



Mercantile Investments and Finance PLC

236, Galle Road, Colombo 03

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Company Registration No. PB 76 PQ



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GSM/RMD/DW

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MERCANTILE INVESTMENTS AND FINANCE PLC

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Mercantile Investments and Finance PLC (the Company), which comprise the statement of financial position as at 31 March 2025, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2025 and of its financial performance and its 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 for Professional Accountants 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 the auditor's 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 Matter

Allowances for Expected Credit Losses of loans and lease receivables

Allowances for expected credit losses of loans and lease receivables measured at amortised cost as stated in Notes 23 and 24 respectively, is determined by management based on the accounting policies described in Note 3.2 to the financial statements.

This was a key audit matter due to

- the involvement of significant management judgements, assumptions and level of estimation uncertainty associated in estimating future cash flows to recover such loans and lease receivables; and
- the materiality of the reported amount of Allowances for expected credit losses.

Key areas of significant judgements, assumptions and estimates used by management in the assessment of the allowances for expected credit losses for loans and lease receivables include forward-looking macroeconomic scenarios and the associated weightages. These are subject to inherently heightened levels of estimation uncertainty and subjectivity.

Further information on the key estimates, assumptions and judgements is disclosed in Note 2.11.

Information Technology (IT) systems related internal controls over financial reporting

Company's financial reporting process is significantly reliant on IT systems and related internal controls. Further, key financial statement disclosures are prepared using data and reports generated by the IT systems, that are compiled and formulated with the use of spreadsheets.

Accordingly, IT systems related internal controls over financial reporting were considered a key audit matter.

Other Information included in the Company's 2025 Annual Report

Other information consists of the information included in the Company's 2025 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2025 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.

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 scepticism 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.

How our audit addressed the key audit matter

In addressing the adequacy of the allowances for expected credit losses of loans and lease receivables, our audit procedures included the following key procedures:

- Assessed the alignment of the Company's allowances for expected credit losses computations and underlying methodology including responses to economic conditions with its accounting policies based on the best available information up to the date of our report.
- Evaluated the design, implementation and operating effectiveness of controls over estimation of expected credit losses, which included assessing the level of oversight, review and approval of allowances for expected credit losses, policies and procedures by the Board and the management.
- Tested the completeness, accuracy and reasonableness of the underlying data used in the expected credit loss computations by cross checking to relevant source documents and accounting records of the Company.
- Evaluated the reasonableness of credit quality assessments and related stage classifications.

In addition to the above, the following procedures were performed:

For loans and lease receivables assessed on an individual basis for impairment:

- Tested the arithmetical accuracy of the underlying individual impairment calculations.
 - Evaluated the reasonableness of key inputs used in the allowances for expected credit losses made with economic conditions. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to status of recovery action of the collaterals.
- For loans and lease receivables assessed on a collective basis for impairment:
- Tested the key inputs and the calculations used in the impairment for expected credit losses.
 - Assessed the reasonableness of judgements, assumptions and estimates used by the Management in the underlying methodology and the management overlays. Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each scenario.
 - Assessed the adequacy of the related financial statement disclosures set out in notes 23.24.3.2 and 2.11.

Our audit procedures included the following key procedures:

- Obtained an understanding of the internal control environment of the relevant significant processes and test checked key controls relating to financial reporting and related disclosures.
- Involved our internal specialized resources and:
 - Obtained and understanding IT Governance Structure of the Company
 - Identified, evaluated and tested the design and operating effectiveness of IT system related internal controls over financial reporting, relating to user access and change management, and
 - Obtained a high-level understanding of the cybersecurity risks affecting the Company and the actions taken to address these risks primarily through inquiry.
- Tested source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 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, actions taken to eliminate threats or safeguards applied.

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 2471.


11 June 2025
Colombo

Partners: D K Hulangamuwa FCA FCMA LLB (London), A P A Gunasekera FCA FCMA, Ms. Y A De Silva FCA, Ms. G G S Manatunga FCA, W K B S P Fernando FCA FCMA FCCA, B E Wijesuriya FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, N M Sulaiman FCA FCMA, Ms. L K H L Fonseka FCA, Ms. P V K N Sajewani FCA, A A J R Perera FCA ACMA, N Y R L Fernando ACA, D N Ganige ACA ACMA, C A Yalagala ACA ACMA, Ms. P S Paranavithana ACA ACA LLB (Colombo), B Vasanathan ACA ACMA, W D P L Perera ACA

Principals: T P M Ruben FCA FCMA MBA (USJ-SL), G B Goutilan ACMA, D L B Karunathilaka ACMA, W S J De Silva BSc (Hons) - MIS MSc - IT, V Shaktithril B.Com (Sp)

