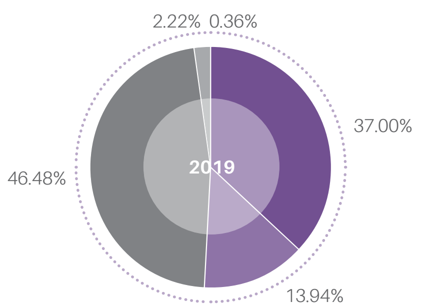
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

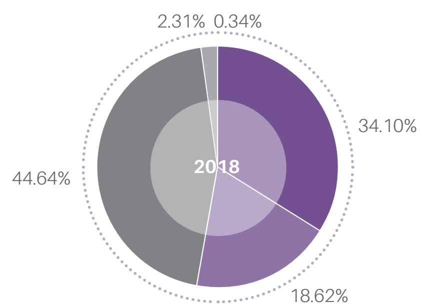
Discounts/premium on treasury bills and treasury bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements is recognised in the statement of comprehensive income on an accrual basis over the period of the agreement.

7.1 Interest Income

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Income from finance lease	2,751,109	2,238,319
Income from hire purchase	1,036,448	1,221,985
Income from other loans and receivables	3,456,566	2,930,090
Income from treasury bills and bonds	165,078	151,392
Income from fixed deposits	26,854	22,253
Total	7,436,054	6,564,039

Interest Income 2018/19

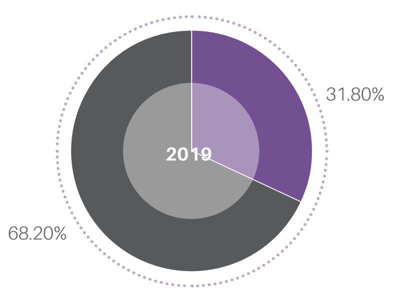


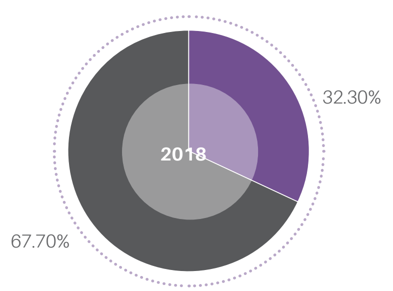


7.2 Interest Expenses

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Interest on fixed deposits	2,629,443	2,502,368
Interest on savings deposits	4,425	4,044
Interest on certificate of deposits	23	871
Interest on bank overdraft	21,307	25,897
Interest on debt securities	-	23,806
Interest on bank and securitised borrowings	1,206,681	1,146,790
Total	3,861,878	3,703,776
Net interest income	3,574,176	2,860,264

Interest Cost 2018/19





8. Fee and Commission Income

Accounting policy
The company earns fee and commission income from insurance referral business on an accrual basis.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as introducer commission received on insurance policies of loan and receivables to customers.

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Gross Commission Income	94,955	89,797
Total	94,955	89,797

9. Other Operating Income

Accounting policy
Other income
Other income is recognised on an accrual basis.

Dividend income
Dividend income is recognised 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 through other 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 recognised 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	2019 Rs.'000	2018 Rs.'000
Net gain/(loss) on sale of available-for-sale financial assets	-	219,327
Dividend from FVOCI/AFS Investments	48,197	69,863
Rent income from properties/ Investment properties	15,352	14,385
Net gain/(loss) on disposal of property, plant and equipment	10,414	(368)
Operating lease rental income	8,182	8,628
Other income	13,374	9,926
Bad debts recovered	11,968	8,496
Total	107,488	330,258

10. Impairment Charges and Other Losses

Accounting policy (Applicable after 1 April, 2018)

The company recognises the changes to the impairment provision which are assessed based on expected credit loss method in accordance with the Sri Lanka Accounting Standard -SLFRS 09 (Financial Instruments).The methodology adopted by the company is explained in the Note 3.1.2.1 (v) to these Financial Statements.

Accounting policy (Applicable prior to 1 April, 2018)

The company recognises the changes to the impairment provision which are assessed based on incurred loss method in accordance with the Sri Lanka Accounting Standard -LKAS 39 (Financial Instruments : Recognition and Measurement) up to 31st March 2018.
The methodology adopted by the company is explained in the Note 3.1.8.1 to these Financial Statements.

10.1

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Charges to the statement of comprehensive income on impairment		
- Loans and receivables (Note 23.4)	310,655	220,354
- Finance leases receivables (Note 24.4)	274,934	57,796
- Hire purchase receivables (Note 25.4)	54,960	22,589
- Other financial assets/Equity investments	41,099	125,614
Total	681,648	426,353

10.2 Analysis of Impairment Charges and Other Losses

	2019			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
- Loans and receivables	40,928	22,147	247,580	310,655
- Finance leases receivables	42,164	47,266	185,504	274,934
- Hire purchase receivables	(20,217)	7,447	67,730	54,961
- Other financial assets/Equity investments	-	-	41,099	41,099
Total	62,875	76,860	541,914	681,648

11. Personnel Expenses

Accounting policy

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses.

Bonus

The provision for bonus is recognised 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 recognised 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	2019 Rs.'000	2018 Rs.'000
Salary and bonus	756,310	696,208
Employer's contribution to EPF	82,377	76,611
Employer's contribution to ETF	16,897	16,431
Defined benefit plan (Note 38)	41,452	35,163
Other allowances and staff related expenses	26,315	20,277
Total	923,352	844,689

12. Depreciation and Amortisation

Accounting policy

Depreciation of property, plant and equipment

Depreciation is recognised 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 derecognised. 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 recognised on a straight line basis over the estimated useful life of 40-75 years.

Amortisation of intangible assets

Intangible assets are amortised using the straight line method to write down the cost over its estimated useful economic lives as given below:

Class of assets	Amortisation % per annum	Estimated useful life
Computer software	20% - 50%	2 - 5 Years

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised 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 amortisation and impairment at the beginning and end of the year are given in the Note 33 to the financial statements.

Amortisation of leasehold property

Leasehold property includes a land on 99 years lease which is amortised over the lease period using the straight line method.

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Depreciation of investment property (Note 30)	1,665	1,665
Depreciation of property, plant & equipment (Note 31)	81,630	75,828
Amortisation of leasehold property (Note 32)	465	468
Amortisation of intangible assets (Note 33)	15,734	15,785
Total	99,494	93,746

The company has reviewed the residual value and the useful lives of the assets as at 31 March, 2019 and there were no any material changes with the previous year reassesment.

13. Other Operating Expenses

Accounting policy

Other operating expenses are recognised 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 01 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	2019 Rs.'000	2018 Rs.'000
Directors' emoluments (Note 13.1)	76,903	65,488
Auditors' remuneration	1,400	1,200
Professional and legal expenses	11,481	16,897
Advertising and business promotion expenses	102,663	68,218
Insurance premium	49,148	44,341
Donations	523	923
Office and building maintenance	31,161	25,477
Computer equipment maintenance	30,027	16,560
Others	658,830	608,801
Total	962,136	847,905

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 or loss of an associate is recognised in the statement of comprehensive income.

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Nuwara Eliya Hotels Co. PLC (Note 29.1)	79,724	74,812
Total	79,724	74,812

15. Income Tax Expenses and Tax on Financial Service

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 recognised in the statement of comprehensive income except to the extent it relates to items recognised directly in equity or in other comprehensive income (OCI), in which case it is recognised 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. 24 of 2017

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 Note 15.2 of the Financial statements.

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 Note 15.2 of the Financial Statements.

Debt Repayment Levy (DRL) on financial services

As per Finance Act No 35 of 2018, with effect from 1 October, 2018 DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on financial services. The amount of Debt Repayment Levy charged in determining the profit or loss for the period is given in the Note no 15.2 of the Financial Statements.

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Income tax expenses on profit for the year (Note 15.1)	439,446	152,241
(Over)/ under provision in respect of previous year	44,567	24,580
Deferred tax (reversal)/ charged (Note 37)	(155,433)	167,886
Total tax expense for the year	328,580	344,706

15.1 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between tax expense and the accounting profit multiplied by relevant tax rate for the year ended 31 March is as follows.

Accounting Profit before income tax	706,929	783,959
Income tax expense at 28% statutory rate	197,940	219,508
Add: Tax effect on non-deductible expenses	1,124,529	1,055,205
Less: Tax effect on deductible expenses	(869,528)	(1,041,499)
Tax effect on exempt income/profit	(13,495)	(80,973)
Total	439,446	152,241

Effective tax rate (including deferred tax)	40.18%	40.83%
Accounting profit before tax on financial services	1,109,988	1,067,625
Effective tax rate (excluding tax on financial services)	29.60%	32.29%

Income tax expense of the company has been recorded for on the taxable income at the rate of 28%.

The company has taken into account the full benefit of capital allowances arising in terms of Section 16 of the Inland Revenue Act No. 24 of 2017 and amendments thereto in determining the taxation on profits for the year.

15.2 Value Added Tax ,NBT & DRL Charged on Financial Services

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Value Added Tax on Financial Services	273,522	252,418
Nation Building Tax on Financial Services	36,792	31,249
Debt Repayment Levy on Financial Services	92,745	-
Total	403,059	283,667

15.3. Notional tax credit for withholding tax on government securities on secondary market transactions

Interest income from Government Securities were subjected to withholding tax at source (Notional Tax) as per the Inland Revenue Act No. 10 of 2006, effective up to 31 March, 2018. Accordingly, interest income accrued or received on outright or reverse repurchase transactions on Government Securities, Treasury Bills and Treasury Bonds less interest expense accrued or paid on repurchase transactions with such Government Securities, Treasury Bills and Bonds from which such interest income earned was grossed up by the amount of Notional Tax. However, as per the provision of the Inland Revenue Act No. 24 of 2017 effective from 1 April, 2018, interest income from Government Securities are excluded from withholding tax. Hence, Notional tax credit hereto claimed by the company was discontinued from 1 April, 2018 with implementation of Inland Revenue Act No. 24 of 2017.

Accordingly, the net interest income earned by the company on the secondary market transaction in Government Securities for previous year, has been grossed up in the financial statements and the resulting notional tax credit amounted to Rs. 25,497,149.

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	2019 Rs.'000	2018 Rs.'000
Amount used as the numerator		
Net profit attributable to equity holders of the company	458,073	514,065
Net profit attributable to equity holders of the company for basic and diluted earnings per share	458,073	514,065
	Nos.'000	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.)	152.39	171.01
Diluted earnings per share (Rs.)	152.39	171.01

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 07 of 2007.

For the year ended 31st March	2019			2018		
	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		

18. Analysis of Financial Instruments by Measurement Basis

Accounting policy

Financial instruments are measured on an ongoing basis either at fair value or at amortised 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 recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39/SLFRS 09 - 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 31.03.2019

	Financial Instruments at Amortised Cost (AC) Rs.'000	Financial Instruments at Fair Value through Other Comprehensive Income (FVOCI) Rs.'000	Total Rs.'000
Financial assets			
Cash and cash equivalents	1,196,226	-	1,196,226
Placements with bank	241,376	-	241,376
Financial investments - FVOCI	-	2,933,485	2,933,485
Loans and receivables	15,913,287	-	15,913,287
Finance leases receivables	12,722,875	-	12,722,875
Hire purchase receivables	3,308,315	-	3,308,315
Other financial assets	499,594	-	499,594
Total financial assets	33,881,673	2,933,485	36,815,157

	At Amortised Cost Rs.'000	Total Rs.'000
Financial liabilities		
Bank overdraft	186,276	186,276
Deposits due to customers	21,176,433	21,176,433
Debt instruments issued and other borrowed funds	8,957,478	8,957,478
Other financial liabilities	955,246	955,246
Total financial liabilities	31,275,433	31,275,433

18.2 Analysis of Financial Instrument by Measurement basis as at 31.03.2018

	Financial Instruments at Amortised Cost (AC) Rs.'000	Financial Instruments at Fair Value through Other Comprehensive Income (FVOCI) 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

	At Amortised 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

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 categorised 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 judgements and assumptions
- Periodic review of fair value measurements against observable market data

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 categorised. These amount were based on the values is disclosed in the statement of financial position.

As at 31st March	2019				2018			
	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)	-	-	2,384,627	2,384,627	-	-	2,301,725	2,301,725
	-	-	2,384,627	2,384,627	-	-	2,301,725	2,301,725
Financial assets								
Financial investments- (FVOCI)								
Quoted investments	999,087	-	-	999,087	1,265,633	-	-	1,265,633
Unquoted investments (Note 19.3.2)	-	-	70,427	70,427	-	-	70,427	70,427
Government debt securities	1,863,970	-	-	1,863,970	1,502,420	-	-	1,502,420
	2,863,058	-	70,427	2,933,485	2,768,053	-	70,427	2,838,480

19.3.1. The fair value of the land & buildings are based on the valuation done by professionally qualified independent professional valuer on 31 March, 2018.

19.3.2. Value of unquoted shares as at 31 March, 2018 categorised 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 categorised as Level 3 in the fair value hierarchy.

There were no transfer between Level 1 and Level 2 during the year 2018 and 2019

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 amortised 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 none of the financial assets were categorised under Level 3 except for unquoted equity instruments.

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.

19.4.4. 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		2019					2018				
	Note	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		-	-	-	1,196,226	1,196,226	-	-	-	763,819	763,819
Placement with banks		-	-	-	241,376	241,376	-	-	-	218,102	218,102
Loans and receivables		-	-	15,871,846	15,871,846	15,913,287	-	-	14,391,053	14,391,053	14,549,748
Finance leases receivables		-	-	12,436,454	12,436,454	12,722,875	-	-	11,654,537	11,654,537	12,016,981
Hire purchase receivables		-	-	3,272,008	3,272,008	3,308,315	-	-	5,297,091	5,297,091	5,368,388
Other financial assets		-	-	499,594	499,594	499,594	-	-	506,326	506,326	506,326
Total financial assets		-	-	32,079,902	33,517,504	33,881,673	-	-	31,849,007	32,830,927	33,423,364
Financial liabilities											
Bank overdraft		-	-	-	186,276	186,276	-	-	-	254,238	254,238
Deposits due to customers		-	-	20,888,527	20,888,527	21,176,433	-	-	19,230,882	19,230,882	20,073,010
Debt instruments issued and other borrowings		-	-	8,957,478	8,957,478	8,957,478	-	-	9,327,958	9,327,958	9,327,958
Other financial liabilities		-	-	955,246	955,246	955,246	-	-	814,105	814,105	814,105
Total financial liabilities		-	-	30,801,251	30,987,527	31,275,433	-	-	29,372,944	29,627,182	30,469,310

19.5. Reclassification of financial assets

There have been no reclassification during the year 2018 and 2019.

20. Cash and Cash Equivalents

Accounting policy
Cash and cash equivalents comprise cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of changes in their value. Cash and cash equivalents are carried at amortised 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	2019 Rs.'000	2018 Rs.'000
Cash in hand	715,399	483,582
Balances with the banks	480,827	280,237
Total	1,196,226	763,819

As at 31 March, 2019, the company had available Rs.1,501 million (2018-Rs. 3,629 million) of undrawn committed borrowing facilities.

Net Cash & Cash Equivalents 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 and short notice net of outstanding bank overdrafts.

21. Placement with Banks

Accounting policy
Balances with banks and financial institutions includes fixed deposits. Balances with banks and financial institutions are carried at amortised cost in the statement of financial position.

As at 31st March	2019 Rs.'000	2018 Rs.'000
Fixed deposits	241,376	218,102
Total	241,376	218,102

22. Financial Investments - at (FVTOCI)

Accounting policy (Applicable after 1 April 2018)
Financial investments at FVTOCI include equity and debt securities. Equity investments classified as FVTOCI 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.

Unrealized gains and losses are recognized directly in equity through other comprehensive income in the fair value reserve.When the financial investment is disposed of, the cumulative gain or loss previously recognized in equity is not recognized in the statement of comprehensive income but will be dealt with the other comprehensive income statement.

Accounting policy (Applicable prior 1 April 2018)
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.

Unrealised gains and losses are recognised 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 recognised in equity is recognised 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 recognised 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 recognised 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% - 40% 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, judgement 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 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 other comprehensive income.

As at 31st March	2019 Rs.'000	2018 Rs.'000
Government securities and quoted investments		
Government debt securities	1,863,970	1,502,420
Equities (Note 22.1)	999,087	1,265,633
Total	2,863,058	2,768,053
Unquoted investments		
Equities (Note 22.2)	70,427	70,427
	70,427	70,427
Total financial investments - (FVOCI)	2,933,485	2,838,480

22.1 Equities (Quoted)

As at 31st March	2019			2018		
	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	542	62	53	536	61	73
Sampath Bank PLC	35,893	9,568	6,464	27,757	7,461	8,327
Singer Finance PLC	400,000	19,351	5,040	400,000	19,351	6,160
		28,982	11,558		26,874	14,560
Diversified holdings						
Aitken Spence & Co. PLC	15,000	343	615	15,000	343	759
John Keells Holding PLC	1,314,307	243,096	205,032	1,314,307	243,096	209,763
Vallibel One PLC	5,176,000	144,896	74,017	5,176,000	144,896	116,978
		388,336	279,664		388,336	327,500
Hotels and travels						
Amaya Leisure PLC	966,720	60,070	35,962	928,800	58,466	49,041
Eden Hotels PLC	1,049,600	17,738	14,170	1,049,600	17,738	15,954
Fortress Resort PLC	100,000	2,844	1,000	100,000	2,844	1,050
Hotel Sigiriya PLC	13,340	556	788	13,340	556	838
John Keells Hotels PLC	13,000,000	209,107	97,500	13,000,000	209,107	120,900
Light House Hotels PLC	7,736,677	224,407	198,059	7,736,677	224,407	307,920
Palm Garden Hotel PLC	200,000	25,913	3,700	200,000	25,913	4,700
Royal Palms Beach Hotels PLC	8,576,700	124,582	138,085	8,576,700	124,582	154,381
Tangerine Beach Hotels PLC	3,899,644	26,343	158,326	3,899,644	26,343	176,654
		691,559	647,589		689,955	831,437
Investment trust						
Lanka Century Investments PLC	61,790	7,156	568	61,790	7,156	674
		7,156	568		7,156	674
Manufacturing						
Royal Ceramic PLC	550,000	89,930	32,450	550,000	89,930	57,970
		89,930	32,450		89,930	57,970
Land & property development						
East West Properties PLC	50,000	2,471	875	50,000	2,471	960
		2,471	875		2,471	960
Motor						
United Motors PLC	150,000	18,701	10,020	150,000	18,701	11,400
		18,701	10,020		18,701	11,400
Construction & engineering						
Colombo Dockyard PLC	161,000	44,966	8,533	161,000	44,966	13,363
		44,966	8,533		44,966	13,363
Trading						
Odel PLC	300,000	11,943	7,830	300,000	11,943	7,770
		11,943	7,830		11,943	7,770
Total		1,284,043	999,087		1,280,331	1,265,633

22.2 Equities (Unquoted)

As at 31st March	2019			2018		
	No of Shares	Cost Rs.'000	Market Value Rs.'000	No of Shares	Cost Rs.'000	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
Total		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 amortised cost using the EIR, less allowance for impairment. Amortised 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 amortisation is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognised 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 recognised at fair value. The difference between the fair value and the amount disbursed were treated as 'day 1' difference and amortised as staff cost over the loan period by using effective interest rate (EIR). The staff loans were subsequently measured at amortised 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 realisation of security.

