

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 st March	2018 Rs. '000	2017 Rs. '000
Gross income	6,984,093	5,645,533
Interest Income	6,564,038	5,286,060
Interest Expenses	(3,703,776)	(3,136,218)
Net Interest Income	2,860,263	2,149,842
Fee and commission income	89,797	83,622
Net Fee and Commission Income	89,797	83,622
Other operating income	330,258	275,851
Total Operating Income	3,280,318	2,509,315
Impairment charge/(reversal) for loans and receivables and equity investments	(426,353)	(625,066)
Net Operating Income	2,853,965	1,884,249
Less: Operating Expenses		
Personnel expenses	(844,689)	(678,232)
Depreciation and amortization	(93,746)	(69,186)
Other operating expenses	(847,904)	(814,508)
Total operating expenses	(1,786,340)	(1,561,926)
Operating Profit/(Loss) Before Value Added Tax and NBT on Financial Services	1,067,625	322,323
Value Added Tax and NBT on Financial Services	(283,667)	(112,838)
Operating Profit/(Loss) After Value Added Tax and NBT on Financial Services	783,959	209,485
Share of Associates company profit/(loss)	94,996	104,194
Profit Before Taxation from operations	878,955	313,679
Less: Income tax expenses	(364,890)	(111,665)
Profit After Taxation	514,065	202,014
Other comprehensive Income/ (Expenses)		
Other Comprehensive Income/ (Expenses) to be reclassified to profit or loss in subsequent periods		
Changes in fair value of available for sale financial assets	(56,158)	19,584
Other Comprehensive Income/ (Expenses) to be reclassified to profit or loss in subsequent periods	(56,158)	19,584
Other Comprehensive Income/ (Expenses) not to be reclassified to profit or loss in subsequent periods		
Net change in revaluation surplus	890,093	-
Differed tax effect on revaluations surplus on Land & Building	(447,581)	629
Share of other comprehensive income of associates	(49,323)	(5,183)
Actuarial gain/(loss) on retirement benefit obligation	14,095	(1,185)
Differed tax effect on Actuarial Gain	(4,278)	(2,826)
Net Other Comprehensive Income/ (Expenses) not to be reclassified to profit or loss in subsequent periods	403,006	(8,565)
Other Comprehensive Income/ (Expenses) for the period (net of tax)	346,847	11,019
Total comprehensive income/ (Expenses) for the period (net of tax)	860,912	213,033
Earnings Per Share		
Basic earnings per share (Rs.)	171.01	67.20
Diluted earnings per share (Rs.)	171.01	67.20
Dividend per ordinary Share (Rs.)	15.00	-

Figures in brackets indicate deductions.

STATEMENT OF FINANCIAL POSITION

As at 31 st March	2018 Rs. '000	2017 Rs. '000
Assets		
Cash and cash equivalents	763,819	1,244,554
Placement with banks	218,102	53,501
Financial investments - available for sale (quoted)	2,768,053	3,823,125
Loans and receivables	14,549,748	11,366,577
Finance leases receivables	12,016,981	11,093,954
Hire Purchase receivable	5,368,388	6,184,745
Financial investments - available for sale (unquoted)	70,427	70,427
Other Financial Assets	506,326	445,786
Inventories	6,762	7,882
Other Assets	104,102	81,732
Current tax refunds	21,676	121,051
Investment in Associates	1,006,506	995,977
Investments Property	172,795	158,340
Property, Plant & Equipment	2,691,612	1,790,296
Leasehold Property	41,672	42,140
Intangible Assets	48,979	12,577
Total Assets	40,355,948	37,492,664
Liabilities		
Bank overdraft	254,238	1,092,434
Deposits due to customers	20,073,010	17,017,674
Debt instruments issued and other borrowings	9,327,958	10,165,837
Other Financial Liabilities	814,105	776,819
Deferred tax liabilities	980,970	361,223
Other liabilities	39,104	39,640
Retirement benefit obligations	183,477	171,772
Total liabilities	31,672,862	29,625,399
Shareholders' funds		
Stated capital	36,000	36,000
Revaluation reserve	1,928,250	1,535,061
Statutory reserve fund	711,400	661,400
General reserve	4,086,430	4,086,430
Retained earnings	1,720,521	1,291,730
Available for sale reserve	200,485	256,644
Total shareholders' funds	8,683,086	7,867,265
Total liabilities and shareholders' funds	40,355,948	37,492,664
Net assets per share (Rs.)	2,888	2,617