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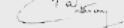
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Year ended 31 March 2025	2025 Rs. '000	2024 Rs. '000
Gross income	11,952,001	10,948,958
Interest income	11,643,483	10,628,251
Interest expenses	(5,256,552)	(6,441,603)
Net interest income	6,386,931	4,186,648
Fee and commission income	92,626	75,732
Net fee and commission income	92,626	75,732
Other operating income	215,892	244,975
Total operating income	6,695,449	4,507,355
Impairment charge for loans and receivables and other financial assets	(224,648)	(7,911)
Net operating income	6,470,801	4,499,443
Less: Operating expenses		
Personnel expenses	(2,093,207)	(1,592,749)
Depreciation of PPE, Right-of-use assets and amortization of intangible assets	(255,511)	(162,490)
Other operating expenses	(1,976,395)	(1,516,724)
Total operating expenses	(4,325,113)	(3,271,963)
Operating profit before VAT on financial services	2,145,689	1,227,480
Value Added Tax on financial services	(737,622)	(559,538)
Operating profit after VAT on financial services	1,408,066	667,942
Add: Share of associate company's profit net of tax	199,266	151,837
Profit before taxation from operations	1,607,332	819,779
Less: Income tax expenses	(532,665)	(263,966)
Profit for the year	1,074,666	555,813
Other comprehensive income/(expenses)		
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods		
Changes in fair value of Financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI)	(8,600)	(29,972)
Other comprehensive expenses to be reclassified to profit or loss in subsequent periods	(8,600)	(29,972)
Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		
Changes in fair value of Financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI)	630,994	488,545
Net change in revaluation surplus on Land & Buildings	-	324,211
Deferred tax effect on revaluations surplus on Land & building	-	(97,263)
Share of other comprehensive income of associates (net of tax)	113,091	13,897
Actuarial loss on retirement benefit obligation	(65,004)	(60,120)
Deferred tax effect on actuarial gain	1,465	14,073
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	680,546	683,343
Other comprehensive income for the year (net of tax)	671,946	653,371
Total comprehensive income for the year (net of tax)	1,746,612	1,209,184
Earnings per share		
Basic earnings per share (Rs.)	357.51	184.90
Diluted earnings per share (Rs.)	357.51	184.90
Dividend per ordinary share (Rs.)	25	20

Figures in brackets indicate deductions.

STATEMENT OF FINANCIAL POSITION		
As at 31 March 2025	2025 Rs. '000	2024 Rs. '000
Assets		
Cash and cash equivalents	2,720,258	2,492,057
Placement with banks at Amortized cost	41,040	3,460
Financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI) - quoted	7,199,933	6,427,831
Financial assets measured at Fair Value Through Profit or Loss (FVTPL)	344,772	329,519
Financial assets at amortised cost - Loans and advances	27,931,006	16,591,202
Financial assets at amortised cost - Loans and lease receivables	25,060,964	20,302,868
Financial assets at amortised cost - Hire purchase receivables	80,718	101,631
Financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI) - unquoted	70,427	70,427
Other financial assets	284,228	289,256
Inventories	73,839	101,181
Other assets	222,488	179,493
Investment in associates	1,716,582	1,404,225
Investment Property	258,390	260,056
Property, Plant and Equipment	4,512,331	4,391,241
Right-of-use assets	327,439	215,306
Leasehold property	38,397	38,866
Intangible assets	51,167	32,094
Total assets	70,933,978	53,230,713
Liabilities		
Bank overdraft	687,242	317,122
Financial liabilities at amortised cost - Deposits due to customers	42,775,086	36,104,935
Financial liabilities at amortised cost - Debt instruments issued and other borrowings	11,418,919	2,441,542
Other financial liabilities	350,288	430,673
Current tax liabilities	194,269	236,812
Deferred tax liabilities	685,588	750,164
Other liabilities	94,975	114,915
Retirement benefit obligations	489,083	396,405
Lease Liability	401,997	273,077
Total liabilities	57,097,447	41,065,645
Shareholders' funds		
Stated capital	36,000	36,000
Revaluation reserve	2,997,540	2,884,448
Statutory reserve fund	941,400	887,400
General reserves	4,086,430	4,086,430
Retained earnings	4,829,865	3,122,457
Regulatory loss allowance reserve	336,894	1,067,521
Fair Value through OCI reserve	608,402	80,812
Total shareholders' funds	13,836,531	12,165,068
Total liabilities and shareholders' funds	70,933,978	53,230,713
Net assets per share (Rs.)	4,603	4,047

CERTIFICATION:

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 Financial Officer / Director (Non-Board)

The Board of Directors are responsible for these Financial Statements.