As at 31st March	2019 Rs.'000	2018 Rs.'000
Gross loans and receivables	21,354,568	18,456,441
Prepaid rentals	(328)	(1,223)
Unearned interest	(4,021,320)	(3,154,548)
Allowance for impairment (Note 23.4)	(1,199,920)	(750,922)
Interest in suspense	(219,713)	-
Net loans and receivables	15,913,287	14,549,748

23.1 Loans and Receivables-within one year

As at 31st March	2019 Rs.'000	2018 Rs.'000
Gross loans and receivables	11,564,694	10,214,538
Prepaid rentals	(28)	(680)
Unearned interest	(2,011,483)	(1,612,384)
Loans and receivables	9,553,183	8,601,474

23.2 Loans and Receivables-from one to five years

Gross loans and receivables	9,789,302	8,241,262
Prepaid rentals	(299)	(543)
Unearned interest	(2,009,691)	(1,542,106)
Loans and receivables	7,779,312	6,698,613

23.3 Loans and Receivables-after five years

Gross loans and receivables	572	641
Unearned interest	(147)	(58)
Loans and receivables	425	583

23.4 Movement in Allowance for Impairment

Balance at the beginning of the year	750,922	532,935
Transitional Provision as per SLFRS 09	155,068	-
Bad debt written off during the year	(16,726)	(2,367)
Charge/(reverse) to the statement of comprehensive income	310,655	220,354
Balance at the end of the year	1,199,920	750,922

Stage wise impairment provision movement for loan and receivables is disclosed in the Note 54 of the financial statement.

23.4.1 Individual impairment

Balance at the beginning of the year	651,266	451,671
Transitional Provision as per SLFRS 09	57,393	-
Bad debt written off during the year	(16,726)	(2,367)
Charge/(reverse) to the statement of comprehensive income	71,932	201,962
Balance at the end of the year	763,865	651,266

23.4.2 Collective impairment

Balance at the beginning of the year	99,657	81,264
Transitional Provision as per SLFRS 09	97,675	-
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	238,723	18,392
Balance at the end of the year	436,055	99,657

23.5 Sector wise Analysis of Loans and Receivables

Agriculture	835,009	415,236
Industrial	1,203,380	691,184
Tourism	702,068	336,220
Trading	5,528,220	4,291,835
Construction	469,777	821,695
Services	10,937,754	8,436,178
Others	1,678,360	3,464,094
	21,354,568	18,456,441

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 amortised cost using the EIR, less allowance for impairment. Amortised 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 amortisation is included in 'Interest Income' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in 'impairment charge/reversal for loans and receivables'.
The impairment allowance are determined based on the ECL approach specified in SLFRS 9.

As at 31st March	2019 Rs.'000	2018 Rs.'000
Gross finance leases receivables	17,598,536	16,029,270
Prepaid rentals	(1,032)	(1,421)
Unearned interest	(4,316,723)	(3,808,110)
Allowance for impairment (Note 24.4)	(522,447)	(202,758)
Interest in suspense	(35,458)	-
Net finance leases receivables	12,722,875	12,016,981

24.1 Finance Leases Receivable-within one year

Gross finance leases receivables	7,444,908	6,497,542
Prepaid rentals	(613)	(1,006)
Unearned interest	(2,281,750)	(1,964,700)
Finance leases receivables	5,162,545	4,531,835

24.2 Finance Leases Receivable-from one to five years

Gross finance leases receivables	10,153,691	9,531,728
Prepaid rentals	(419)	(414)
Unearned interest	(2,034,932)	(1,843,410)
Finance leases receivables	8,118,340	7,687,904

24.3 Finance Leases Receivable-after five years

Gross finance leases receivables	726	-
Unearned interest	(41)	-
Finance leases receivables	685	-

24.4 Movement in Allowance for Impairment

Balance at the beginning of the year	202,758	154,562
Transitional Provision as per SLFRS 09	62,690	-
Bad debt written off during the year	(17,934)	(9,601)
Charge/(reverse) to the statement of comprehensive income	274,934	57,796
Balance at the end of the year	522,447	202,758

Stage wise impairment provision movement for lease receivables is disclosed in the Note 54 of the financial statement.

As at 31st March	2019 Rs.'000	2018 Rs.'000
24.4.1 Movement in individual impairment		
Balance at the beginning of the year	95,327	68,962
Transitional Provision as per SLFRS 09	(23,815)	-
Bad debt written off during the year	(17,934)	(9,601)
Charge/(reverse) to the statement of comprehensive income	78,315	35,966
Balance at the end of the year	131,892	95,327
24.4.2 Movement in collective impairment		
Balance at the beginning of the year	107,431	85,600
Transitional Provision as per SLFRS 09	86,505	-
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	196,619	21,831
Balance at the end of the year	390,555	107,431

24.5 Sector wise Analysis of Finance Leases Receivables

Agriculture	1,392,324	934,810
Industrial	2,039,514	589,291
Tourism	475,269	329,344
Trading	4,151,709	2,983,706
Construction	287,695	163,941
Services	8,921,709	8,132,423
Others	330,317	2,895,755
	17,598,536	16,029,270

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 amortised cost using the EIR, less allowance for impairment. Amortised 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 amortisation is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in "impairment charge/ reversal for loans and receivables".

As at 31st March	2019 Rs.'000	2018 Rs.'000
Gross hire purchases receivables	4,464,950	7,260,091
Prepaid rentals	(2,293)	(1,117)
Unearned interest	(875,290)	(1,633,826)
Allowance for impairment (Note 25.4)	(247,136)	(256,760)
Interest in suspense	(31,916)	-
Net hire purchases receivables	3,308,315	5,368,388

As at 31st March	2019 Rs.'000	2018 Rs.'000
25.1. Hire Purchases Receivable-within one year		
Gross hire purchases receivables	2,364,919	3,331,675
Prepaid rentals	(1,034)	(1,107)
Unearned interest	(537,445)	(858,707)
Hire purchases receivables	1,826,441	2,471,860
25.2. Hire Purchases Receivable-from one to five years		
Gross hire purchases receivables	2,099,491	3,927,111
Prepaid rentals	(1,259)	(10)
Unearned interest	(337,844)	(775,102)
Hire purchases receivables	1,760,388	3,151,998
25.3. Hire Purchases Receivable-after five years		
Gross hire purchases receivables	540	1,306
Unearned interest	(2)	(16)
Hire purchases receivables	538	1,289
25.4. Movement in Allowance for Impairment		
Balance at the beginning the year	256,760	250,400
Transitional Provision as per SLFRS 09	(38,604)	-
Bad debt written off during the year	(25,980)	(16,229)
Charge/(reverse) to the statement of comprehensive income	54,960	22,589
Balance at the end the year	247,136	256,760

Stage wise impairment provision movement for hire purchase receivables is disclosed in the note 54 of the financial statement.

25.4.1. Movement in individual impairment		
Balance at the beginning of the year	166,989	163,915
Transitional Provision as per SLFRS 09	(80,129)	-
Bad debt written off during the year	(25,980)	(16,229)
Charge/(reverse) to the statement of comprehensive income	42,164	19,304
Balance at the end of the year	103,044	166,989

25.4.2. Movement in collective impairment		
Balance at the beginning of the year	89,770	86,486
Transitional Provision as per SLFRS 09	41,526	-
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	12,796	3,285
Balance at the end of the year	144,092	89,770

25.5. Sector wise Analysis of hire Purchases Receivables		
Agriculture	184,262	315,358
Industrial	445,528	684,757
Tourism	118,543	205,904
Trading	1,073,816	1,765,402
Construction	46,033	29,751
Services	2,297,992	3,788,428
Others	298,775	470,492
	4,464,950	7,260,091

26. Other Financial Assets

Accounting policy

Insurance receivables

Premium receivables are recognised 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 recognised 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	2019 Rs.'000	2018 Rs.'000
Insurance receivables	176,587	181,280
Operating leases receivables	1,655	642
Investments	249,307	290,406
Other receivables	72,045	33,998
Total	499,594	506,326

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. 04 of 2013 issued by the Central Bank of Sri Lanka" has been reclassified 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 31 March, 2017 amounting to Rs.346 million has been made in the financial statements as per the letter dated 12 September, 2017 from the Central Bank of Sri Lanka. A seven year repayment period was adopted to arrive at the impairment charge for the balance Rs. 346 million in keeping to the undertaking letter of CBSL dated 12 September, 2017 and considering the current status of the repayment plan being finalised by the regulator. Based on the feedback from the regulator, management decided that a seven year repayment period decided is appropriate. Accordingly, a Rs. 41 million impairment charge was accounted to the statement of comprehensive income for the period under review.

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	2019 Rs.'000	2018 Rs.'000
Spare parts	4,743	2,551
Lubricants and others	1,607	1,487
Vehicle stock	14,325	-
Stationary	2,556	2,724
Total	23,231	6,762

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	2019 Rs.'000	2018 Rs.'000
Other receivables	43,386	41,309
Deposit and prepayments	44,371	53,810
Unamortised staff cost	8,984	8,984
Total	96,740	104,102

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 recognised at cost. The carrying amount of the investment is adjusted to recognise 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 amortised 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 recognised directly in the equity of the associate, the company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised 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 recognise 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 recognises 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 recognises 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 recognised in the statement of comprehensive income.

Company has a 26.12% (2018-26.12%) holding in Nuwera Eliya Hotels Company PLC which is a quoted public company and involved in the business of the hotelliering. The Principle place of business is located at Nuwara Eliya.

The profits and income of the Nuwara Eliya Hotels PLC, arising on provision of tourism related services is liable for taxation at the rate of 14 % where as Income from other sources are taxed at the rate of 28%.

As at 31st March	2019 Rs.'000	2018 Rs.'000
Investment in associates - quoted (Note 29.1)	1,267,430	1,006,506
Total	1,267,430	1,006,506

29.1 Investment in Associates - Quoted

Nuwara Eliya Hotels Company PLC		
Carrying value at the beginning of the year	1,006,506	995,978
Increase/(Decrease) in Investment	-	-
Add: Share of associates profit after tax (Note 29.1.1)	79,724	74,812
Less : Dividend received from associates	(15,085)	(14,961)
Current year retained profit	64,639	59,851
Share of other comprehensive income	196,285	(49,323)
Carrying value at the end of the year	1,267,430	1,006,506

Summary of associate' s statement of financial position

As at 31st March	As per audited financial statements 2019 Rs.'000	As per audited financial statements 2018 Rs.'000
Current assets	1,440,563	1,207,264
Non-current assets	4,022,109	3,139,772
Current liabilities	(171,515)	(174,866)
Non-current liabilities	(438,823)	(318,778)
Net assets	4,852,334	3,853,392
Holding percentage of the company	26.12%	26.12%
Share of net assets of the company	1,267,430	1,006,506
Market value per share (Rs.)	1,250.00	1,346.80
Total market value of the investment (Rs.'000)	654,350	705,023

The Board of Directors are of the view that the 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 on the equity method as per LKAS 28.

29.1.1 Summary of associate' s revenue and profit after tax

As at 31st March	2019 Rs.'000	2018 Rs.'000
Revenue	1,104,375	1,033,721
Profit after tax	305,223	286,417
Share of associate' s profit after tax	79,724	74,812
	79,724	74,812

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 up to the date of disposal. Estimated useful life of the buildings classified as investment property ranges from 40 to 75 years.

De-recognition

Investment properties are de-recognised 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	2019 Rs.'000	2018 Rs.'000
Cost		
Balance at the beginning of the year	179,454	163,334
Additions during the year	27,300	28,120
Disposals during the year	-	(12,000)
Balance at the end of the year	206,754	179,454
Less : Accumulated Depreciation		
Balance at the beginning of the year	6,659	4,994
Charge for the year	1,665	1,665
Disposals during the year	-	-
Balance at the end of the year	8,324	6,659
Carrying value	198,430	172,795

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	2019 Rs.'000	2018 Rs.'000
Rental income derived from investment properties	7,732	7,245
Direct operating expenses incurred generating rental income	(1,923)	(1,180)
Profit arising from investment properties	5,809	6,065

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			2019		2018	
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						
No 151/3A, Negombo Road, Peliyagoda.	5	-	5,000	5,500	5,000	5,500
Pannipitiya						
No 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	21,000	21,000
Gampaha						
No 36/426,Walipillawa,Ganemulla.	57.8	-	7,120	7,120	7,120	7,120
Gampaha						
No 735/1,Jonikkuwatte Road,Kohalwila.	19.7	-	12,300	12,300	-	-
Gampaha						
No 14/5, Athupathdeniya,Loluwagoda.	1,280	-	15,000	15,000	-	-
Total			206,754	221,320	179,454	194,020

The fair value of the investment properties as at 31st March, 2019 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 March, 2019 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.

Useful life/ depreciation rate of the property plant and equipment is disclosed in the Note 12 of the financial statement.

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 31 March, 2018. No revaluation has been performed for 31 March, 2019 and directors have estimated that carrying amount as of 31 March, 2019 approximate fair value.

Subsequent cost

These are costs that are recognised 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 recognised 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 recognised 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 (Rs.' 000)	Buildings (Rs.' 000)	Motor vehicles (Rs.' 000)	Plant and machinery (Rs.' 000)	Computer hardware (Rs.' 000)	Office equipment (Rs.' 000)	Furniture , fixtures & fittings (Rs.' 000)	Motor vehicle on Operating leases (Rs.' 000)	Capital work-in- progress (Rs.' 000)	Total (Rs.' 000)
2019- Current year										
Cost/ valuation										
Balance as at 01.04.2018	1,640,400	661,325	277,240	35,911	145,062	67,797	71,633	29,750	48,598	2,977,716
Additions during the year	18,532	64,370	134,490	3,319	13,666	9,666	7,737	1,500	4,362	257,643
Disposals during the year	-	-	(37,120)	-	(939)	(425)	-	-	-	(38,485)
Derecognition	-	-	-	-	-	-	-	-	-	-
Surplus on revaluation of property	-	-	-	-	-	-	-	-	-	-
Transfers/ adjustments	-	-	-	-	-	-	-	-	-	-
Cost/ valuation as at 31.03.2019	1,658,931	725,695	374,610	39,230	157,789	77,038	79,370	31,250	52,961	3,196,874
Accumulated depreciation										
Balance as at 01.04.2018	-	-	107,468	16,560	92,235	26,152	31,957	11,734	-	286,105
Charge for the year	-	13,284	20,401	6,597	22,941	6,722	7,101	4,585	-	81,631
Disposals during the year	-	-	(17,951)	-	(799)	(269)	-	-	-	(19,019)
Derecognition	-	-	-	-	-	-	-	-	-	-
Transfers/ adjustments	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation as at 31.03.2019	-	13,284	109,918	23,157	114,376	32,605	39,058	16,319	-	348,715
Net book value as at 31.03.2019	1,658,931	712,411	264,693	16,073	43,412	44,433	40,312	14,931	52,961	2,848,159

	At valuation		At cost							
	Land (Rs.' 000)	Buildings (Rs.' 000)	Motor vehicles (Rs.' 000)	Plant and machinery (Rs.' 000)	Computer hardware (Rs.' 000)	Office equipment (Rs.' 000)	Furniture , fixtures & fittings (Rs.' 000)	Motor vehicle on Operating leases (Rs.' 000)	Capital work-in- progress (Rs.' 000)	Total (Rs.' 000)
2018- previous 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	2,037,644
Additions during the year	-	1,910	34,751	7,845	22,493	7,016	3,637	-	11,261	88,912
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	2,977,717
Accumulated depreciation										
Balance as at 01.04.2017	-	23,510	90,140	10,935	69,858	20,524	25,110	7,271	-	247,350
Charge for the year	-	11,790	17,952	5,624	22,585	6,522	6,893	4,462	-	75,829
Disposals during the year	-	-	(625)	-	(208)	(895)	(46)	-	-	(1,774)
Derecognition	-	-	-	-	-	-	-	-	-	-
Transfers/ adjustments	-	(35,300)	-	-	-	-	-	-	-	(35,300)
Accumulated depreciation as at 31.03.2018	-	-	107,468	16,560	92,235	26,152	31,957	11,734	-	286,105
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

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 31.03.2019 (Rs. '000)	As a % of Total NBV As At 31.03.2019	Net Book Value As At 31.03.2018 (Rs. '000)	As a % of Total NBV As At 31.03.2018
Kollupitiya - No. 236, Galle Road, Colombo 03	32.56	46,777	371,300	651,000	1,022,300	43.11	1,002,000	43.53
Maharagama - No. 176, Lake Road, Maharagama	168.74	22,900	18,620	337,500	356,120	15.02	356,500	15.49
Maharagama - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama	104.00	9,355	10,927	182,000	192,927	8.14	193,150	8.39
Kohuwala - No. 28, Sunethra Devi Road, Kohuwala	88.00	27,543	67,351	308,000	375,351	15.83	376,725	16.37
Kohuwala - No. 30/8, Sunethra Devi Road, Kohuwala	17.80	1,700	4,998	31,150	36,148	1.52	36,250	1.57
Borella - No. 219, Dr. N.M. Perera Mw, Colombo 08	9.46	6,264	48,216	85,800	134,016	5.65	135,000	5.87
Negombo - No. 26A, Colombo Road, Negombo	13.87	4,500	36,992	31,200	68,192	2.88	31,200	1.36
Kollupitiya - No. 75-17/4, Kollupitiya Road, Colombo 03	-	1,210	38,906	-	38,906	1.64	39,700	1.72
Kollupitiya - No. 89-28/4 & 89-28/5, Kollupitiya Road, Colombo 03	-	3,583	115,101	-	115,101	4.85	117,450	5.10
Negombo - No. 814/24, Colombo Road, Negombo	17.20	-	-	13,750	13,750	0.58	13,750	0.60
Negombo - No. 26A, Colombo Road, Negombo	16.22	-	-	18,532	18,532	0.78	-	0.00
Total			712,411	1,658,932	2,371,343	100	2,301,725	100

31.4 Revaluation

Freehold land and building of the company were revalued by a professionally qualified independent valuer (Mr. P.P.T Mohideen) as at 31st March, 2018.

Effective Date of Valuation as at 31 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) recognised on	
			Buildings	Land	Buildings	Land	Buildings	Land
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	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.)	9,500,000.00						
	Price per square feet for building (Rs.)	7,001.30						
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.)	1,000,000.00						
	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.)	650,000.00						
	Price per square feet for building (Rs.)	1,122.39						
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.)	2,500,000.00						
	Price per square feet for building (Rs.)	2,494.28						
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.)	1,250,000.00						
	Price per square feet for building (Rs.)	2,852.94						
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.)	4,500,000.00						
	Price per square feet for building (Rs.)	7,487.23						
Negombo - No. 26A, Colombo Road, Negombo.	Open market basis		-	20,000	-	31,200	-	11,200
	Price per perch of land (Rs.)	1,450,000.00						
Kollupitiya - No. 75-17/4, Kollupitiya Road, Colombo 03.	Investment method		27,260	-	39,700	-	12,440	-
	Gross annual rentals (Rs.)	1,680,000.00						
	Years purchase(present value of 1 unit per period)	23 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.)	4,920,000.00						
	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.)	585,000.00						
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	2019			2018		
Class of asset	Cost (Rs.'000)	Cumulative Depreciation (Rs.'000)	Net Carrying Amount (Rs.'000)	Cost (Rs.'000)	Cumulative Depreciation (Rs.'000)	Net Carrying Amount (Rs.'000)
Freehold land	179,053	-	179,053	160,521	-	160,521
Freehold buildings	320,125	89,611	230,514	252,923	79,344	173,579
	499,178	89,611	409,567	413,444	79,344	334,100

31.6 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value (excluding capital working progress) of Rs. 253,280,239/- (2018 - Rs. 77,651,428/-).

Cash payments amounting to Rs. 244,756,645/- (2018- Rs. 77,651,428/-) were made during the year for purchase of Property, Plant and Equipment.

31.7 Property, Plant and Equipments include assets(motor vehicles) under operating leases, where the company is a lessor. The net carrying amount of those assets as at 31 March, 2019 was Rs. 14,931,329/- (2018 - Rs. 18,016,271/-), on which the accumulated depreciation as at 31 March, 2019 was Rs.16,318,670/-(2018- Rs.11,733,729/-) .

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, 2019				
Future operating lease receivable	6,766	5,728	-	12,494
As at 31st March, 2018				
Future operating lease receivable	8,072	11,172	-	19,244

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.170,078,353/- (2018- Rs.144,627,857/-)

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 million 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 Capitalisation of Borrowing cost

There were no borrowing costs that have been capitalised 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, 2019.