Certification

I certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

Shermal H. Jayasuriya
Finance Director

The Board of Directors is responsible for these Financial Statements. Signed for and on behalf of the Board by;

Gerard G. Ondaatjie
Managing Director
Colombo
17 May 2018

Travice J. Ondaatjie
Director

SELECTED PERFORMANCE INDICATORS

As at 31 st March	2018	2017
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital), Rs '000	6,027,104	5,753,830
Total Capital Base, Rs '000	6,440,556	4,778,415
Core capital adequacy ratio, as % of risk weighted assets (Minimum requirement, 5%)	16.24	17.17
Total capital adequacy ratio, as % of risk weighted assets (Minimum requirement, 10%)	17.36	14.26
Capital funds to total deposits liability ratio (Minimum requirement, 10%)	43.26	46.22
Asset Quality (Quality of Loan Portfolio)		
Gross Non-Performing accommodations, Rs. '000	2,512,587	2,047,046
Gross Non-Performing accommodations Ratio, %	7.58	6.92
Net Non-Performing Accommodations Ratio, %	2.34	2.66
Profitability (%)		
Interest Margin	8.76	7.42
Return on assets (before Tax)	2.26	0.87
Return on equity (after Tax)	5.92	2.57
Regulatory Liquidity (Rs. '000)		
Required minimum amount of liquid assets	2,031,099	1,724,423
Available amount of liquid assets	2,311,081	1,861,433
Required minimum amount of Government securities	1,242,297	1,147,357
Available amount of Government securities	1,329,160	563,377
Memorandum Information		
Number of employees	951	876
Number of branches	29	29
Number of service centers	7	7

Certification

We, the undersigned, being the Managing Director and the Finance Director of Mercantile Investments and Finance PLC certify jointly that;
(A) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka; and
(B) the information contained in these statements have been extracted from the audited financial statements of the company.

Gerard G. Ondaatjie
Managing Director
Colombo
17 May 2018

Shermal H. Jayasuriya
Finance Director

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com



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TO THE SHAREHOLDERS OF MERCANTILE INVESTMENTS & FINANCE PLC

Report on the audit of the Financial Statements

We have audited the financial statements of Mercantile Investments & Finance PLC ("The Company"), which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and statement of comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters specific to Company

Key Audit Matter	How our audit addressed the matter
Impairment of loans and advances	To assess the reasonableness of the allowance for impairment, our audit procedures (among others) included the following: <ul style="list-style-type: none"> We understood & evaluated the key internal controls over estimation of the allowance for impairment including those over identifying occurrence of loss events and non - performing loans; We test - checked the underlying calculation [and data used in such calculations] on a sample basis; In addition to the above, focused procedures were performed as follows: <ul style="list-style-type: none"> - Specific allowance for impairment: For a sample on non - performing loans & leases, management's forecasts of cash flows were test - checked to historical patterns of customer repayment. Among other procedures, forecast cash flows arising from collateral (or other source(s) of expected recovery) were verified to source documents; - Collective allowance for impairment: For loss rates used by the management, we assessed the appropriateness of the loss emergence period including consistency with historical loss experience; assumptions on effects arising from macro - economic factors were compared to published data. We assessed the adequacy of the related financial statement disclosures as set out in note(s) 23-25

Key Audit Matter	How our audit addressed the matter
Revaluation of freehold land and buildings	Among other audit procedures over revaluation of freehold land and buildings we performed following specific procedures: <ul style="list-style-type: none"> We have assessed the objectivity, competence and capabilities of the external valuer appointed by the management. We checked the valuation report to obtain an understanding of the work done by the valuer and evaluated the appropriateness as audit evidence for the recorded valuation of freehold land and buildings in the financial statements. We engaged internal specialists to evaluate the appropriateness of the valuation method and price range per perch with market data and other key assumptions applied by the external valuer in appraising the value. In addition, we evaluated the overall appropriateness of the related financial statement disclosures in note 31.4

Other Matter

The financial statements of Mercantile Investments & Finance PLC for the year ended 31 March 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 12 September 2017.

Other information included in the 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2440.

Ernst & Young

17 May 2018
Colombo

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

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Long-term Financial Institution Rating at BBB-(lka)(stable outlook) by Fitch Ratings