The Financial Statements were authorized for issue by the Directors on 11 June 2025. The Directors have the power to amend and reissue the Financial Statements. Signed for and on behalf of the Board by;



Gerard G. Ondaatje
Managing Director
11 June 2025 - Colombo



Shermal H. Jayasuriya
Finance Director

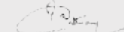
SELECTED KEY PERFORMANCE INDICATORS				
Item	As at 31st March 2025		As at 31st March 2024	
Regulatory Capital Adequacy (%)	Actual	Required	Actual	Required
Tier 1 Capital Adequacy Ratio	15.59%	8.50%	16.49%	8.50%
Total Capital Adequacy Ratio	17.27%	12.5%	17.88%	12.5%
Capital Funds to Deposit Liabilities Ratio	28.34%	10.0%	28.92%	10.0%
Quality of Loan Portfolio (%)				
Gross Stage 3 loan ratio	4.91%		9.81%	
Net Stage 3 loan ratio	2.60%		6.77%	
Net stage 3 loans to core capital ratio	14.11%		31.28%	
Stage 3 impairment coverage ratio	48.67%		33.76%	
Total impairment coverage ratio	3.07%		3.88%	
Profitability (%)				
Net Interest Margin	11.87%		9.79%	
Return on Assets	2.59%		1.54%	
Return on Equity	8.27%		4.57%	
Cost to Income Ratio	75.6%		85.0%	
Liquidity (%)				
Available Liquid Assets to Required Liquid Assets (Minimum 100%)	197.68		196.18	
Liquid Assets to External Funds	15.57		18.45	
Memorandum information				
Number of Branches	73		51	
External Credit Rating				
	Long-term Financial Institution Rating at BBB-(lka) (Stable Outlook) by Fitch Ratings		Long-term Financial Institution Rating at BBB-(lka) (Rating Watch Negative) by Fitch Ratings	

The Company has not incurred any regulatory penalties or been subject to regulatory restrictions on deposits, borrowings, lending, or any other activities during the years ended 31st March 2025 and 2024.

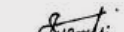
CERTIFICATION:

We, the undersigned, being the Chief Financial Officer, Finance Director, Managing Director and the Compliance Officer 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 (CBSL);
- (b) the information contained in these statements have been extracted from the unaudited financial statements of the Licensed Finance Company unless indicated as audited.



Deva Anthony
Chief Financial Officer / Director (Non-Board)



Shyamali Pamarathna
Compliance Officer



Shermal H. Jayasuriya
Finance Director



Gerard G. Ondaatje
Managing Director

Explanations/Glossary

Capital Adequacy Ratios	Indicates the ability of the financial institution to absorb losses without affecting depositors and creditors. This ratio is computed by dividing capital by risk weighted assets as specified by the Direction, and high ratio indicates a better loss absorption capacity.
Stage 3 Impairment Coverage Ratio	Indicates the level of loss allowance for Stage 3 loans and advances .
Total Impairment Coverage Ratio	Indicates the level of total loss allowance for total loans and advances .
Net Interest Margin	Indicates profitability of the core business operation of the financial institution. i.e. granting loans and advances and accepting deposits.
Cost to Income Ratio	Represents operating expense, excluding impairment charges on loans and advances as a percentage of net revenue (net interest income and other income). Lower ratio will result in higher profitability.
Liquid Assets	A liquid asset is an asset that can easily be converted into cash.
Cap	Maximum limit imposed by CBSL.
Downsizing	Gradual reduction of the business operation imposed by CBSL.
Freezing	An order of CBSL that is in place preventing LFC engaging in further transactions of the Company.
Tier 1 Capital	Represents permanent shareholder equity and reserves.
Total Capital	Represents Tier 1 and supplementary capital including instruments with characteristics of equity and debt, revaluation gains, impairment allowances.
Risk Weighted Assets	Sum of on-balance sheet risk weighted assets and the total credit equivalent of risk weighted off-balance sheet assets.
Tier 1 Capital Ratio	Tier 1 capital as a percentage of risk weighted assets.
Total Capital Ratio	Total capital as a percentage of risk weighted assets.
Capital Funds	Paid up capital, permanent free reserves and any other securities approved by CBSL.
Net Interest Margin	Annualised net interest income (interest income less interest expenses) as a percentage of total assets (as at end of period).
Return on Assets	Annualised profit before tax as a percentage of total assets (as at end of period).
Return on Equity	Annualised profit after tax as a percentage of total capital (as at end of period).
External Funds	Includes only deposits and borrowings.