32. Leasehold Property

As at 31st March	2019 Rs.'000	2018 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 amortsation and impairment		
At the beginning of the year	4,682	4,214
Amortisation for the year	465	468
Disposals	-	-
Impairment	-	-
At the end of the year	5,147	4,682
Net book value as at 31st March	**41,207**	**41,672**

33. Intangible Assets

Accounting policy

Basis of recognition

An intangible asset is recognised 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 amortisation and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised 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, amortisation and impairment

The company does not possess intangible assets with indefinite useful lives. Useful economic lives, amortisation and impairment of finite intangible assets are described below:

Intangible assets with finite lives and amortisation

Intangible assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised 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 amortisation and accumulated impairment losses, if any.

Useful life/ depreciation rate of the computer software is disclosed in the Note no 12 of the financial statement.

Derecognition of intangible assets

Intangible assets are derecognised 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 recognised in the statement of comprehensive income.

As at 31st March	2019 Rs.'000	2018 Rs.'000
Cost		
At the beginning of the year	83,492	31,305
Additions	30,965	52,187
Derecognition	(105)	-
At the end of the year	114,352	83,492
Accumulated amortsation and impairment		
At the beginning of the year	34,513	18,728
Amortisation for the year	15,734	15,785
Derecognition	(105)	-
At the end of the year	50,141	34,513
Net book value as at 31st March	64,211	48,979

33.1 Net Book value of intangible assets reported as at 31 March, 2019 solely comprised of computer softwares which were acquired from the market.

33.2 **Fully amortised Intangible assets**

The cost of intangible assets as at reporting date includes the fully depreciated assets amounting to: Rs. 20,414,416 (2018- Rs. 9,752,225).

34. Deposits due to Customers

These include fixed deposits, savings deposits and certificate of deposits. Subsequent to initial recognition deposits are measured at their amortised cost using the Effective Interest Rate method (EIR). Interest paid/payable on these deposits is recognised in the statement of comprehensive income.

As at 31st March	2019 Rs.'000	2018 Rs.'000
Fixed deposits (Note 34.1)	21,098,861	20,008,086
Certificate of deposits (Note 34.2)	-	5,277
Savings deposits	77,571	59,647
	21,176,433	20,073,010

34.1 Analysis of fixed deposits by maturity date

1 to 90 days	6,932,555	6,264,048
91 to 365 days	9,270,337	8,856,426
More than 365 days	4,895,969	4,887,612
	21,098,861	20,008,086

34.2 Analysis of certificate of deposits by maturity date

1 to 90 days	-	5,277
	-	5,277

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. 26,693,442 as the premium for the above insurance scheme during the year. (2018 - Rs. 24,961,967).

35. Debt 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 amortised 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 recognised in the statement of comprehensive income.

As at 31st March	2019 Rs.'000	2018 Rs.'000
Money market borrowings	200,000	-
Short term borrowings (Note 35.1)	3,833,320	1,850,000
Long term borrowings (Note 35.2)	4,676,355	7,012,590
Debt instruments (Note 35.3)	-	200,000
Interest payable	247,803	265,368
	8,957,478	9,327,958

35.1 Short Term Borrowings

As at 31st March	Terms of Repayment			2019 Rs.'000	2018 Rs.'000
	Interest Rate	Period	Payment terms		
National Development Bank PLC	14.50%	2 Months	At maturity	250,000	-
National Development Bank PLC	14.70%	2 Months	At maturity	150,000	-
National Development Bank PLC	14.70%	3 Months	At maturity	600,000	-
National Development Bank PLC	13.25%	3 Months	At maturity	750,000	-
Seylan Bank PLC	14.50%	3 Months	At maturity	500,000	-
Seylan Bank PLC	14.00%	3 Months	At maturity	250,000	-
Seylan Bank PLC	14.10%	1 Year	Monthly	750,000	-
Nations Trust Bank	13.81%	1 Month	At maturity	250,000	-
Commercial Bank of Ceylon PLC	13.50%	6 Months	Monthly	333,320	-
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
				3,833,320	1,850,000

35.2 Long Term Borrowings

As at 31st March	Terms of Repayment			2019	2018
	Interest Rate	Period	Payment terms	Rs.'000	Rs.'000
Securitised Borrowings	9.35%-12.45%	3 to 4 yrs	Variable monthly installment	341,600	1,147,657
Hatton National Bank PLC	11.00%	4 yrs	Fixed monthly installment	187,501	458,334
Commercial Bank of Ceylon PLC	15.00%	4 yrs	Fixed monthly installment	499,600	749,800
Cargills Bank Ltd	12%-AWPLR+1	5 yrs	Fixed monthly installment	105,530	156,519
Commercial Bank of Ceylon PLC	13.50%	4 yrs	Fixed monthly installment	750,400	1,000,000
Hatton National Bank PLC	13.00%	2 yrs	Fixed monthly installment	500,800	1,000,000
Hatton National Bank PLC	15.75%	4 yrs	Quarterly	950,000	1,050,000
Hatton National Bank PLC	13.00%	2 yrs	Fixed monthly installment	417,600	958,400
Hatton National Bank PLC	8.50%	4 yrs	Fixed monthly installment	-	82,800
Commercial Bank of Ceylon PLC	9.50%	4 yrs	Fixed monthly installment	-	48,500
Commercial Bank of Ceylon PLC	8.50%	4 yrs	Fixed monthly installment	-	208,080
Commercial Bank of Ceylon PLC	10.50%	3 yrs	Fixed monthly installment	-	152,500
Sampath Bank PLC	13.25%	2 yrs	Fixed monthly installment	750,000	-
Public Bank of Berhad (Sri Lanka)	13.43%	2 yrs	Fixed monthly installment	173,324	-
				4,676,355	7,012,590

Maturity analysis of borrowings and assets pledged details are given in Note 53 and 50 to the financial statements respectively.

35.3 Debt instruments

As at 31st March	2019 Rs.'000	2018 Rs.'000
Unsecured redeemable debentures (Note 35.3.1)	-	200,000
	-	200,000

35.3.1 Unsecured redeemable debentures

We have redeemed the unsecured redeemable debentures in November 2018 of which the details are given below.

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	7/11/2014
Maturity date	7/11/2018
Effective annual yield	10.50%

36. Other Financial Liabilities

As at 31st March	2019 Rs.'000	2018 Rs.'000
Vendor payable	719,283	555,818
Insurance payable	171,976	173,729
Other payable	63,988	84,557
	955,246	814,105

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 recognised 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 recognised 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 utilised: 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 recognised 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 utilised.

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 utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised 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 realised 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 recognised directly in equity are also recognised in equity, and not in the statement of comprehensive income.

As at 31st March	2019		2018	
Summary of net deferred tax liability	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000
Balance at the beginning of the year	3,503,456	980,968	1,290,080	361,223
SLFRS Adjustments	57,821	16,190	-	-
Amount originating/(reversing) during the year	(555,117)	(155,433)	599,591	167,886
Deferred tax effect on revaluation surplus on PPE	-	-	1,598,505	447,581
Deferred tax effect on actuarial gain	(38,400)	(10,752)	15,280	4,278
Balance at the end of the year	2,967,760	830,973	3,503,456	980,970
Deferred tax asset				
Retirement benefit obligation	238,114	66,672	183,478	51,374
Tax loss from leasing activities	-	-	175,751	49,210
Unclaimed impairment provision	622,202	174,217	432,823	121,191
	860,316	240,889	792,052	221,775
Deferred tax liability				
Accelerated depreciation for tax purpose - leased assets	(1,615,694)	(452,394)	(2,058,459)	(576,368)
Accelerated depreciation for tax purpose - owned assets	(237,232)	(66,425)	(261,982)	(73,355)
Deferred tax effect on revaluation surplus	(1,975,067)	(553,019)	(1,975,067)	(553,019)
	(3,827,993)	(1,071,838)	(4,295,508)	(1,202,744)
Net temporary difference and deferred assets/(tax liability)	(2,967,677)	(830,950)	(3,503,456)	(980,970)

38. Retirement Benefit Obligations

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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 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'.

This is a final salary defined benefit plan where regulatory requirement (Gratuity Act No. 12 of 1983) is to pay the half a month last drawn salary into number of years services completed to employees who completed 5 years upon termination of the employment.

As at 31st March	2019 Rs.'000	2018 Rs.'000
38.1 Provision for retirement benefit obligations		
Balance at the beginning of the year	183,477	171,772
Expenses recognised during the year (Note 38.2)	65,757	21,067
Payments made during the year	(11,121)	(9,362)
Balance at the end of the year	238,113	183,477
38.2 Expenses recognised in the statement of comprehensive income		
Interest cost - statement of comprehensive income	22,935	20,973
Current service cost - statement of comprehensive income	18,518	14,189
	41,452	35,163
Actuarial (gain) / loss - other comprehensive income	24,304	(14,095)
	65,757	21,067

Actuarial valuation of the gratuity liability was carried out as at 31 March, 2019 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 19% used in this valuation have been determined based on the staff turnover statistics of the company. (Previous year 15%).

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 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).

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 11.7% has been used having given weightage to the anticipated long term rate of inflation. (Previous year 12.5%).

Salary increases
A 10% p.a salary increment rate has been used in respect of the active employees. (Previous year 8%).

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 31 March, 2019 sensitivity analysis has been carried out as follows:

		Present Value of Defined Benefit Obligation	
Discount Rate	Salary Escalation Rate	2019 Rs.'000	2018 Rs.'000
1% Increase	As the Rate Above	228,403	176,113
1% Decrease	As the Rate Above	248,734	191,524
As the Rate Above	1% Increase	247,760	190,983
As the Rate Above	1% Decrease	229,144	176,508

38.5 Maturity Profile of the Defined Benefit Obligation

As at 31st March	2019 Rs.'000	2018 Rs.'000
Within the next 12 Months	49,482	46,271
Between 2 - 5 years	115,953	87,167
Beyond 5 years	72,679	50,039
	238,114	183,477

Weighted Average duration of Defined Benefit Obligation as at 31 March, 2019 is 4.71 years.(4.67 years in 2018)

39. Stated Capital

As at 31st March	2019 Rs.'000	2018 Rs.'000
Value		
Ordinary shares	36,000	36,000
	36,000	36,000

As at 31st March	2019 (Nos '000)	2018 (Nos '000)
Number of shares in issue		
Ordinary shares (no par value)	3,006	3,006
	3,006	3,006

40. Capital Reserve - Revaluation Reserve

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.

As at 31st March	2019 Rs.'000	2018 Rs.'000
Balance at the beginning of the year	1,928,250	1,535,061
Increase during the year due to revaluation	196,285	840,770
Deferred tax effect	-	(447,581)
Balance at the end of the year	2,124,535	1,928,250

40.1 Revaluation Reserve- Company

Balance at the beginning of the year	1,527,486	1,084,974
Increase during the year due to revaluation	-	890,093
Transfer out realised gain on disposed revalued building	-	-
Deferred tax effect	-	(447,581)
Balance at the end of the year	1,527,486	1,527,486

40.2 Associate Company Reserve

Balance at the beginning of the year	400,764	450,087
Increase during the year due to revaluation	196,285	(49,323)
Transfer out realised gain on disposed revalued building	-	-
Deferred tax effect	-	-
Balance at the end of the year	597,049	400,764

Revaluation reserve (Company and Associate) can be utilised for dividend distribution upon realisation.

41. Statutory Reserve Fund

As at 31st March	2019 Rs.'000	2018 Rs.'000
Balance at the beginning of the year	711,400	661,400
Transfers during the year	25,000	50,000
Balance at the end of the year	736,400	711,400

Statutory reserve fund which is a capital reserve, was created in accordance with Finance Companies Direction No. 01 of 2003 issued by Central Bank of Sri Lanka.

42. General Reserve

As at 31st March	2019 Rs.'000	2018 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	2019 Rs.'000	2018 Rs.'000
Balance at the beginning of the year	1,720,522	1,291,730
Transitional Provision as per SLFRS 09	(375,015)	-
Total comprehensive income	-	-
Profit for the year	458,073	514,065
Other comprehensive income	(13,552)	9,817
Transfer to statutory reserve	(25,000)	(50,000)
Dividend paid	-	(45,090)
Balance at the end of the year	1,765,028	1,720,522

44. Fair Value Through OCI Reserve/AFS Reserve

As at 31st March	2019 Rs.'000	2018 Rs.'000
Balance at the beginning of the year	200,485	256,644
Net gain and losses on remeasuring of AFS financial assets /FVTOCI	(276,015)	(56,158)
Balance at the end of the year	(75,529)	200,485

Fair Value through OCI reserve comprises the cumulative net change in fair value of financial investment , until such investment are derecognised or impaired.

45. Capital Commitments

There are no significant capital commitments which have been approved or contracted for by the company as at 31 March, 2019.

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 recognised 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 31 March, 2019 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 31 March, 2019 is Rs. 238,113,841/-. If the company had provided for gratuity on the basis of Gratuities Act No.12 of 1983, the liability would have been Rs. 253,857,656/-. Hence, there is a contingent liability of Rs. 15,743,815/-, which would crystallise only if the company ceases to be a going concern.

b. Few 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. Transition Disclosure

47.1 Reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as at 1 April, 2018

		LKAS 39 Measurement as at March 31, 2018			Remeasurement		SLFRS 9 Measurement as at April 1, 2018	
Description	Note	Category	Rs. '000	Reclassification	ECL	Other	Rs. '000	Category
Financial Assets								
Cash and cash equivalents		Loans and receivables	763,819	-	-	-	763,819	Financial assets at amortised cost
Placement with banks		Loans and receivables	218,102	-	-	-	218,102	Financial assets at amortised cost
Loans and receivables		Loans and receivables	14,549,748	-	(155,068)	(172,749)	14,221,931	Financial assets at amortised cost
Finance leases receivables		Loans and receivables	12,016,981	-	(62,690)	(11,800)	11,942,491	Financial assets at amortised cost
Hire purchase receivables		Loans and receivables	5,368,388	-	38,604	(32,673)	5,374,319	Financial assets at amortised cost
Other financial assets		Loans and receivables	506,326	-	-	-	506,326	Financial assets at amortised cost
Total loans and receivables			33,423,364	-	(179,154)	(217,222)	33,026,988	**Total Financial assets at amortised cost**
Financial investments -Available for sale		Available for sale	2,768,053	-	-	-	2,768,053	Financial assets measured at FVOCI
Financial investments - Available for sale (unquoted)		Available for sale	70,427	-	-	-	70,427	Financial assets measured at FVOCI
Total available for Sale			2,838,480	-	-	-	2,838,480	**Total Financial assets measured at FVOCI**
Total Financial assets			36,261,844	-	(179,154)	(217,222)	35,865,468	
Current Tax Receivables			21,276	-	-	37,551	58,227	
Total assets subject to transition impact			36,283,520	-	(179,154)	(179,671)	35,924,695	

		LKAS 39 Measurement as at March 31, 2018			Remeasurement		SLFRS 9 Measurement as at April 1, 2018	
Description	Note	Category	Rs. '000	Reclassification	ECL	Other	Rs. '000	Category
Financial liabilities								
Bank overdraft		Financial liabilities at amortised cost	254,238	-	-	-	254,238	Financial liabilities at amortised cost
Deposits due to customers		Financial liabilities at amortised cost	20,073,010	-	-	-	20,073,010	Financial liabilities at amortised cost
Debt instruments issued and other borrowings		Financial liabilities at amortised cost	9,327,958	-	-	-	9,327,958	Financial liabilities at amortised cost
Other financial liabilities		Financial liabilities at amortised cost	814,105	-	-	-	814,105	Financial liabilities at amortised cost
		Total amortised cost	30,469,310	-	-	-	30,469,310	**Total Financial Liabilities amortised cost**
Total financial liabilities			30,469,310	-	-	-	30,469,310	
Non-financial liabilities				-				
Deferred tax liabilities		N/A	980,970	-	16,190	-	997,160	
Total financial liabilities			980,970	-	16,190	-	997,160	
Total liabilities subject to transition impact			980,970	-	16,190	-	997,160	

47.2 Impact of Transition to SLFRS 9 on Reserves and Retained Earnings

Fair value reserve	
Closing balance under LKAS 39 as at 31 March, 2018	-
Transfer of AFS reserve to fair value reserve	200,486
Opening balance under SLFRS 9 as at 1 April, 2018	200,486
Impact of adoption of SLFRS 9 on fair value reserve	200,486
Available-for-sale reserve	
Closing balance under LKAS 39 as at 31 March, 2018	200,486
Transfer of AFS reserve to fair value reserve	(200,486)
Opening balance under SLFRS 9 as at 1 April, 2018	
Impact of adoption of SLFRS 9 on Available for reserve	(200,486)
Retained earnings	
Closing balance under LKAS 39 as at 31 March, 2018	1,720,521
Recognition of SLFRS 9 ECLs	(396,376)
Tax Impact	21,361
Opening balance under SLFRS 9 as at 1 April, 2018	1,345,506
Impact of adoption of SLFRS 9 on retained earnings	(375,015)
Total change in equity due to adopting SLFRS 9	**(375,015)**

47.3 Impact of Transition to SLFRS 9 on impairment

The following notes provide a reconciliation on the opening provision for impairment under LKAS 39 to the ECL allowances under SLFRS 9. Further details are disclosed in Notes 23, 24 and 25 of the Financial Statements.

	Impairment under LKAS 39 As at 31 March, 2018	Remeasurement	ECLs under SLFRS 9 As at 1 April, 2018
Impairment allowance for loans and receivables			
as per LKAS 39/financial assets at amortised cost under SLFRS 9	1,210,439	179,154	1,389,593
Total impairment	1,210,439	179,154	1,389,593

48. 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.

49. 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.

49.1 Parent and Ultimate Controlling party

The Company does not have an identifiable parent of its own.

49.2 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. Current year Depreciation charged to the Income Statement of the said property was Rs. 2.3 million (2018 Rs. 1.7 million).

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Short - term employee benefits	104,611	99,422
Post employee benefits	72,839	65,555
	177,450	164,977

49.3 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.

	2019 Rs.'000	2018 Rs.'000
Statement of financial position		
Liabilities		
Deposits	683,020	669,435
	683,020	669,435
Statements of comprehensive income		
Interest expenses	86,651	89,689
Other transactions		
Dividend paid on shareholding	-	21,625

49.4 Transactions with the entities which are controlled by key management personnel (KMPs) and their close family members (CFMs).

49.4.1 Statement of financial position

As at 31st March	2019 Rs.'000	2018 Rs.'000
Assets		
Loan & Advances	-	1,542
Insurance Commission Receivable	55,279	-
Other Receivables	5,129	4,116
Total	60,408	5,657
Accommodation as a % of Capital Funds	0.70%	0.07%
Liabilities		
Deposits	1,612,686	1,588,056
Insurance Premium Payable	172,993	-
Accrued Expenses Payable	2,824	2,498
	1,788,503	1,590,554

Statements of comprehensive income

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Interest Income on Loans & Advances	15	296
Interest Expenses on Fixed Deposit	213,320	185,963
Rent Income	8,100	7,140
Insurance Commission Income	79,156	-
Other Income	8,224	7,217
Insurance Marketing Expense	3,000	-
Other Expenses	293	181
Security Expenses	28,632	25,571
Other Transactions		
Dividend Paid on shareholding	-	18,713

49.4.2 Transactions with the associates

Statement of financial position

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Assets		
Other Assets	535	252
Liabilities		
Deposits	673,963	674,339

Statements of comprehensive income

For the year ended 31st March	2019 Rs.'000	2018 Rs.'000
Interest Expenses on Fixed Deposit	88,884	84,419
Rent Income	1,500	1,500
Other Income	998	1,075
Other Transactions		
Dividend Income	15,085	14,961

49.4.3 Outstanding balances of accommodation granted/ deposit received/ receivable in respect of services rendered as at the reporting date with the entities where the chairman or a director of the company is the chairman or director of such entities.

Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2019 Rs. '000	As at 31.03.2018 Rs. '000
(a) **Mr. G. G. Ondaatjie**				
Mercantile Fortunes (Pvt) Limited	Deputy Chairman	Motor vehicle hire, repairs and others	1,934	2,956
Tangerine Beach Hotels PLC	Director	Deposits	336,555	341,690
		Loan	-	1,075
		Motor vehicle hire, repairs and others	260	28
Royal Palms Beach Hotels PLC	Director	Deposits	240,101	187,467
		Loan	-	466
		Motor vehicle hire, repairs and others	322	222
The Nuwara Eliya Hotels Company PLC	Deputy Chairman	Deposits	673,963	674,339
		Motor vehicle hire, repairs and others	535	252

Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2019 Rs. '000	As at 31.03.2018 Rs. '000
Tangerine Tours (Pvt) Limited	Director	Deposits	103,198	152,718
		Motor vehicle hire, repairs and others	820	574
Nilaveli Beach Hotels (Pvt) Limited	Deputy Chairman	Deposits	151,611	143,402
		Motor vehicle hire, repairs and others	(6)	3
Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
		Motor vehicle hire, repairs and others	45	81
		Security expenses	2,824	2,498
Mercantile Orient (Pvt) Limited	Deputy Chairman	Deposits	5,913	5,421
Global Films Limited	Director	Deposits	1,431	1,348
Fair View Hotel (Pvt) Limited	Chairman	Deposits	98,389	80,330
Mercantile Fortunes Insurance brokers (Pvt) Limited	Chairman	Deposits	106	-
		Motor vehicle hire, repairs and others	1,219	-
		Insurance commission receivable	55,279	-
		Insurance premium payable	172,993	-
(b) Ms. A.M. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	1,934	2,956
Tangerine Beach Hotels PLC	Managing Director	Deposits	336,555	341,690
		Loan	-	1,075
		Motor vehicle hire, repairs and others	260	28
Royal Palms Beach Hotels PLC	Managing Director	Deposits	240,101	187,467
		Loan	-	466
		Motor vehicle hire, repairs and others	322	222
The Nuwara Eliya Hotels Company PLC	Director	Deposits	673,963	674,339
		Motor vehicle hire, repairs and others	535	252
Tangerine Tours (Pvt) Limited	Managing Director	Deposits	103,198	152,718
		Motor vehicle hire, repairs and others	820	574
Nilaveli Beach Hotels (Pvt) Limited	Director	Deposits	151,611	143,402
		Motor vehicle hire, repairs and others	-	3
Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
		Motor vehicle hire, repairs and others	45	81
		Security expenses	-	2,498
Mercantile Orient (Pvt) Limited	Director	Deposits	5,913	5,421
Global Films Limited	Director	Deposits	1,431	1,348
Fair View Hotel (Pvt) Limited	Director	Deposits	98,389	80,330

Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2019 Rs. '000	As at 31.03.2018 Rs. '000
(c) Mr. T.J. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	1,934	2,956
Tangerine Beach Hotels PLC	Director	Deposits	336,555	341,690
		Loan	-	1,075
		Motor vehicle hire, repairs and others	260	28
Royal Palms Beach Hotels PLC	Director	Deposits	240,101	187,467
		Loan	-	466
		Motor vehicle hire, repairs and others	322	222
The Nuwara Eliya Hotels Company PLC	Director	Deposits	673,963	674,339
		Motor vehicle hire, repairs and others	535	252
Tangerine Tours (Pvt) Limited	Director	Deposits	103,198	152,718
		Motor vehicle hire, repairs and others	820	574
Nilaveli Beach Hotels (Pvt) Limited	Managing Director	Deposits	151,611	143,402
		Motor vehicle hire, repairs and others	(6)	3
Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
		Motor vehicle hire, repairs and others	45	81
		Security expenses	2,824	2,498
Mercantile Orient (Pvt) Limited	Director	Deposits	5,913	5,421
Global Films Limited	Director	Deposits	1,431	1,348
Fair View Hotel (Pvt) Limited	Director	Deposits	98,389	80,330
(d) Mr. S.H. Jayasuriya				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	1,934	2,956
Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
		Motor vehicle hire, repairs and others	45	81
		Security expenses	2,824	2,498
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	106	-
		Insurance commission receivable	55,279	-
		Insurance premium payable	172,993	-
		Motor vehicle hire, repairs and others	1,219	-

Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2019 Rs. '000	As at 31.03.2018 Rs. '000
(e) Mr. P.M. Amarasekara				
Security Ceylon (Pvt) Limited	Director	Deposits	1,420	1,343
		Motor vehicle hire, repairs and others	45	81
		Security expenses	2,824	2,498
Fair View Hotel (Pvt) Limited	Director	Deposits	98,389	80,330
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	106	-
		Insurance commission receivable	55,279	-
		Insurance premium payable	172,993	-
		Motor vehicle hire, repairs and others	1,219	-
(f) Mr. N.H.V. Perera				
Tangerine Beach Hotels PLC	Director	Deposits	336,555	341,690
		Loan	-	1,075
		Motor vehicle hire, repairs and others	260	28
Royal Palms Beach Hotels PLC	Director	Deposits	240,101	187,467
		Loan	-	466
		Motor vehicle hire, repairs and others	322	222

50. Assets Pledged

The following assets have been pledged as secuirty for banking and loan facilities

Name of the bank	Nature of the facility	Facility amount(Rs.)	Outstanding (Rs.)	Securities/ mortgages
Commercial Bank of Ceylon PLC	Overdraft	125 Million	18,499,214	Mortgaged over investment in quoted shares by the company.
	Term loan	1 Billion	499,600,000	Mortgaged over hire purchase & leases receivables for 130 %
	Term loan	1 Billion	750,400,000	Mortgaged over hire purchase & leases receivables for 130%
	Term loan	1 Billion	749,800,000	Mortgaged over hire purchase & leases receivables for Rs.1.3 Billion.
Hatton National Bank PLC	Overdraft	400 Million	164,623,298	Mortgaged over investment in quoted shares by the company.
	Term loan	1100Mn	950,000,000	Mortgaged over hire purchase & leases receivables for Rs.1.3 times
	Term loan	1 Billion	187,501,300	Mortgaged over hire purchase & leases receivables for 140 %
	Term loan	1 Billion	417,600,000	Mortgaged over hire purchase & leases receivables for 140 %
	Term loan	1 Billion	500,800,000	Mortgaged over hire purchase & leases receivables for 140 %
Sampath Bank PLC	Overdraft	100 Million	11,499,487	Mortgaged over Maharagama property at Vaijragnana Mawatha, Maharagama for Rs.100 Million
				Promisory note for Rs.100 Million
	Term loan	1 Billion	749,999,800	Mortgaged over hire purchase & leases receivables for Rs.1.3 Billion times
Seylan Bank PLC	Short Term loan	500 Million	500,000,000	Mortgaged over hire purchase & leases receivables for Rs. 2.2 Billion
		250 Million	250,000,000	Mortgaged over hire purchase & leases receivables for Rs. 2.2 Billion
		750 Million	750,000,000	Mortgaged over hire purchase & leases receivables for Rs. 2.2 Billion
Cargills Bank	Term loan	250 Million	105,529,883	Mortgaged over hire purchase & leases receivables for 1.5 times
National Development Bank PLC	Short Term loan	600 Million	600,000,000	Mortgaged over hire purchase & leases receivables for 2.4 Billion
		150 Million	150,000,000	Mortgaged over hire purchase & leases receivables for 2.4 Billion
		250 Million	250,000,000	Mortgaged over hire purchase & leases receivables for 2.4 Billion
		750 Million	750,000,000	Mortgaged over hire purchase & leases receivables for 2.4 Billion
Nations Trust Bank	OD	50 Million	14,085,090	Mortgaged over hire purchase & leases receivables for 130 %
	Short Term loan	250 Million	250,000,000	Mortgaged over hire purchase & leases receivables for 130 %
Public Bank	Term loan	250 Million	173,324,038	Mortgaged over hire purchase & leases receivables for 1.67 times

Name of the bank	Nature of the facility	Facility amount (Rs.)	Outstanding as at 31.03.2019 (Rs.)	Securities/ mortgages
Securitised borrowings	Trust loan	1,000 Million	16,600,000	Mortgaged over hire purchase & leases receivables for Rs. 1.3 times
	Syndicate loan	1,000 Million	325,000,000	Mortgaged over hire purchase & leases receivables for Rs. 1.3 times
			341,600,000	

51. 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 authorised 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.

52. Financial Reporting by Segments

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 and management believes that information about the segment would be useful to users of the financial statements.

The operating business are organised 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:

Lending

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
Insurance	This segment includes the insurance services offered to financing and term borrowers as insurance agent
Workshop	This segment includes after sales motor care services offered through our workshop repair and service centre
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 arm's length basis.

Business Segments

The following table presents the income, profit and assets and liability information on the company business's segment for the year ended 31 March, 2019 and comparative figures for the year ended 31 March, 2018.

52. Financial Reporting by Segments as per the Provisions of Sri Lanka Financial Reporting Standard - SLFRS 08

	Lending					
	Finance Lease		Hire Purchase		Loans & Advances	
For the year ended 31st March	2019	2018	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
External operating income						
Interest income	2,751,109	2,238,319	1,036,448	1,221,985	3,456,566	2,930,090
Fee and commission income	-	-	-	-	-	-
Capital gains	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Other Revenue	-	-	-	-	-	-
Gross Revenue	2,751,109	2,238,319	1,036,448	1,221,985	3,456,566	2,930,090
Interest expenses	1,419,574	1,203,110	534,808	656,824	1,783,590	1,574,941
Cost of Sales	-	-	-	-	-	-
	1,419,574	1,203,110	534,808	656,824	1,783,590	1,574,941
Total operating income	1,331,535	1,035,209	501,640	565,161	1,672,976	1,355,149
Impairment charge/(reversal) for loans and receivables / Equity Investments	274,934	57,796	54,960	22,589	310,655	220,354
Net operating income	1,056,601	977,413	446,680	542,572	1,362,321	1,134,795
Personnel expenses	336,427	283,896	126,745	154,990	422,696	371,636
Commission	73,065	55,381	7,158	23,705	30,664	29,969
Depreciation and amortisation	35,660	29,804	13,435	16,271	44,805	39,016
Disallowed VAT on expenses	16,605	15,411	6,256	8,414	20,862	20,174
Other overheads	291,966	223,111	109,995	121,805	366,834	292,065
	753,724	607,603	263,588	325,185	885,861	752,861
Operating profit before value added tax on financial services	302,877	369,810	183,092	217,387	476,460	381,934
Value added tax and NBT on financial services	145,217	90,959	54,709	49,658	182,455	119,071
Operating profit after value added tax on financial services	157,660	278,851	128,383	167,729	294,005	262,864
Share of associate company's profit after taxation						
Profit before taxation from operations						
Income tax expenses						
Profit for the year						
Other information						
As At 31st March						
Segment assets	12,722,875	12,016,981	3,308,315	5,368,388	15,913,287	14,549,748
Segment liabilities	10,057,273	9,425,610	2,615,182	4,210,736	12,579,254	11,412,204
Net assets	2,665,602	2,585,604	693,134	1,155,076	3,334,033	3,130,560

Note

For the purpose of segment reporting ,we have disclosed the gross revenue of workshop, while the corresponding expenses of cost of sales, personal cost, and other overheads have been grossed up to arrive at the workshop profit/(loss).

Investments		Insurance		Workshop		Others		Total	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
191,932	173,645	-	-	-	-	-	-	7,436,054	6,564,038
-	-	94,955	89,797	-	-			94,955	89,797
-	219,327	-	-	-	-	-	-	-	219,327
48,197	69,863	-	-	-	-	-	-	48,197	69,863
-	-	-	-	71,885	74,055	56,673	37,441	128,558	148,936
240,129	462,835	94,955	89,797	71,885	74,055	56,673	37,441	7,707,765	7,091,962
123,907	248,776	-	-	-	-	-	-	3,861,878	3,683,651
-	-	-	-	36,953	40,146	-	-	36,953	40,146
123,907	248,776	-	-	36,953	40,146	-	-	3,898,831	3,723,797
116,222	214,058	94,955	89,797	34,932	33,909	56,673	37,441	3,808,934	3,368,165
41,099	125,614					-	-	681,648	426,353
75,123	88,445	94,955	89,797	34,932	33,909	56,673	37,441	3,127,286	2,941,812
10,102	9,586	18,711	18,572	27,076	26,403	6,930	4,749	948,688	869,832
-	-	-	-	-	-	-	-	110,887	109,055
3,113	6,163	1,231	1,196	517	797	735	499	99,494	93,746
1,449	3,187	573	618	-	-	342	258	46,087	48,062
25,484	46,134	4,532	3,859	7,316	5,221	6,015	3,732	812,142	695,927
40,148	65,070	25,046	24,245	34,909	32,422	14,022	9,237	2,017,298	1,816,621
34,975	23,375	69,909	65,552	24	1,488	42,652	28,203	1,109,988	1,125,191
12,675	18,808	5,012	3,649	-	-	2,991	1,521	403,059	283,667
22,300	4,567	64,897	61,903	24	1,488	39,660	26,682	706,929	841,524
								79,724	74,812
								786,653	**916,336**
								(328,580)	**(344,706)**
								458,073	**571,631**
4,442,290	4,063,087	239,963	206,262	10,344	9,198	4,717,491	4,142,282	41,354,565	40,355,948
3,511,575	3,186,913	178,763	179,437	10,539	8,932	3,729,118	3,249,030	32,681,701	31,672,861
930,716	874,224	418,725	385,699	20,883	18,130	988,374	937,623	8,672,864	8,683,087

53. 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	2019			2018		
	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	1,196,226	-	1,196,226	763,819	-	763,819
Placement with banks	240,075	1,301	241,376	216,891	1,211	218,102
Financial investments-at FV through OCI	2,632,908	300,577	2,933,484	2,561,473	277,006	2,838,479
Loans and receivables	7,479,901	8,433,386	15,913,287	7,181,339	7,368,409	14,549,748
Finance lease receivables	4,891,635	7,831,240	12,722,875	4,313,096	7,703,885	12,016,981
Hire purchase receivables	1,529,504	1,778,811	3,308,305	2,111,525	3,256,863	5,368,388
Other financial assets	250,297	249,296	499,594	215,920	290,406	506,326
Total financial assets	18,220,593	18,594,564	36,815,157	17,364,063	18,897,780	36,261,843
Non-financial assets						
Inventories	-	23,231	23,231	6,762	-	6,762
Current tax refunds	-	-	-	21,676	-	21,676
Investment in associates	-	1,267,430	1,267,430	-	1,006,506	1,006,506
Other assets	43,386	53,354	96,740	41,309	62,794	104,103
Property, plant and equipment	-	2,848,159	2,848,159	-	2,691,612	2,691,612
Leasehold property	-	41,207	41,207	-	41,672	41,672
Intangible assets	-	64,211	64,211	-	48,980	48,980
Investment property	-	198,431	198,431	-	172,796	172,796
Total non-financial assets	43,386	4,496,022	4,539,408	69,747	4,024,360	4,094,107
Total assets	18,263,979	23,090,586	41,354,565	17,433,810	22,922,140	40,355,950
Liabilities						
Financial liabilities						
Bank overdraft	186,276	-	186,276	254,238	-	254,238
Deposits due to customers	16,280,463	4,895,969	21,176,433	15,185,398	4,887,612	20,073,010
Debt instruments issued and other borrowings	6,218,413	2,739,066	8,957,478	5,723,242	3,604,715	9,327,957
Other financial liabilities	955,246	-	955,246	791,593	22,512	814,105
Total financial liabilities	23,930,736	7,635,035	31,565,771	21,954,471	8,514,839	30,469,310
Non-financial liabilities						
Current tax liabilities	290,338	-	290,338	-	-	-
Deferred tax liability	-	830,950	830,950	-	980,970	980,970
Other liabilities	46,859	-	46,859	39,095	-	39,095
Retirement benefit obligation	-	238,112	238,112	-	183,477	183,477
Total non-financial liabilities	46,859	1,069,062	1,115,921	39,095	1,164,447	1,203,542
Total liabilities	23,977,595	8,704,097	32,681,692	21,993,566	9,679,286	31,672,852
Net assets/ liabilities	(5,713,674)	14,386,489	8,672,874	(4,559,756)	13,242,854	8,683,098

54. Financial Risk Management

54.2 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 and minimizing unexpected losses. 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 of the Company (refer pages 32 and 33) and strives to either eliminate or reduce risks stemming from our four business segments as depicted below.

54.2.1 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 of business for it’s better governance to either directly or indirectly assist IRMC in ensuring a sound risk governance prevails across key functions.

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.

54.2.2 Risk measurement and reporting System

The Company uses robust risk measurement techniques to capture risk levels based on the type of risk, geographical area, industry and best practices. The risk management framework of the Company provides an insight on the impact of probable and remote scenarios on the Company's risk profile. The results are reported to the IRMC periodically by Head of Compliance and Risk Management.

The Company establishes policy limits within the risk appetite of the Company. These limits reveal the business strategy and market environment of the Company as well as the level of risk tolerance of the Company. Tolerance limit of each risk category with current status as at financial year under review provided in the Risk Management report of the Annual report (refer pages 235 to 250).

54.2.3 Integrated Risk Management Framework Diagram

54.3 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 an over Rs.31.9 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.

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 obligor default risk, and geographic and sector concentration risks) both at micro and macro levels to manage and control associated risks.(Refer the credit risk section of the Risk Management report.)

Impairment Assessment (Policy applicable from 01st April 2018)

The methodology of the impairment assessment was explained in 3.12 to 3.4 under Accounting policies. The references given herein should be read in conjunction with those Accounting policies.

54.3.1 Credit Quality by Class of Financial Assets

The credit quality categorisation method adopted by MI was 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, measured at amortised cost, measured at Fair Value Through Other Comprehensive Income (FVOCI) and contingent liabilities and commitment as at the end of the financial year 2018/19.

54.3.1.A Credit Quality by Class of Financial Assets - As at 31st March 2019 (as per SLFRS 9)

	Rs.'000				
	Not Subject to ECL	12 Month ECL (Stage 1)	Life time ECL not credit impaired (Stage 2)	Life time ECL credit impaired (Stage 3)	Total
Financial Assets					
Cash and Cash Equivalents	1,196,226	-	-	-	1,196,226
Placements with banks	241,376	-	-	-	241,376
Financial Assets Measured at FVOCI	2,933,485	-	-	-	2,933,485
Other Financial Assets	499,594	-	-	-	499,594
Hire Purchase Receivable	-	2,360,517	622,236	604,613	3,587,367
Finance Lease Receivables	-	10,726,212	1,598,899	955,670	13,280,780
Loans & Advances	-	12,913,033	1,539,638	2,880,248	17,332,919
	4,870,681	25,999,762	3,760,773	4,440,531	39,071,747

Commentary

Out of the total Financial Assets portfolio, 66% comprise of ECL stage 1 assigned loans and receivables. There is constant review over individually impaired ,ECL stage 2 and 3 accounts by MI's recovery division to sustain overall asset quality, taking appropriate recovery measures on a timely manner.

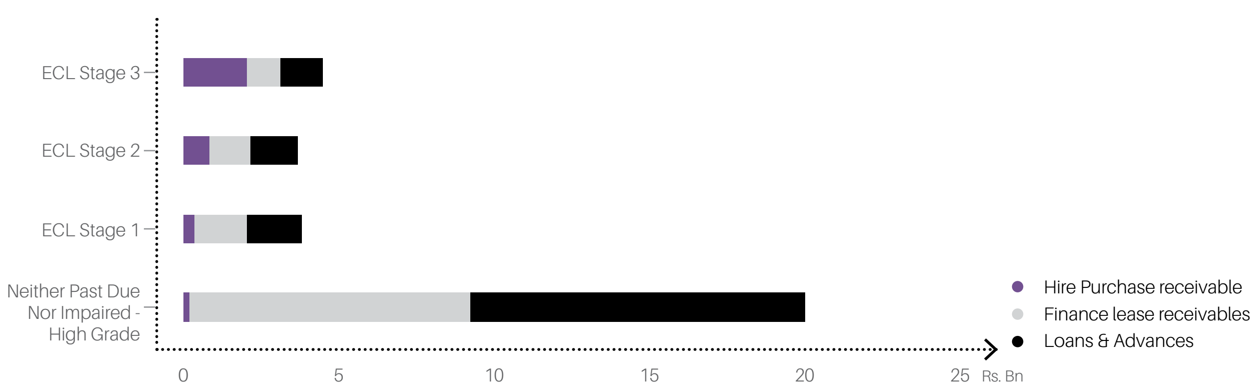
54.3.1.B Neither Past Due and Past due (Facilities In Arrears of 1 Day and above) but not Impaired-Age Analysis by Class of Financial Assets; (as per SLFRS 9)

	Neither Past Due Nor Impaired - High Grade	Past due not impaired Age analysis		
		ECL Stage 1	ECL Stage 2	ECL Stage 3
Hire Purchase receivables	207,580	351,318	858159	2,044,963
Finance lease receivables	9,056,517	1,673,402	1307666	1,066,765
Loans & Advances	10,771,185	1,779,086	1,539,655	1,362,146
	20,035,282	3,803,806	3,705,480	4,473,874

Commentary

Over 58% of the customer base of MI is in "high grade performing customer group with zero past due basis".

Neither Past Due & Past due not impaired Age analysis



Measurement Assumptions

Credit quality is measured in terms of the collection status and categorised for risk analysis. Below definitions are 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 287 to 295 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 individual impairment if the carrying value of a credit contract is greater than a pre-determined threshold specified for product categories. This enables the Company to take a greater prudent approach to the credit risk of high exposure contracts.
- 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 grade performing customer group with zero past due basis.

54.3.1.C Credit Quality by Class of Financial Assets - As at 31st March 2018 (as per LKAS 39)

Financial Assets	Neither past due nor impaired			Past due not impaired	Individually Impaired	
	High Grade Rs. 000'	Standard Grade Rs. 000'	Low Grade Rs. 000'	Rs. 000'	Rs. 000'	Total
Cash & Short term Fund	763,819	-	-	-	-	763,819
Placements with the banks	218,102	-	-	-	-	218,102
Financial Investments -Available for sale	2,613,533	-	-	-	224,947	2,838,480
Other Financial assets	215,920	-	-	-	290,406	506,326
Hire Purchase receivables	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	12,222,300
Loans & Advances	11,166,523	-	-	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

Assumptions

Neither past due nor impaired - High, Standard , Low : Assets are categorised as High, Standard and Low grades based on their collateral buffer and loss rate indicators.

54.3.1.D Past due (Facilities In Arrears of 1 Day and above) but not Impaired-Age Analysis by Class of Financial Assets; (as per LKAS 39)

	Past due not impaired Age analysis as at 31.03.2018					
	< 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

54.3.1.E Credit Exposure Movement - ECL Stage Wise (as per SLFRS 9)- As at 31st March 2019

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts by class of financial instrument.

			Rs.'000		
	Carrying Amount	Not Subject to ECL	12 Month ECL impaired (Stage 1)	Life time ECL not credit impaired (Stage 2)	Life time ECL credit impaired (Stage 3)
Cash and Cash Equivalents					
Gross carrying amount as at April 1, 2018	763,819	763,819	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	432,407	432,407	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
As at March 31, 2019	1,196,226	1,196,226	-	-	-
Placements with banks					
Gross carrying amount as at April 1, 2018	218,102	218,102	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	23,274	23,274	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
As at March 31, 2019	241,376	241,376	-	-	-
Financial assets at amortised cost – Other Loans & Advances					
Gross carrying amount as at April 1, 2018	15,300,670	-	12,671,732	683,672	1,945,266
Transfer to Stage	-	-	(1,151,757)	838,957	312,801
New assets originated or purchased	10,860,392	-	9,323,263	511,730	1,025,398
Financial assets derecognised or repaid (excluding write-offs)	(8,811,417)	-	(7,930,205)	(494,721)	(386,491)
Write-offs	(16,726)	-	-	-	(16,726)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2019	17,332,919	-	12,913,033	1,539,638	2,880,248
Financial assets at amortised cost – Finance Leases					
Gross carrying amount as at April 1, 2018	12,219,739	-	10,824,652	812,778	582,309
Transfer to Stage	-	-	(658,999)	420,486	238,513
New assets originated or purchased	6,534,204	-	5,046,637	956,776	530,790
Financial assets derecognised or repaid (excluding write-offs)	(5,455,229)	-	(4,486,078)	(591,142)	(378,007)
Write-offs	(17,934)	-	-	-	(17,934)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2019	13,280,780	-	10,726,212	1,598,899	955,670

	Carrying Amount	Not Subject to ECL	12 Month ECL impaired (Stage 1)	Life time ECL not credit impaired (Stage 2)	Life time ECL credit impaired (Stage 3)
			Rs.'000		
Financial assets at amortised cost – Hire Purchase					
Gross carrying amount as at April 1, 2018	5,625,148	-	4,737,280	388,461	499,407
Transfer to Stage	-	-	(365,716)	230,019	135,697
New assets originated or purchased	626,575	-	125,476	328,668	172,430
Financial assets derecognised or repaid (excluding write-offs)	(2,638,376)	-	(2,136,523)	(324,912)	(176,941)
Write-offs	(25,980)	-	-	-	(25,980)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2019	3,587,367		2,360,517	622,236	604,613
Other Financial Assets					
Gross carrying amount as at April 1, 2018	506,326	506,326	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(6,732)	(6,732)	-	-	-
Write-offs	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2019	499,594	499,594	-	-	-
Financial assets measured at FVOCI /financial investments – Available for sale					
Gross carrying amount as at April 1, 2018	2,838,480	2,838,480	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	95,005	95,005	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2019	2,933,485	2,933,485			

Commentary

Management observed shifts in financial instruments credit exposure based on " Expected Credit Loss" new SLFRS -9 methodology especially for MI's Leases and Loan and advances. Accordingly, Management applied stringent 90 day and above "past due " basis to account for impairment and take bucket specific recovery actions.

54.3.1.F Provision for Impairment (ECL) Movement (as per SLFRS 9)- As at 31st March 2019

The following table shows reconcilations from the opening to closing balance of the provision for impairment by class of financial instrument.

	Note	Page No	12 Month ECL (Stage 1)	Life time ECL not credit impaired (Stage 2)	Life time ECL credit impaired (Stage 3)	Total
			Rs.'000			
Cash and cash equivalents						
Provision for impairment (ECL) as at April 1, 2018			-	-	-	-
Transfer to Stage			-	-	-	-
Net remeasurement of impairment			-	-	-	-
New assets originated or purchased			-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)			-	-	-	-
As at March 31, 2019						
Placements with banks						
Provision for impairment (ECL) as at April 1, 2018			-	-	-	-
Transfer to Stage			-	-	-	-
Net remeasurement of impairment			-	-	-	-
New assets originated or purchased			-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)			-	-	-	-
As at March 31, 2019						
Financial assets at amortised cost – Other Loans & Advances						
Provision for impairment (ECL) as at April 1, 2018			57,199	19,039	829,753	905,990
Transfer to Stage			(7,794)	3,969	3,826	-
Net remeasurement of impairment			(7,424)	10,681	186,259	189,515
New assets originated or purchased			84,544	18,584	112,271	215,399
Financial assets derecognised or repaid (excluding write-offs)			(28,398)	(11,086)	(54,776)	(94,260)
Write offs and Recoveries			-	-	(16,726)	(16,726)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2019			98,126	41,186	1,060,607	1,199,920
Financial assets at amortised cost – Finance Leases						
Provision for impairment (ECL) as at April 1, 2018			71,306	22,421	171,721	265,448
Transfer to Stage			(2,726)	1,923	803	-
Net remeasurement of impairment			666	31,737	127,279	159,683
New assets originated or purchased			62,074	21,946	69,560	153,582
Financial assets derecognised or repaid (excluding write-offs)			(17,850)	(8,432)	(12,138)	(38,331)
Write offs and Recoveries			-	-	(17,934)	(17,934)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2019			113,470	69,687	339,291	522,447

			Rs.'000			
	Note	Page No	12 Month ECL (Stage 1)	Life time ECL not credit impaired (Stage 2)	Life time ECL credit impaired (Stage 3)	Total
Financial assets at amortised cost - Hire Purchase						
Provision for impairment (ECL) as at April 1, 2018			40,720	6,946	170,490	218,156
Transfer to Stage			(590)	1,525	(935)	-
Net remeasurement of impairment			(14,273)	6,409	66,002	58,138
New assets originated or purchased			4,070	2,118	4,755	10,943
Financial assets derecognised or repaid (excluding write-offs)			(9,797)	(2,719)	(1,604)	(14,121)
Write offs and Recoveries			-	-	(25,980)	(25,980)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2019			20,130	14,279	212,727	247,136
Financial assets measured at FVOCI /financial investments - Available for sale						
Provision for impairment (ECL) as at April 1, 2018			-	-	-	-
Transfer to Stage			-	-	-	-
Net remeasurement of impairment			-	-	-	-
New assets originated or purchased			-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)			-	-	-	-
As at March 31, 2019						
Other Financial Assets						
Provision for impairment (ECL) as at April 1, 2018			-	-	-	-
Transfer to Stage			-	-	-	-
Net remeasurement of impairment			-	-	-	-
New assets originated or purchased			-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)			-	-	-	-
As at March 31, 2019						

54.3.2 Credit Impaired Financial Assets (As per SLFRS 9)

Reconciliation of changes in the net carrying amount of life time ECL credit impaired (Stage 3) loans and advances as detailed below;

As at March 31, 2019	Rs.'000
Stage 3 loans and advances to other customers as at April 1,	1,945,266
Newly classified as impaired loans and advances during the year	-
Net change in already impaired loans and advances during the year	1,422,651
Net payment, write-off and recoveries and other movement during the year	(487,669)
Impaired loans and advances to customers as at March 31,	2,880,248

As at March 31, 2018	Rs.'000
Stage 3 loans and advances to other customers as at April 1,	2,124,333
Newly classified as impaired loans and advances during the year	601,103
Net change in already impaired loans and advances during the year	85,868
Net payment, write-off and recoveries and other movement during the year	(723,179)
Impaired loans and advances to customers as at March 31,	2,088,124

54.3.3. Sensitivity of impairment provision on loans and advances to other customers (As per SLFRS 9)

Company has estimated the impairment provision on loans and advances to other customers as at 31st March 2019 subject to various assumptions. The changes to such assumptions may lead to changes in inputs used for the computation of impairment provision.

The below table demonstrates the sensitivity of the impairment provision of the Company as at 31st March 2019 to a reasonably possible change in PDs, LGDs and forward looking information.

	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity Effect on Income Statement
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Rs.'000
PD 1% increase across all age buckets	41,782	10,144	-	51,925	(51,925)
PD 1% decrease across all age buckets *	(41,782)	(10,144)	-	(51,925)	51,925
LGD 5% increase	43,643	28,753	128,915	201,311	(201,311)
LGD 5% decrease *	(43,643)	(28,753)	(128,915)	(201,311)	201,311
Probability weighted Economic Scenarios					
Base case 10% increase, worst case 5% decrease and best case 5% decrease	(381)	(30)	-	(411)	411
Base case 10% decrease, worst case 5% increase and best case 5% increase	410	(155)	-	254	(254)

* The PD/LGD decrease is capped to 0%, if applicable.

Commentary

Based on the "Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]" estimated current impact from probability of default (+or (-)1%) and (+or (-)5%) Loss given default are at moderate level Rs. 51 Million and Rs. 201 Million respectively."

54.3.4 Types of Collateral Taken to Minimise Credit Exposure

54.3.4.A Collateral Held

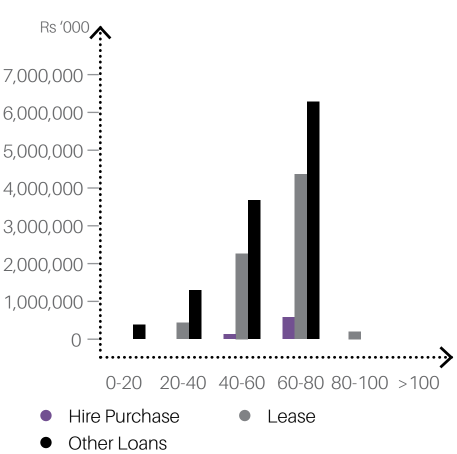
Type of Lending	Collateral generally obtained
Lease	Agricultural land and vehicles, Commercial property, Computer hardware and equipment, Dual purpose vehicles, Land vehicles, Motor bicycles, Motor cars, Motor coaches, Motor lorries, Motor Tricycles, Non-agricultural land vehicles, Other equipment, Other 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

54.3.4.B Credit Portfolio Classification Based on Loan to Value Ratio (LTV)

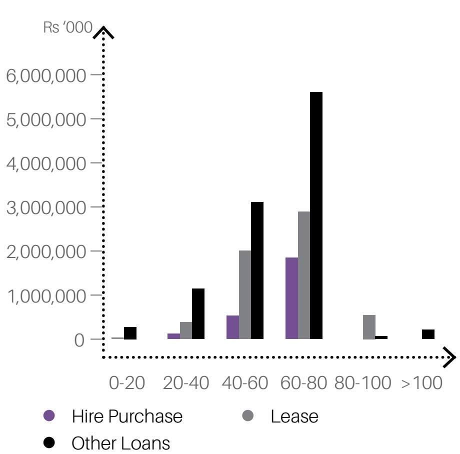
Lending facilities granted during the year were backed by collaterals as elaborated in the below table.

	2018/19				2017/18			
LTV Ratio %	Hire Purchase	Lease	Other Loans	Total New lending During the Year	Hire Purchase	Lease	Other Loans	Total New lending During the Year
0-20	3,860	34,884	378,390	417,133	9,498	37,391	276,414	323,303
20-40	32,916	434,771	1,300,163	1,767,850	113,441	383,557	1,139,244	1,636,242
40-60	129,460	2,275,782	3,685,399	6,090,641	533,393	2,007,700	3,098,016	5,639,108
60-80	578,159	4,378,346	6,302,913	11,259,418	1,839,324	2,887,687	5,598,505	10,325,516
80-100	-	202,978	-	202,978	19,810	549,011	65,550	634,371
>100	-	-	-	-	-	-	210,700	210,700
	744,395	7,326,761	11,666,865	19,738,021	2,515,466	5,865,346	10,388,428	18,769,240

LTV Ratio 2018/19



LTV Ratio 2017/18



54.3.4.C Maximum and Net Exposure of the Financial Assets

The following table shows the company's net exposure to credit risk.

	31st March 2019		31st March 2018	
	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)	1,196,226	1,196,226	763,819	763,819
Placements with Banks	241,376	241,376	218,102	218,102
Financial Assets Measured at FVOCI / Financial assets - Available-for-sale	2,933,485	2,933,485	2,838,480	2,838,480
Loans and receivables	31,944,477	(33,359,275)	31,935,118	(27,139,365)
Other Financial assets	499,594	499,594	506,326	506,326
	36,815,158	(28,488,594)	36,261,845	(22,812,638)

As an additional safeguard, guarantors are required particularly for lease and hire purchase contracts. The company resorts to repossess the assets kept as security when the borrowers default goes beyond the specified credit period. The sales proceeds resulting from the subsequent sale of such assets are then used to minimise credit risk exposure.

Measurement Assumptions

- The value of collateral represents 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 the collateral from the total carrying value.

Commentary

- Over 50% of new lending business possessed LTV is below 60% indicative of adequate collateral backing.
- Lease business 100% backed by collaterals.

54.3.5 Analysis of Risk Concentration

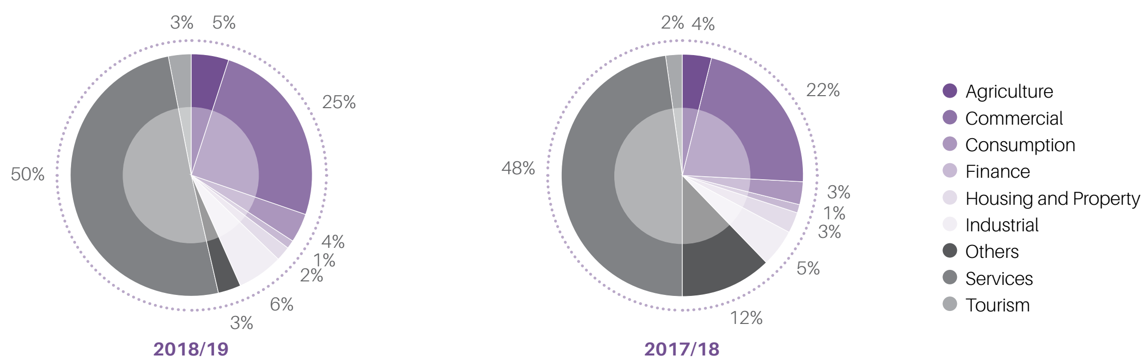
The company monitors its credit concentration risk by referring to the degree of credit exposure by MI to various sectors and by geographic locations.

54.3.5.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:

Industry	31.03.2019	%	31.03.2018	%
Agriculture	1,856,930	5	1,282,217	4
Commercial	8,665,915	25	7,310,707	22
Consumption	1,343,616	4	1,142,076	3
Finance	368,859	1	293,636	1
Housing and Property	647,467	2	901,891	3
Industrial	2,112,535	6	1,548,665	5
Others	1,097,655	3	4,132,860	12
Services	17,111,410	50	15,856,477	48
Tourism	1,000,334	3	680,789	2
Grand Total	34,204,720	100	33,149,317	100

Sector wise Credit Concentration



Measurement Assumptions

- Sector-wise credit concentration is measured using the information provided by customers.

Commentary

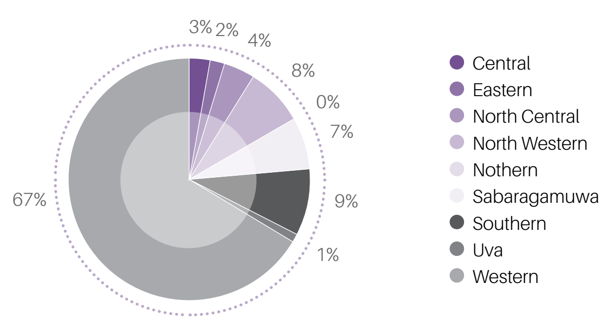
There is high concentration on Services sector which is over 50% of total lending value. This is mainly attributed to lending carried out for transportation services. MI's Management closely monitors the risk levels attached to these sectors and foresee no significant credit risk due to higher concentration.

54.3.5.B Province Wise Analysis

This table below discloses MI's geographic credit exposure.

Province	31.03.2019	%	31.03.2018	%
Central	881,522	3	754,247	2
Eastern	663,985	2	710,572	2
North Central	1,230,833	4	1,331,947	4
North Western	2,656,108	8	2,237,925	7
Northern	24,158	0	17,170	0
Sabaragamuwa	2,291,152	7	2,152,016	6
Southern	3,181,070	9	3,108,080	9
Uva	290,070	1	275,542	1
Western	22,985,822	67	22,561,818	68
Total	34,204,720	100	33,149,317	100

Credit Concentration Province-wise 2018/19



Measurement Assumptions

- Geographical credit concentration is measured based on the credit disbursement geographic spread of MI's branch network.

Commentary

MI's lending mainly concentrated around the Western Province with a 69% contribution towards total lending, with a marginal increase compared to last year's 67%. 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.

54.4 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.

54.4.1 Exposure to Liquidity Risk

Ratio	2019	2018
Net Loans/Customer Deposits	151%	159%
Net Loans/Total Assets	77%	79%

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 151%. The Management plans to bring this ratio below 140 % as per forecast within the next financial year, with the planned growth in deposits.

54.4.2 Financial Assets and Liabilities by Remaining Contractual Maturities

The following tables show the maturity gap analysis of MI's financial assets and financial liabilities based on their remaining period to maturity undiscounted as at 31st March 2019.

	On demand Rs.'000	Up to 3 Months Rs.'000	4-12 months 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	1,196,226	-	-	-	-	-	-	1,196,226
Placement with Banks	-	19,284	231,893	-	1,301	-	-	252,478
Financial Investments Available for Sale	-	1,269,395	1,363,512	28,915	143,153	-	128,509	2,933,484
Loans and Receivables	1,754,538	3,704,543	4,273,348	3,557,601	3,448,963	1,716,896	(1,199,920)	17,255,969
Finance Lease Receivables	434,792	2,120,522	4,825,246	8,151,270	1,862,235	726	(522,447)	16,872,344
Hire Purchase Receivables	423,892	631,547	1,321,661	1,896,437	226,033	540	(247,136)	4,252,974
Other Financial Assets	-	250,287	-	-	-	-	249,307	499,594
Total Financial Assets	3,809,448	7,995,578	12,015,660	13,634,223	5,681,685	1,718,162		43,263,069
Financial Liabilities								
Bank Overdraft	186,276	-	-	-	-	-	-	186,276
Deposits Due to Customers	77,571	7,058,915	10,104,038	5,360,133	2,147,327	-	-	24,747,984
Debt Instruments Issued and Other Borrowings	-	3,752,830	3,458,120	2,558,507	22,632	-	-	9,792,090
Other Financial Liabilities	251,749	637,485	87,548	-	-	-	25,323	1,002,105
Total Financial Liabilities	515,596	11,449,230	13,649,706	7,918,640	2,169,959	-	25,323	35,728,456
Net Financial assets/liabilities	3,293,852	(3,453,652)	(1,634,046)	5,715,583	3,511,726	1,718,162		7,534,611

Measurement Assumptions

- Liquidity gap analysis is prepared based on the contractual maturity of assets and liabilities as at 31st March 2019.
- Future interest income and interest expenses were considered for estimating future cash flows of Placements with other Banks, Loans and receivables, Finance Lease receivable, 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 2019 interest rate or the interest rate cap was used for calculation.

Commentary

Supported by strong policy and close monitoring of market fundamentals, the Treasury Division was able to mobilise funds to carter to both short term and long term funding needs. With interest rates on an upward trajectory, and the market liquidity remaining constricted, funds mobilised were more of a shorter tenor while the lending tenor primarily remained one year or more. This kept the one year or less assets and liabilities mismatch at Rs. 5.71 Billion. (Rs.4.6 Billion 2017/18) yet within internal IRMC appetite limit.

54.4.3 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.

54.4.4 Key Definitions Related to Liquidity Risk Management

Liquid Assets

Assets that are held in cash or in a form that can be readily converted to cash, such as deposits with banks (free from any charge or lien) and treasury bills and bonds.

Liquid Asset Ratio

This assesses the company's readiness to settle the total deposits and outstanding borrowings. (Excluding secured borrowings and borrowings considered as capital funds).

	CBSL minimum requirement as at 31st March 2019	Actual 31st March 2019	CBSL minimum requirement as at 31st March 2018	Actual 31st March 2018
Total liquid assets (Rs.000)	2,121,837	3,129,049	2,031,095	2,311,208
Statutory liquid assets ratio (%)	10%	14.77%	10%	11.40%
Minimum approved securities (Rs.000)	1,485,822	1,691,903	1,242,297	1,329,287

54.4.5 Daily Liquidity Management

Based on the on-going 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 unutilised funding lines stood at Rs. 1.5 billion as at 31st March 2019.

54.5 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 the company's zero exposure to foreign currency assets and liabilities.

54.5.1 Interest Rate Risk

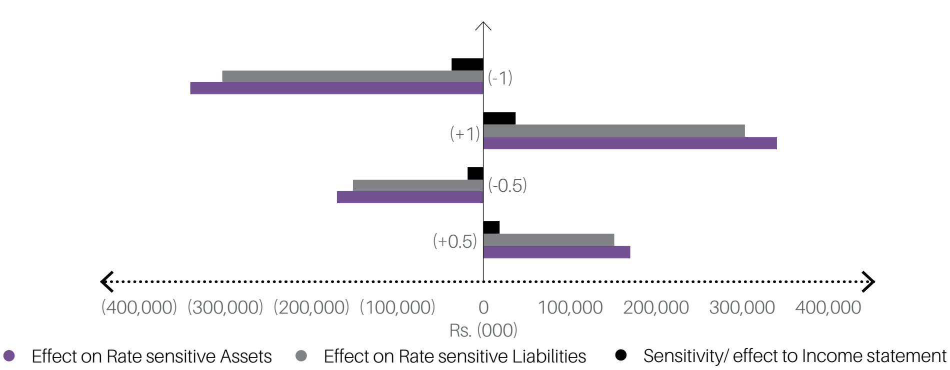
Interest Rate Risk is the possibility of cash flows or the fair values of financial instruments being affected due to changes in interest rates. MI continued to monitor and evaluate interest rate shocks against the profitability and adopted strategies to ensure that interest rate risk is maintained within the prudent levels. In analyzing impacts of interest rate on profitability, we analyzed the Company's 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.

54.5.1.A Interest Rate Sensitivity Analysis

Given below is a sensitivity analysis carried out as at 31st March 2019 that demonstrates possible impact to MI's income statement due to a predicted change in interest rates, keeping all other variables constant.

	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	170,340	(170,340)	340,679	(340,679)
Effect on Rate sensitive Liabilities	151,601	(151,601)	303,202	(303,202)
Sensitivity/ effect to Income statement	18,739	(18,739)	37,478	(37,478)

Interest Rate Sensitivity Analysis



Commentary

MI possesses interest rate sensitive assets of Rs.34 billion and rate sensitive liabilities of Rs. 30 billion. Currently the impact from an interest rate fluctuation of 1%+ or (1%) is moderate at Rs 37.4 million.

54.5.1.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 2019. The financial assets and financial liabilities so disclosed are at their carrying amounts and categorised 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							
Placement with other banks	18,690	222,686	-	-	-	-	241,376
Financial Investments-at FVOCI	328,390	1,363,512	28,915	-	143,153	-	1,863,970
Loan and Advances	1,159,452	5,221,870	4,834,141	3,312,341	2,805,115	(1,401,507)	15,931,412
Lease receivable	156,006	887,611	6,421,663	3,423,363	2,392,138	(557,906)	12,722,875
Hire Purchase receivable	308,622	321,176	1,959,394	728,841	269,334	(279,051)	3,308,315
Total Financial Assets	1,971,160	8,016,856	13,244,113	7,464,545	5,609,739	(2,238,464)	34,067,948
Liabilities	`						
Bank Overdraft	186,276	-	-	-	-	-	186,276
Deposits Due to Customers	7,010,127	9,270,337	3,642,755	916,727	336,487	-	21,176,433
Debt Instruments Issued and Other Borrowings	3,547,723	930,101	2,779,254	1,700,400	-	-	8,957,478
Other Financial Liabilities	-	-	-	-	-	-	-
Total Financial Liabilities	10,744,126	10,200,438	6,422,009	2,617,127	336,487	-	30,320,187
Interest Sensitivity Gap	(8,772,966)	(2,183,583)	6,822,104	4,847,417	5,273,253	-	-

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.

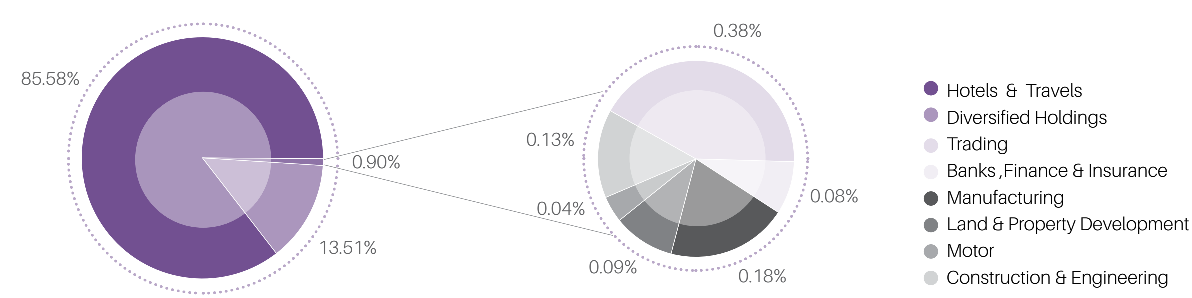
54.5.2 Equity Risk

Equity price risk arises as a result of possible fluctuations in prices and volatilities of individual equities held by the Company. MI possesses a well-diversified share portfolio which was valued at a market value of Rs. 1.2 billion , which has been primarily invested in large blue chips institutions mostly in the hotels and banking sector. MI conducts mark-to-market calculations on a weekly, monthly and quarterly basis to identify fair value impacts caused by equity prices fluctuations.

The Head of Risk and Compliance, the Management team and the IRMC assess potential equity risks, compliance to regulatory limits of CBSL Investments Direction 07 of 2006 and propose remedial action as deemed necessary and report findings to the Board.

54.5.2.A Analysis on Exposure to Equity Price Risk

Effect to the Comprehensive Statement of Income if Market drops to the recorded lowest market price



The table below summarises the impact on both the Other Comprehensive Income and on the equity due Market drops to the recorded lowest market prices in last 5 years.

Sector	Value of equity portfolio at the lowest market price recorded during 18/19	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	11,309	241	0.08
Diversified Holdings	238,149	41,515	13.51
Hotels & Travels	1,098,372	263,053	85.58
Manufacturing	31900	550	0.18
Land & Property Development	595	280	0.09
Motor	9900	120	0.04
Construction & Engineering	8,131	402.5	0.13
Trading	6,630	1,200	0.38
Investment Trust	531	37	0.01
	1,405,516	307,398	100.00

The table below summarises the impact on both the Other Comprehensive Income and on the equity due to a 10% fall in equity market prices.

	2018/19 Financial investments - at FVOCI Rs. '000	2017/18 Financial investments - at FVOCI Rs. '000
Stress Level	Impact on OCI	Impact on OCI
Shock of 10% on equity price (upward)	99,909	126,563
Shock of 10% on equity price (Downward)	(99,909)	(126,563)

Measurement Assumptions

- 54.5.2.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.
- 54.5.2.A. b - The table below summarises 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 sentiments resulting form the current country situation. The maximum amount of equity risk effect to the other comprehensive statement of income is Rs. 99.9 million as at the end of 31 March 2019.

54.6 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 Management Report on page 247 operational risk section for further disclosure).

54.6.1 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. Nuwara Eliya Hotels having rich history and located in the hill country , is considered by guest as a renowned and prestigious hotel. However due to the prevailing country situation and it's impact on tourism could have a temporary impact to the planned growth trajectory, but management is positive of future sustainable growth.

54.6.2 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 Alliance on pages 69 to 79. Financial Statements Note 3.10 provides a detailed breakdown of defined employment benefit estimates including assumptions made.

54.7 Capital Adequacy

54.7.1 Capital Management Objectives

Capital Adequacy being a strong measure of a finance companies financial health and stability is deemed by MI as a high priority area of focus. The Objective of maintaining the right level of capital is important for the company following reasons;

a) Maintenance of a strong capital buffer against unexpected losses and to possess sufficient capital to meet current and future business needs and stakeholder expectation.
b) To meet prudential minimum capital requirements set by the regulator.

MI's Strong capital base of over Rs. 7 Billion stands as a strong buffer against unforeseen losses and contingencies in the current volatile market conditions. This level of capital provides the company with adequate flexibility to pursue its future business plans and capital Investments and to take risk more confidently without undermining stakeholder returns.

MI board as part of its capital management process regularly monitors MI's capital adequacy which includes minimum capital requirements and has set minimum thresholds in keeping to MI's risk appetite levels well above even the prudential capital adequacy ratio requirements.

54.7.2 New Basel II Capital adequacy(CAR) frame Work

Instead of the finance companies (Risk weighted Capital Adequacy Ratio) Direction No. 02 of 2006, a new Basel II Compliant Capital Adequacy framework was introduced to the LFC'S with effect from 1st June 2018 by the regulator.

With the adoption of this risk focus stringent capital adequacy frame work, Finance companies were required to compute the Capital adequacy ratios based on Credit & Operational risk in keeping to the "Basic approach" recommended by Basel II accord.

Accordingly, Mercantile Investments prudential capital adequacy ratio minimum requirement limits changed for the period under review and is expected to increase up until 2021 as follows.

Minimum Capital Adequacy requirements for LFC with Total Assets Less than Rs. 100 Billion.

Components of Capital	01.07.2018	01.07.2019	01.07.2020	01.07.2021
Tier 1 Capital	6	6.5	7	8.5
Total Capital	10	10.5	11	12.5

Salient Computational Features

- Risk Weighted Assets Computation

Credit Risk

a) Loan Portfolio separation between Performing and Non Performing.
b) Asset Categorisation based on counter parties risk profile
c) Assessment of counter party ratings.
d) Level of security underlining the claims.

The risk rates weights applied vary for a) to b) above depending on the level of credit risks.

Operational Risk

Under the "Basic Indicator approach" a formula based computation is applied taking historic information to assess the level of operational risk, thereby arriving at the risk weighted amount for operational risk.

Both credit risk and operational risk is combined to arrive at MI's total risk weighted assets.

MI's total risk weighted position together with the Tier 1 capital & total capital position as at 31st March 2019 (with comparison) and the capital adequacy ratio position is as follows;

54.7.3 Total Capital Base Computation

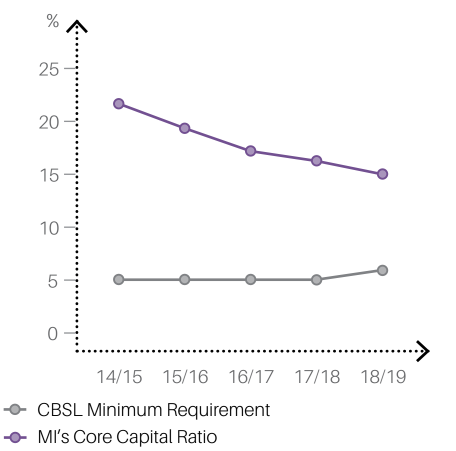
Item	31st March 2019	31st March 2018
Tier 1 Capital	6,623,858	6,554,351
Stated Capital/assigned capital	36,000	36,000
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	736,400	711,400
Audited retained earnings/(Losses)	1,765,028	1,720,521
(Less) Revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	4,086,430	4,086,430
Current Year profit(Loss)	-	-
Adjustments to Tier 1 Capital	156,306	583,506
Goodwill (net)	-	-
Other intangible assets (net)	64,211	48,979
Other Comprehensive losses	75,529	-
Deferred tax assets (net)	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	10,787	527,247
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	5,779	7,280
Shortfall of capital in Financial subsidiaries	-	-
Tier 1 Capital (after adjustments)	6,467,552	5,970,845
Tier 2 Capital	742,165	428,012
Instruments qualified Qualifying Tier 2 capital	-	-
Revaluation gains	742,165	428,012
General provisions/ Collective impairment allowance	-	-
Eligible Tier 2 Capital	742,165	428,012
Total adjustment to eligible Tier 2 Capital	5,779	7,280
50% Investment in banking & financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	5,779	7,280
Eligible Tier 2 Capital after adjustments	736,386	420,732
Total Capital	7,203,938	6,391,577

54.7.3.1. Capital Adequacy Ratios

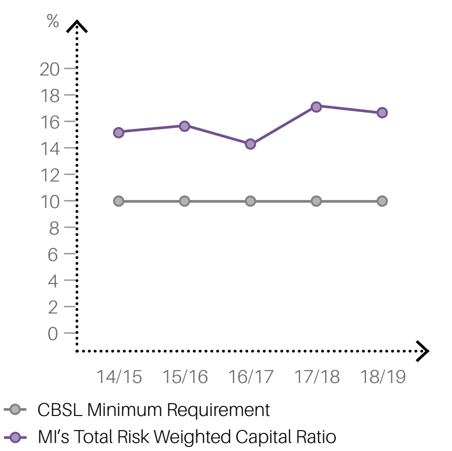
As at 31st March		Industry Average* %	2018/19 %	2017/18 %
Core Capital Ratio =	Tier 1 Capital / Risk Weighted Assets	9.9	14.98	14.51
Total Risk Weighted capital Ratio =	Capital Base / Risk Weighted Assets	11.2	16.69	15.53

*Based on CBSL annual report 2018

Core Capital Ratio



Total Risk Weighted Capital Ratio



Supplementary Information

Connecting the links in our Journey

This concluding section provides readers other vital information about MI's financial progress, investor information and guidance to the book in reading this year's annual report.

Main Section Index

Investor Relations

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.

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 2019 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 2018/19. 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

	31st March 2019			31st March 2018		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident / Non-Resident						
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						
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 2019 was 10.54% ,comprising 10 shareholders. (2018 - 10.54% comprising 10 Shareholders)

MI is in the watch list of Colombo Stock exchange (CSE) due to deviation with CSE rule 7.13.1 since 08th August 2018

The Current status of the company

- Existing Float adjusted Market Capitalisation Rs. 817,522,641.00
- Public Holding Percentage 10.54%
- Number of Public Shareholders 10

Steps to be adopted by the company to comply with the rule will be announced in a subsequent market announcement.

Twenty Major Shareholders of the MI as at 31st March 2019

Name	% on total capital	No. of Shares 2019	% on total capital	No. of Shares 2018
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 - R. D. Madugalle	0.42	12,525	0.42	12,525
9. P.R. Divitotawela - A.D Galagoda	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	-	10	0.00	10
Total	100.00	3,006,000	100.00	3,006,000

Directors' Shareholdings as at 31st March 2019

		31st March 2019		31st March 2018	
Name	Position	No. of Shares held	%	No. of Shares held	%
Mr. S.H.J. Weerasuriya	Chairman	-	-	-	-
Mr. G.G. Ondaatjie	Managing Director	477,213	15.88%	477,213	15.88%
Mr. P.M. Amarasekara	Deputy Managing Director	-	-	-	-
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	-	-	-	-
Ms. P.T.K. Navaratne	Director	-	-	-	
Mr. N.H.V. Perera	Director	10,020	0.33%	10,020	0.33%
Mr. S.M.S.S. Bandara	Director	-	-	-	
Mr. P.C. Guhashanka	Director	-	-	-	

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.

	2018/19	2017/18
Number of transactions	-	-
Number of shares traded	-	-
Value of Shares traded - Rs. '000	-	-

Market Value

	Highest Rs.	Lowest Rs.	Year End Rs.
2017/18	-	-	-
2018/19	-	-	-

Market Capitalisation (as at 31st March)

	Capital & Reserves	MI Market Capitalisation* Rs. '000	CSE Market Capitalisation Rs. '000	MI Market Capitalisation as a percentage of CSE Market Capitalisation Rs. '000
2017/18	8,683,086	7,756,382	3,032,708,226	0.26
2018/19	8,672,864	7,756,382	2,281,288,823	0.34

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 Exchange for which Fitch Ratings Lanka Limited has assigned BBB- (lka) rating. The proceeds were utilised to optimise the cost of the company's funding mix and to minimise the mismatches in funding exposure. The Company did not issue any debentures during the financial year ended 31 March 2019. The company paid out the second annual interest payment to its debenture holders in November 2018. The Company has redeemed the debentures in November 2018.

Debenture Information

	2018/19	2017/18
Tenure of Debenture	4 Years	4 Years
Issue date	7/11/2014	7/11/2014
Maturity Date	7/11/2018	7/11/2018
Interest Rate	Fixed	Fixed
Coupon Rate (%)	10.50%	10.50%
Effective Annual Yield (%)	10.50%	10.50%
Frequency of Interest Payable	Annually	Annually
Rating	BBB- by Fitch Ratings Lanka	BBB- by Fitch Ratings Lanka
Amount (Rs. Mn)	200	200
Yield to Maturity (%)	10.5	10.5

Details of Submission to Colombo Stock Exchange

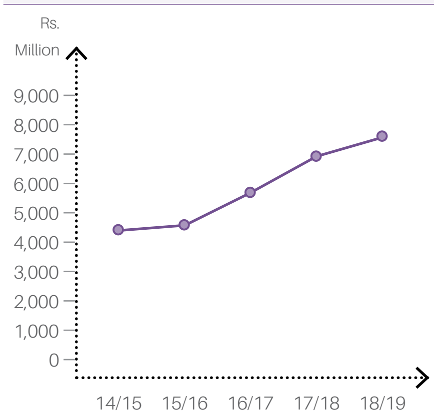
The following table presents the important disclosures made by the company to the Colombo stock exchange during the year 2018/2019.

Date of Disclosure	Details of disclosures
2-Apr-18	Annoucement of Non-compliance of minimum public holding
2-May-18	Annoucement of Non-compliance of minimum public holding
31-May-18	Submission of unaudited interim financial statement for the period ended 31 March 2018
5-Jun-18	Annoucement of Non-compliance of minimum public holding
8-Jun-18	Submission of Annual Report for the period ended 31 March 2018
2-Jul-18	Annual General Meeting
9-Aug-18	Annoucement of Non-compliance of minimum public holding
26-Jul-18	Submission of unaudited interim financial statement for the 01st quarter ended 30 June 2018
6-Sep-18	Annoucement of Non-compliance of minimum public holding
2-Oct-18	Annoucement of Non-compliance of minimum public holding
26-Oct-18	Submission of unaudited interim financial statement for the 02nd quarter ended 30 September 2018
7-Nov-18	Annoucement of Non-compliance of minimum public holding
5-Dec-18	Annoucement of Non-compliance of minimum public holding
7-Jan-19	Annoucement of Non-compliance of minimum public holding
31-Jan-18	Submission of unaudited interim financial statement for the 03rd quarter ended 31 December 2018
7-Feb-19	Annoucement of Non-compliance of minimum public holding
8-Mar-19	Annoucement of Non-compliance of minimum public holding

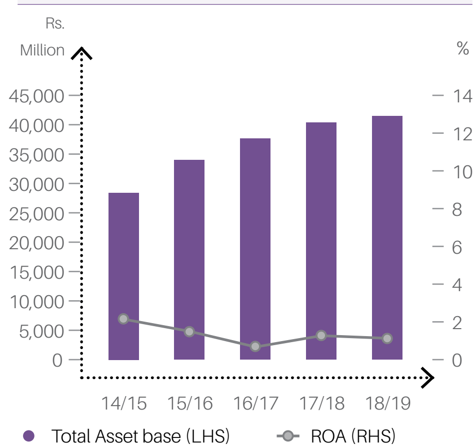
Decade at a Glance

	Based on SLFRS/LKAS									Based On SLAS
For the year ended 31st March	2018/19 Rs. '000	2017/18 Rs. '000	2016/17 Rs. '000	2015/16 Rs. '000	2014/15 Rs. '000	2013/14 Rs. '000	2012/13 Rs. '000	2011/12 Rs. '000	2010/11 Rs. '000	2009/10 Rs. '000
Operating Results										
Income	7,638,497	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
Interest expense	3,861,878	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
Non Interest expenses	2,989,966	2,441,730	2,299,829	1,690,927	1,540,416	1,055,997	770,317	726,397	485,795	574,623
Profit before tax	786,653	858,771	313,679	802,645	911,884	824,331	732,069	625,755	1,048,597	441,035
Provision for taxation	328,580	344,706	111,664	297,626	280,612	148,969	101,278	15,667	142,699	112,436
Net profit for the year	458,073	514,065	202,015	505,019	631,272	675,362	630,791	610,088	905,898	328,600
Dividends	-	45,090	-	21,042	88,677	30,060	82,665	66,132	30,000	13,800
As at 31st March										
Assets										
Liquid assets	2,031,095	2,311,208	1,861,433	1,879,970	1,773,833	1,455,405	1,389,107	787,268	522,280	483,483
Investments	2,339,990	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
Debentures	-	-	10,200	10,400	10,700	10,700	10,773	-	-	-
Advances	31,944,477	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
Other assets	619,565	638,866	656,452	226,532	157,544	419,479	718,304	741,769	271,242	309,509
Property, plant & equipment	2,848,159	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
Leasehold Property	41,207	41,672	42,140	42,609	43,076	43,545	44,013	44,481	44,950	45,418
Intangible Assets	64,211	48,979	12,578	12,386	3,344	3,714	4,681	2,855	6,521	-
Investment Property	198,431	172,795	158,340	448,234	198,769	-	-	-	-	-
Investment in Associates	1,267,430	1,006,506	995,977	927,318	794,381	777,127	695,670	628,397	493,555	456,363
Total Assets	41,354,565	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
Liabilities										
Bank overdraft	186,276	254,238	1,092,434	412,472	272,634	279,269	999,036	505,815	397,246	213,395
Borrowings	8,957,478	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
Deposits from customers	21,176,433	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
Other liabilities	2,361,514	2,017,656	1,349,453	1,555,245	953,057	618,694	860,501	850,274	442,081	651,206
	32,681,701	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
Share Holder's Fund										
Share Capital	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	30,000
Reserves	8,636,864	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
	8,672,864	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
Total Share Holder's Funds & total liabilities	41,354,565	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

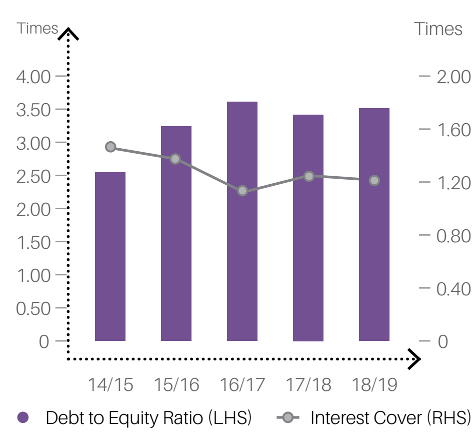
Gross Revenue



Total Asset Base & ROA



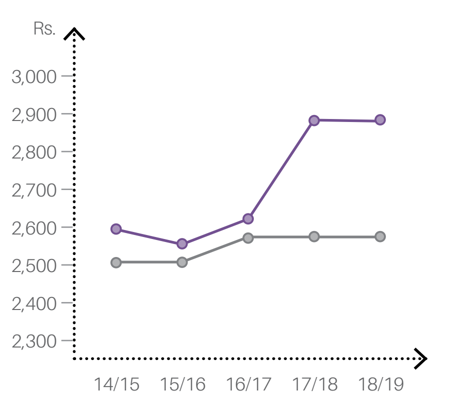
Debt to Equity & Interest Cover



	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Financial Position										
Total Assets to										
Shareholders funds - (Times)	4.77	4.65	4.77	4.44	3.65	3.75	3.72	3.22	2.18	2.26
Debt to Equity - (Times)	3.50	3.42	3.59	3.23	2.53	2.65	2.57	2.06	1.11	1.08
Liquid assets as a % of deposits	9.59	11.51	10.94	11.89	12.93	12.75	17.00	13.00	12.00	14.00
Investor										
Return on shareholders' funds - (%)	5.28	5.92	2.57	6.60	8.11	10.78	11.05	11.14	14.40	8.70
Return on Average Assets-(%)	1.12	1.32	0.57	1.62	2.43	3.02	3.25	3.89	8.13	4.01
Assets per share - (Rs.)	2,885	2,889	2,617	2,546	2,588	2,085	1,898	1,821	2,094	1,259
Earnings per Share - (Rs.)	152.39	171.01	67.20	168.00	210.00	224.67	209.84	202.96	301.36	109.53
Dividend per Share - (Rs.)	-	15.00	-	7.00	29.50	20.00	27.50	22.00	9.98	4.60
Dividend Cover - (Times)	-	11.40	-	24.00	7.12	11.23	7.63	9.23	30.20	23.81
Dividend Payout-(%)	-	8.77	-	4.17	14.05	8.90	13.10	10.84	3.31	4.20
Interest Cover - (Times)	1.20	1.24	1.10	1.38	1.47	1.37	1.39	1.62	2.54	1.56
Growth										
Growth in income -(%)	9.37	23.71	25.45	4.99	4.65	21.53	40.76	8.13	22.53	5.76
Growth in Interest Expenses - (%)	4.27	18.10	49.46	7.73	(12.08)	18.62	84.99	48.57	(14.10)	(20.04)
Growth in Other Expenses - (%)	22.45	8.55	36.01	9.77	45.87	37.09	6.05	49.53	(15.46)	(23.78)
Growth In Profit before Tax - (%)	(8.40)	180.21	(60.92)	(11.98)	10.62	12.60	16.99	(40.32)	137.76	73.36
Growth in Profit after Tax - (%)	(10.89)	154.47	(60.00)	(20.00)	(6.53)	7.07	3.39	(32.65)	175.68	40.80
Growth In Total Assets - (%)	2.47	7.64	10.39	19.56	20.89	10.73	20.54	28.06	61.30	8.21
Growth in advances (Net) - (%)	0.03	11.48	14.34	28.69	20.27	16.92	32.53	62.82	44.82	(14.89)
Growth in Deposit Base - (%)	5.50	17.95	7.60	15.27	20.17	35.53	37.26	42.81	23.53	25.38
Growth in Shareholders Funds - (%)	(0.12)	10.37	2.78	(1.61)	24.15	9.81	4.23	13.01	66.66	40.14
Statutory Ratios										
Core Capital Ratio - (%)	14.98	16.24	17.17	19.35	21.70	22.52	20.83	22.4	28.5	30.52
Risk Weighted Capital Ratio - (%)	16.69	17.36	14.26	15.75	15.27	17.32	22.4	27.17	34.69	38.82
Liquid assets (%)	14.77	11.40	10.81	11.73	12.45	12.78	17.11	12.86	12.78	13.85

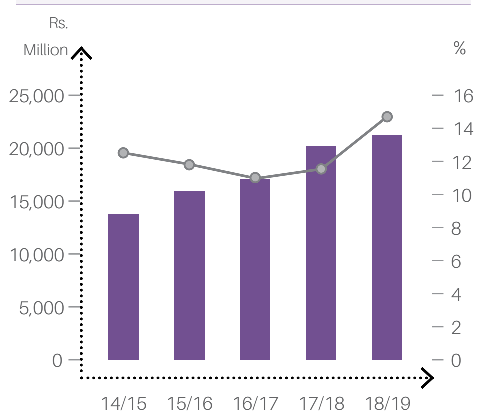
*Calculated based on capital adequacy framework issued by CBSL with effect from 1st July 2018.

Net Assets per Share & Market Value per Share



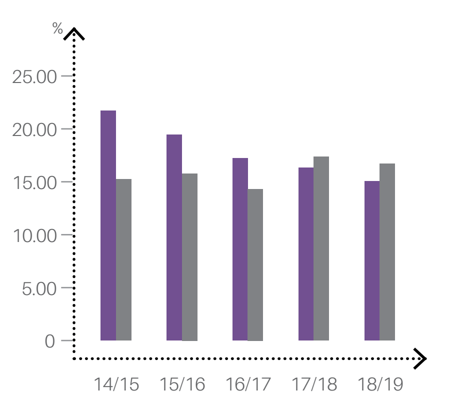
Net Assets per Share | Market Value per Share

Deposits Base & Liquid Asset Ratio



Deposit Base (LHS) | Liquid Assets Ratio (RHS)

Core Capital Ratio & risk Weighted Capital ratio



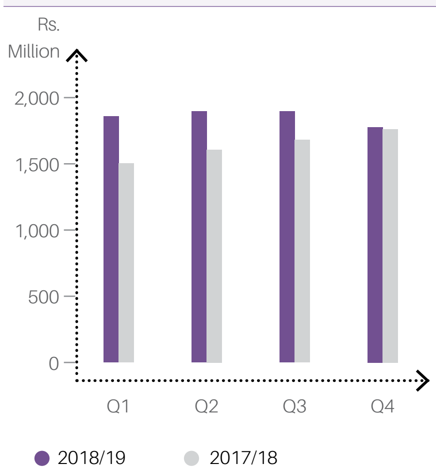
Core Capital Ratio | Risk Weighted Capital Ratio

Quarterly Performance Results

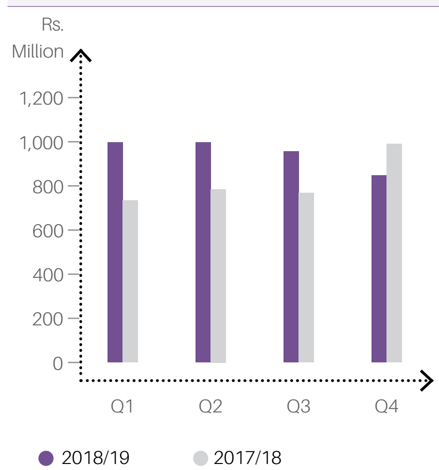
Statement of Profit or Loss

	1st Quarter		2nd Quarter	
	Apr-Jun 18 Rs. 000	Apr-Jun 17 Rs. 000	July-Sep 18 Rs. 000	July-Sep 17 Rs. 000
Interest Income	1,860,857	1,506,107	1,897,755	1,610,421
Interest Expense	(947,378)	(884,778)	(960,419)	(913,475)
Net Interest Income	913,479	621,330	937,336	696,947
Fee and Commission Income	30,294	20,239	26,516	23,508
Net fee and commission income	30,294	20,239	26,516	23,508
Other operating Income	33,337	91,896	33,980	65,046
Total Operating Income	977,109	733,465	997,833	785,500
Impairment gain/(loss) for loan and receivable	(192,333)	(179,849)	(177,622)	(56,706)
Net operating income	784,777	553,616	820,211	728,795
Less: Operating Expenses				
Personnel Expenses	247,964	214,041	244,294	231,277
Depreciation of property, plant and equipment	20,003	19,098	20,521	19,029
Amortisation of intangible assets	3,527	2,720	4,321	3,903
Amortisation of leasehold property	117	117	117	117
Define benefit plans	8,781	6,713	8,781	8,661
Other operating expenses	194,872	193,164	217,815	182,999
	475,264	435,851	495,849	445,985
Operating Profit Before VAT & NBT on financial services	309,512	117,765	324,361	282,810
VAT, NBT and DRL on financial services	(76,015)	(45,516)	(77,072)	(71,808)
Operating Profit after VAT & NBT on financial services	233,497	72,249	247,288	211,003
Share of Associates company profit /(loss)	(924)	3,302	22,033	26,842
Profit Before Taxation	232,572	75,551	269,322	237,845
Income Tax Expenses	(100,393)	(17,975)	(143,331)	(79,717)
Profit After Taxation	132,179	57,576	125,991	158,128
Earnings per Share	44	19	42	53
Dividend per Share	-	-	-	7

Interest Income

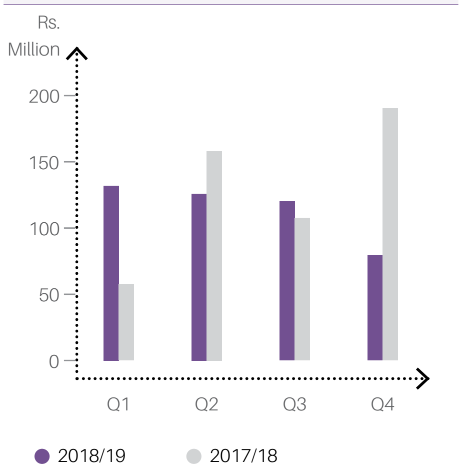


Total Operating Income

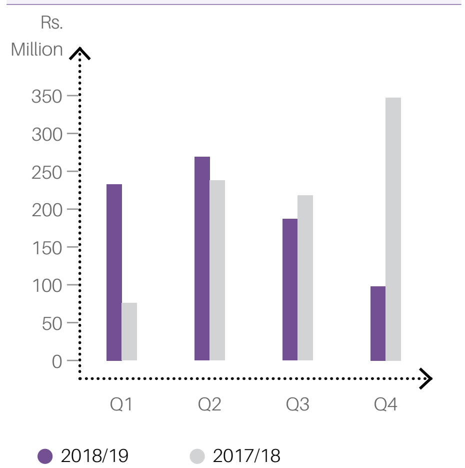


3rd Quarter		4th Quarter		Total	
Oct-Dec 18 Rs. 000	Oct-Dec 17 Rs. 000	Jan-Mar 19 Rs. 000	Jan-Mar 18 Rs. 000	Apr 18 - Mar 19 Rs. 000	Apr 17 - Mar 18 Rs. 000
1,897,681	1,683,206	1,779,760	1,764,306	7,436,054	6,564,038
(972,399)	(946,644)	(981,682)	(958,880)	(3,861,878)	(3,703,776)
925,283	736,563	798,078	805,426	3,574,176	2,860,263
22,111	21,536	16,034	24,515	94,955	89,797
22,111	21,536	16,034	24,515	94,955	89,797
9,638	11,946	30,533	161,371	107,488	330,258
957,032	770,044	844,645	991,312	3,776,619	3,280,318
(182,084)	(67,138)	(129,609)	(122,662)	(681,648)	(426,353)
774,948	702,907	715,035	868,650	3,094,971	2,853,965
248,744	210,334	217,800	153,877	958,802	809,526
20,889	19,058	21,883	20,309	83,295	77,493
3,766	4,134	4,119	5,029	15,734	15,785
117	117	114	117	465	468
8,781	8,901	15,109	10,888	41,452	35,163
215,716	187,378	256,830	284,364	885,233	847,904
498,013	429,920	515,855	474,584	1,984,982	1,786,340
276,935	272,988	199,179	394,066	1,109,988	1,067,625
(105,763)	(66,757)	(144,209)	(99,588)	(403,059)	(283,667)
171,171	206,230	54,969	294,478	706,929	783,959
15,874	11,910	42,741	32,758	79,724	74,812
187,046	218,140	97,712	327,325	786,653	858,771
(66,896)	(110,096)	(17,959)	(136,917)	(328,580)	(344,706)
120,149	108,045	79,752	190,318	458,073	514,065
40	36	27	63	152	171
-	-	-	8	-	15

Profit for the Period (After Tax)



Profit Before Taxation from Operations

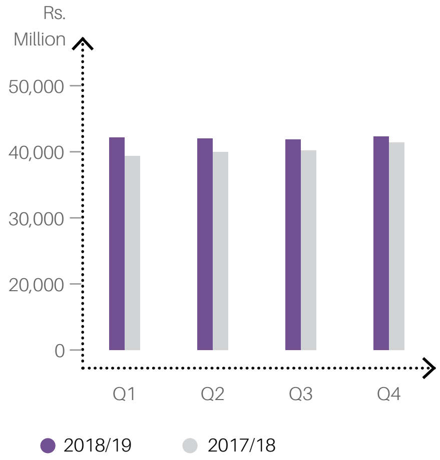


Statement of Financial Position

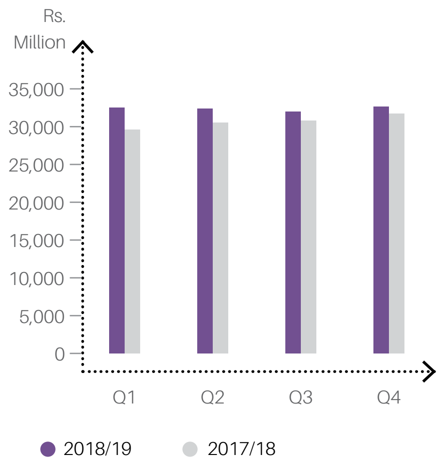
	1st Quarter		2nd Quarter	
	Apr-Jun 18 Rs. 000	Apr-Jun 17 Rs. 000	July-Sep 18 Rs. 000	July-Sep 17 Rs. 000
Assets				
Cash & Short Term Funds	904,763	1,035,438	490,738	1,070,289
Placement with other banks	224,169	54,622	229,413	206,866
Financial Investments-at fair value through OCI	2,968,816	3,452,442	2,865,607	3,585,199
Loan and Advances at Amortised Cost	14,975,668	12,400,590	15,449,799	13,128,401
Lease Receivable at Amortised Cost	12,333,047	11,116,220	12,528,821	11,199,650
Hire Purchase Receivable at Amortised Cost	5,081,925	6,098,049	4,708,793	5,942,859
Financial Investments-at Fair Value through OCI (unquoted)	70,427	70,427	70,427	70,427
Other Financial Assets	498,773	174,286	518,243	195,167
Inventories	7,531	7,345	8,909	8,855
Other Assets	120,951	408,527	130,982	94,007
Current tax Receivable	-	77,779	-	82,617
Investment in Associates	1,005,582	1,015,100	1,016,304	1,034,584
Investments Properties	199,679	186,044	199,263	173,628
Property, Plant & Equipment	2,720,248	1,792,664	2,718,822	1,781,932
Leasehold Property	41,555	42,023	41,438	41,906
Intangible Assets	45,487	58,799	41,227	57,238
Total Assets	41,198,619	37,990,356	41,018,786	38,673,625
Liabilities				
Bank overdraft	397,339	570,966	397,004	231,664
Deposits due to customers at Amortised Cost	20,553,659	17,440,418	20,869,905	20,275,133
Debt Instruments issued and Other Borrowings at Amortised Cost	9,512,562	10,314,779	8,765,016	8,692,347
Other Financial Liabilities	796,432	627,836	917,681	775,764
Current tax liabilities	19,081	-	35,356	-
Deferred tax liabilities	1,008,237	480,833	1,072,434	361,223
Other liabilities	47,852	38,713	84,969	63,846
Retirement benefit obligations	184,890	175,964	191,474	183,018
Total Liabilities	32,520,051	29,649,509	32,333,839	30,582,996
Equity				
Stated capital	36,000	36,000	36,000	36,000
Revaluation reserve	1,928,250	1,550,881	1,916,940	1,543,525
Statutory reserve fund	711,400	661,400	711,400	661,400
General reserve	4,086,430	4,086,430	4,086,430	4,086,430
Available for sale reserve/Fair value through OCI reserve	63,787	360,501	(44,516)	276,885
Retained earnings	1,852,700	1,645,635	1,978,693	1,486,390
Total Equity	8,678,568	8,340,847	8,684,946	8,090,630
Total Liabilities & Equity	41,198,619	37,990,356	41,018,786	38,673,625
Net Assets Per Share	2,887	2,775	2,889	2,691

3rd Quarter		4th Quarter	
Oct-Dec 18 Rs. 000	Oct-Dec 17 Rs. 000	Jan-Mar 19 Rs. 000	Jan-Mar 18 Rs. 000
515,182	650,709	1,196,226	763,819
235,953	212,424	241,376	218,102
2,820,202	3,436,753	2,863,058	2,768,053
15,644,845	13,830,867	15,913,287	14,549,748
12,760,137	11,380,841	12,722,875	12,016,981
3,999,059	5,618,735	3,308,315	5,368,388
70,427	70,427	70,427	70,427
520,976	495,840	499,594	506,326
37,279	9,481	23,231	6,762
182,513	85,959	96,740	104,102
-	13,479	-	21,676
1,041,727	1,038,629	1,267,430	1,006,506
198,847	173,211	198,431	172,795
2,734,321	1,808,240	2,848,159	2,691,612
41,321	41,789	41,207	41,672
40,816	53,968	64,211	48,979
40,843,603	38,921,353	41,354,567	40,355,948
205,184	143,062	186,276	254,238
20,126,855	20,206,387	21,176,433	20,073,010
9,630,223	9,034,960	8,957,478	9,327,958
680,853	796,697	955,246	814,105
67,087	-	290,338	-
1,072,434	381,907	830,950	980,970
42,486	44,179	46,870	39,104
199,955	189,964	238,112	183,477
32,025,078	30,797,154	32,681,703	31,672,862
36,000	36,000	36,000	36,000
1,926,489	1,535,660	2,124,535	1,928,250
711,400	661,400	736,400	711,400
4,086,430	4,086,430	4,086,430	4,086,430
(40,636)	210,274	(75,529)	200,485
2,098,842	1,594,435	1,765,028	1,720,521
8,818,525	8,124,199	8,672,864	8,683,086
40,843,603	38,921,353	41,354,567	40,355,948
2,934	2,703	2,885	2,888

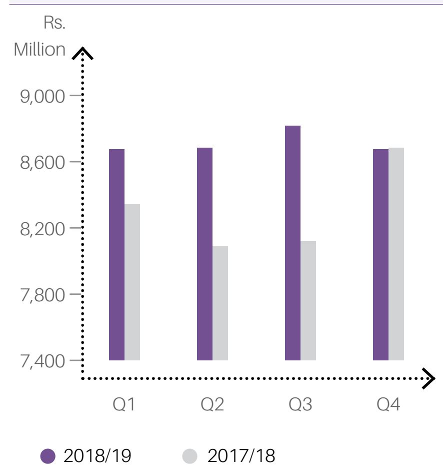
Total Assets



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 amortisation 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 collateralised 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 organisation is to maximise 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 recognised 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 organisation 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 organisational 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 organisation.

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 (%)	=	Number of Employees resigned during the year x 100 / Number of Employees
Carbon Footprint Intensity (Per employee)	=	Total Carbon Emissions / Number of Employees
Cost to income ratio (%)	=	Total operating cost with VAT, NBT and DRL on financial Services x 100 / Total operating income
Debt to equity ratio (Times)	=	Borrowings + Deposits / Equity
Dividend Cover (Times)	=	Profit /loss attributable to ordinary shareholders / Total dividends
Dividend Payout (%)	=	Total dividends x 100 / Profit/loss attributable to ordinary shareholders
Dividend Yield (%)	=	Dividend per ordinary share x 100 / Market Price per share
Earnings per share (EPS) (Rs.)	=	Profit/loss attributable to ordinary shareholders x 100 / Number of shares
Equity asset ratio (%)	=	Equity x 100 / Total Assets
Gross non-performing advances ratio (%)	=	Non-performing portfolio (net of unearned income) x 100 / Gross portfolio (net of unearned income)
Interest cover (Times)	=	Profit before interest and tax / Interest cost
Interest Spread (%)	=	Yield on average interest earning assets - Cost on average interest bearing liabilities
Local hiring of employees (%)	=	Locally hired employees x 100 / Total number of employees
Market Capitalisation (Rs.)	=	Market price per share x Number of shares
Net assets per share (Rs.)	=	Total shareholder's Funds / Number of shares
Net interest margin (%)	=	Net interest income x 100 / Average interest earning assets
Operating Profit margin (%)	=	Operating profit after VAT on financial services x 100 / Gross income
Price earning (PE) (Times)	=	Market price per share / Earnings per share
Price to book Value (PVB) (Times)	=	Market price / Net assets per share
Provision cover (Times)	=	Cumulative impairment / Non-performing loans and advances
Return on assets (ROA) (%)	=	Profit before tax x 100 / Total Average assets
Return on shareholder's Funds (Equity)	=	Profit after tax x 100 / Equity
Training hours per employee (hrs)	=	Total Training hours / Number of employees
Value added per employee (Rs.)	=	Economic value generated / Number of employees

Alphabetical Index

List of Abbreviations

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
BRA	Budget Related Allowances
BRPTRC	Board Related Party Transactions Review Committee
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
COO	Chief Operating Officer
CRO	Chief Risk Officer
CSE	Colombo Stock Exchange
CSR	Corporate Social Responsibility
DR	Disaster Recovery
DRL	Debt Repayment Levy
DPS	Dividend Per Share
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 Added
EY	Ernst and Young
FTRA	Financial Transaction Reporting Act
FY	Financial Year
GDP	Gross Domestic Product
GHG	Green House Gas
GRI	Global Reporting Initiative
HODs	Head of Departments
HP	Hire Purchase
HR	Human Resource
HRIS	Human Resource Information System
HTM	Held to Maturity
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
LGD	Loss Given Default
LFC	Licensed Finance Company
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
NPA	Non-Performing Advances
NII	Net Interest Income
NIM	Net Interest Margin
NO.	Number Of
NOx	Nitrogen Oxide
NPL	Non-Performing Loans
NPAT	Net Profit After Tax
NPBT	Net Profit Before Tax
NPA	Non Performing Advances
OCI	Other Comprehensive Income
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
RWA	Risk-Weighted Assets
SBUs	Strategic Business Units
SEC	Securities and Exchange Commission
SLC	Specialised Leasing Company
SLA	Statutory Liquid Assets
SLAS	Sri Lanka Accounting Standard
SLFRS	Sri Lanka Financial Reporting Standard
SME	Small and Medium Enterprises
SOx	Sulfur oxide
S & P	Standard and Poor
SLIPS	Sri Lanka Inter Bank Payment System
SRF	Special Recovery 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

GRI | 102-5

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: +94 11 2343720 – 7
Fax: +94 11 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
Chartered Accountants

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 Ltd
Public Bank of Berhad (Sri Lanka)

Credit Rating
Long-term Financial Institution Rating at BBB-(lka) (stable outlook) by Fitch Ratings.

Branch Network

GRI | 102-6

	Address	Telephone	Fax	Branch Email	Details of Branch Head
01	Head Office #236, Galle Road, Colombo 03.	+94-11-2343720-7	+94-11-2390113	mercantile@mi.com.lk	
	Micro Unit # 15, Mosque lane, Colombo 03.	+94-11-2339895	+94-11-2339896	tharanga.d@mi.com.lk	Tharanga Peiris 0717327978
02	Anuradhapura Branch #521/6, Maithreepala Senanayake Mawatha, Anuradhapura.	+94-25-2224886	+94-25-2224887	mianuradhapura@mi.com.lk	Prabhath Weerasinghe prabhath.w@mi.com.lk 0712498597
03	Akuressa Branch. No.124, Matara Road, Akuressa.	+94-41-2284722	+94-41-2284752	miakuressa@mi.com.lk	Gihan Ganganath gihan.g@mi.com.lk 0712498336
04	Ampara Branch #975, Browns Junction, D.S.Senanayake Street, Ampara.	+94-63-2224282	+94-63-2224255	miampara@mi.com.lk	Kelum Priyankara kelum.s@mi.com.lk 0712498330
05	Awissawella Branch #93/1 Colombo Road Ukwatta Awissawella.	+94-36-2235722	+94-36-2235733	miawissawella@mi.com.lk	Dharshana Piyaratne dharshana.p@mi.com.lk 0702594852
06	Balangoda Branch #27, Haputhale Road, Balangoda.	+94-45-2287605	+94-45-2287606	mibalangoda@mi.com.lk	Danthika Amarasinghe danthika.a@mi.com.lk 0710577104
07	Bentota Branch #149 1/2, Colombo Road, Bentota.	+94-34-2275402	+94-34-2275403	mibentota@mi.com.lk	Shakthi De Silva shakthi.d@mi.com.lk 0712498362
08	Chilaw Branch #86, Puttalam Road, Chilaw.	+94-32-2224244	+94-32-2224245	michilaw@mi.com.lk	Nandana Pradeep nandana.p@mi.com.lk 0712498393
09	Embilipitiya Branch #127 C, New Town, Embilipitiya.	+94-47-2261351	+94-47-2261352	miembilipitiya@mi.com.lk	Dimuthu Mahesh dimuthu.m@mi.com.lk 0712498353
10	Galle Branch #12, Park Road, Kaluwela, Galle.	+94-91-2246387	+94-91-2246388	migalle@mi.com.lk	Sumudu Jayasinghe sumudu.j@mi.com.lk 0712498386
11	Gampaha Branch #152/1, Miriswatta, Mudungoda,	+94-33-2234453	+94-33-2234463	migampaha@mi.com.lk	Vidura Wijewickrama vidura.t@mi.com.lk 0712498226
12	Gampola Branch #190 Kandy Road, Gampola	+94-81-2076561/2	+94-81-2076563	migampola@mi.com.lk	Chinthaka Gamanayake chinthaka.g@mi.com.lk 0702579972
13	Godagama Branch #27/B, Dikhathapma, Highlevel Road, Meegoda.	+94-11-2752923	+94-11-2752924	migodagama@mi.com.lk	Amila Edirisinghe amila.e@mi.com.lk 0717837507
14	Horana Branch #439 A, Panadura Road, Galledandugoda, Horana.	+94-34-2265411	+94-34-2265412	mihorana@mi.com.lk	Thilina Sampath thilina.w@mi.com.lk 0712498371
15	Ja-Ela Branch #108, Old Negombo Road, Ja-Ela.	+94-11-2247937	+94-11-2247954	mijaela@mi.com.lk	Methsiri Padmakumara methsiri.p@mi.com.lk 0711204888

	Address	Telephone	Fax	Branch Email	Details of Branch Head
16	Kadawatha Branch #381/C, Kandy Road, Mahara, Kadawatha.	+94-11-2921205	+94-11-2921207	mikadawatha@mi.com.lk	Madush Ratnasena madusha.r@mi.com.lk 0712498349
17	Kaduwela (Service Centre) #516/2, Awissawella Road Kaduwela.	+94-11-2538231	+94-11-2538232	mikaduwela@mi.com.lk	Nishantha Deshapriya Nishantha.d@mi.com.lk 713217290
18	Kegalle Branch #450 A, Kandy Road, Meepitiya, Kegalle.	+94-35-2053998	+94-35-2053997	mikegalle@mi.com.lk	Jayantha Kumara jayantha.k@mi.com.lk 0712439446
19	Kohuwala Branch #28A, Sunethradevi Road, Kohuwala.	+94-11-2814181	+94-11-2814182	mikohuwala@mi.com.lk	Anushka Perera anushka.p@mi.com.lk 0712498410
20	Kotahena (Service Centre) #377/G, George R De Silva Mw, Kotahena, Colombo 13.	+94-11-2339306	+94-11-2339307	mikotahena@.com.lk	Ruvindu Pieris ruvindu.p@mi.com.lk 0711352529
21	Kottawa (Service Centre) #341, High Level Road, Kottawa, Pannipitiya.	+94-11-2838145	+94-11-2838146	mikottawa@mi.com.lk	Gayan Wanninayake gayan.w@mi.com.lk 0712498315
22	Kuliyapitiya Branch #286, Madampe Road, Kuliyapitiya.	+94-37-2282464	+94-37-2282465	mikuliyapitiya@mi.com.lk	Chanakya Nawarathna chanakya.n@mi.com.lk 0710122782
23	Kurunegala Branch #257, Negombo Road, Kurunegala.	+94-37-2222027	+94-37-2222021	mikurunegala@mi.com.lk	Hasintha Chandima Hettige chandima.h@mi.com.lk 0716781626
24	Maharagama Branch #176, Lake Road, Maharagama.	+94-11-2849979	+94-11-2848925	mimaharagama@mi.com.lk	Dinesh Seneviratne dinesh.s@mi.com.lk 0712498430
25	Matara Branch #531, Pamburana, Matara.	+94-41-2235377	+94-41-2235378	mimatara@mi.com.lk	Bimal Prasanthika bimal.p@mi.com.lk 0712498331
26	Minuwangoda (Service Centre) #52 E, Negombo Road, Minuwangoda.	+94-11-2294008	+94-11-2294009	miminuwangoda@mi.com.lk	Channaka Suresh channaka.f@mi.com.lk 0712498352
27	Moratuwa (Service Centre) #408, Rawathawaththa, Galle road, Moratuwa.	+94-11-2647525	+94-11-2647526	mimoratuwa@mi.com.lk	Nayanapriya Galanga galanga.d@mi.com.lk 0712498411
28	Malambe Branch No.742 B, Thalangama North, Malabe.	+94-011-2790369		mimalambe@mi.com.lk	Sameera Jayasooriya Sameera.j@mi.com.lk 0703312896

	Address	Telephone	Fax	Branch Email	Details of Branch Head
29	Negombo Branch #28, Keells Super Building, Colombo Road, Negombo.	+94-31-2221160	+94-31-2221161	minegombo@mi.com.lk	Ranjeewa Perera ranjeewa.p@mi.com.lk 0702579958
30	Nittambuwa (Service Centre) #550/1/12, Colombo Road, Nittambuwa.	+94-33-2298788	+94-33-2298789	minittambuwa@mi.com.lk	Lasantha Perera lasantha.p@mi.com.lk 0713602413
31	Polonnaruwa Branch #142/05, Tamasha Place, Polonnaruwa.	+94-27-2227011	+94-27-2227022	mipolonnaruwa@mi.com.lk	Mahendra Pushpakumara mahendra.k@mi.com.lk 0718746558
32	Puttlam Branch #146, Kurunegala Road, Puttalam.	+94-32-2265490	+94-32-2265491	miputtlam@mi.com.lk	Poopalarasa Sinthushan sinthusan.p@mi.com.lk 0712359841
33	Premier Centre (Service Centre) #219, Dr. N.M.Perera Mw Colombo 08.	+94-11-2683445/6	+94-11-2683478	mipremiercentre@mi.com.lk	Srinath Rabel srinath.r@mi.com.lk 0712498240
34	Rathnapura Branch #654/A, Colombo road, Rathnapura.	+94-45-2233187	+94-45-2233188	miratnapura@mi.com.lk	Chinthaka L Seram chinthaka.s@mi.com.lk 0712498350
35	Tissamaharama Branch #19/6, Sagara Building, Palliyawatta, Tissamaharama.	+94-47-2239341	+94-47-2239342	mitissa@mi.com.lk	Dharshana Amarasinghe sanath.p@mi.com.lk 0712498370
36	Thambuttegama Branch Rajina Junction, Thambuttgama	+94-25-2275276		mithambuttegama@mi.com.lk	Malaka Bandara malaka.b@mi.com.lk 0703303236
37	Trincomalee Branch #266, Anuradhapura Junction, Kandy Road, Trincomalee.	+94-26-2226456	+94-26-2226457	mitrinco@mi.com.lk	Prasanna Kumara prasanna.k@mi.com.lk 0712498259
38	Veyangoda Branch #41, Nittambuwa Road, Veyangoda.	+94-33-2246586	+94-33-2246589	miveyangoda@mi.com.lk	Nalin Siriwardene nalin.s@mi.com.lk 0712498312
39	Wattala Branch #120 Old Negombo Road, Wattala.	+94-11-2930794	+94-11-2930795	miwattala@mi.com.lk	Jeewantha Gunawardene jeewantha.g@mi.com.lk 0712498238

Notice of Meeting

NOTICE IS HEREBY given that the Fifty-sixth (56) Annual General Meeting of MERCANTILE INVESTMENTS AND FINANCE PLC will be held at No 236, Galle Road, Colombo 3, on 29th July 2019, at 11.00 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 2019 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 authorise 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 authorise the Board of Directors to determine donations.

- In terms of Rule 7.13.1(h) the Directors wish to notify the shareholders of non-compliance with the minimum number of public shareholders as required by Rule 7.13.1 of the Listing Rules of the Colombo Stock Exchange (CSE) and that appropriate steps are being deliberated internally.

  The current status of the Company in relation to the said Rule:
  - Existing Float Adjusted Market Capitalisation: Rs. 817,522,641/-
  - Public Holding Percentage: 10.54%
  - Number of Public Shareholders: 10
  - Steps to be adopted by the company to comply with the rule will be announced in a subsequent monthly market announcement.

  The Board further notifies that failure to comply with Rule 7.13 can result in a trading suspension and a referral to the Board of Directors of the CSE for a determination in terms of Rule 10.3(a) of the Listing Rules.

By Order of the Board,

Ms. Sonali Pethiyagoda
Company Secretary

Colombo
19th June 2019

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

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	or failing him

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 July 2019 at 11.00 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 2019, with the Report of the Auditors there on.	☐	☐	☐
2)	To elect Mr. S H J Weerasuriya retiring in terms of Article 23(7) of the Articles of Association of the Company.	☐	☐	☐
3)	To elect Mr. S H Jayasuriya retiring in terms of Article 23(7) of the Articles of Association of the Company.	☐	☐	☐
4)	To elect Mr. P C Guhashanka retiring in terms of Article 23(7) of the Articles of Association of the Company.	☐	☐	☐
6)	To authorise 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 authorise the Directors to determine contributions for charities and other donations for the year 2019/20.	☐	☐	☐

As witness my/our* hand this .... day of .... 2019.

....
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 2018/19 (Please scale from Excellent to Poor)

Theme & Layout		Content & Disclosures		Directness & Transparency	
Excellent	☐	Excellent	☐	Excellent	☐
Good	☐	Good	☐	Good	☐
Average	☐	Average	☐	Average	☐
Poor	☐	Poor	☐	Poor	☐

Feedback and any suggestions to improve content:

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As a stakeholder, any other suggestions, improvements and concerns to be addressed:

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....
....

Your Name : ....

Your Tel/Email : ....

Your Organisation & Designation (If Applicable) : ....

Finance Director,
Mercantile Investments & Finance PLC,
No. 236, Galle Road,
Colombo 03.
Tel: +94 11 2343720-7

Minimise waste by informing the Company Secretary to email a soft copy of the Annual Report or log on to our website and view the report.

Mercantile Investments and Finance PLC
236, Galle Road, Colombo 03, Sri Lanka
Tel: +94 112 343720 - 7 | E-mail: mercantile@mi.com.lk