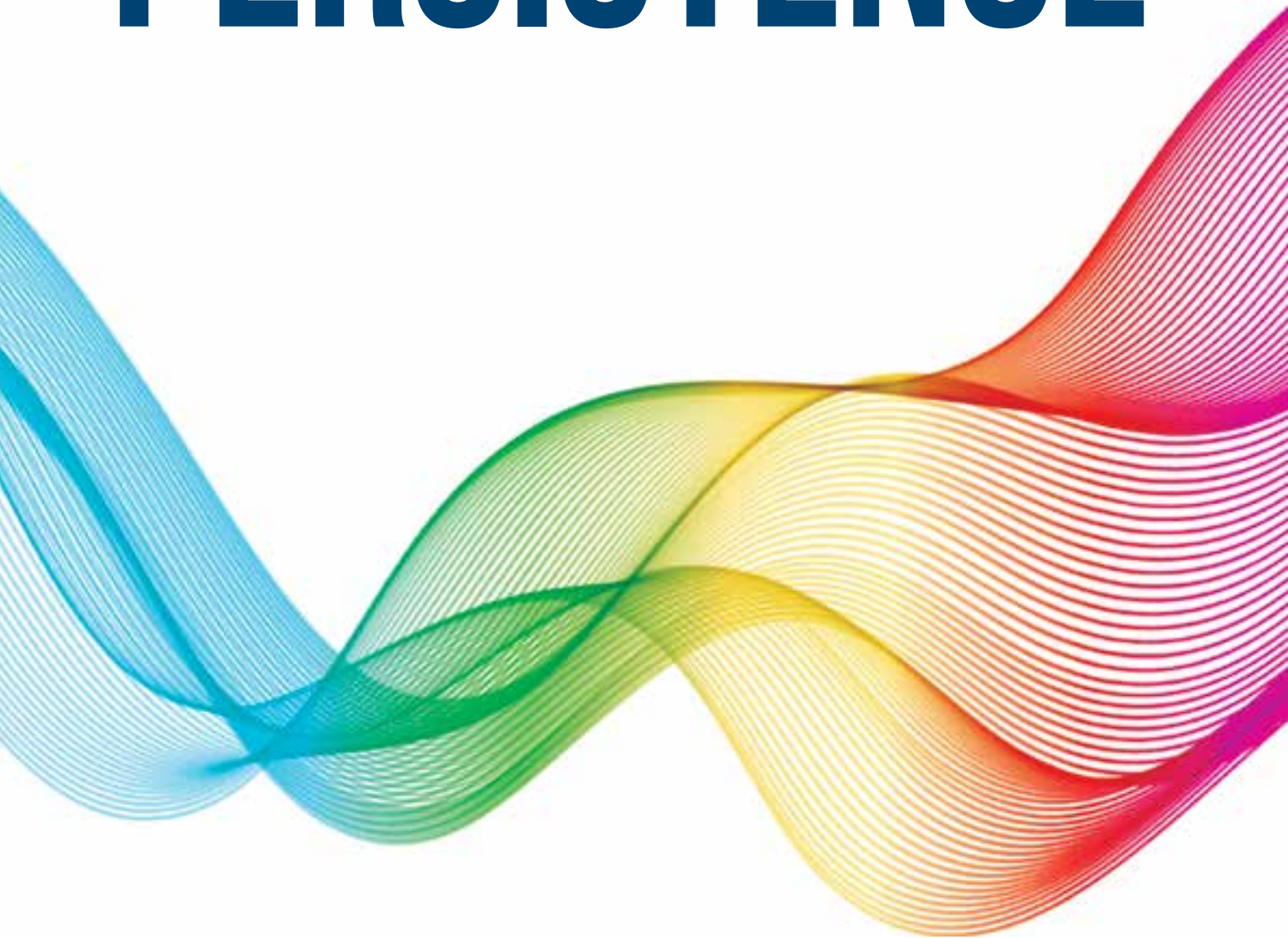


A COLLECTIVE PERSISTENCE



MERCANTILE INVESTMENTS AND FINANCE PLC
ANNUAL REPORT 2019/20

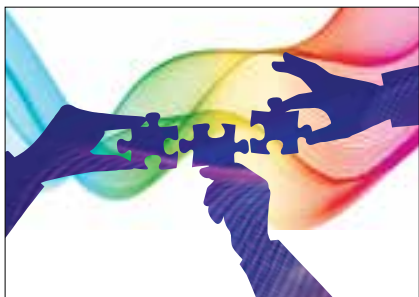


EVERY DAY WE ARE CHALLENGED TO DO SOMETHING NEW, TO ADAPT AND BE FLEXIBLE; TO DISCOVER NEW THINGS ABOUT OUR STAKEHOLDERS, THEIR NEEDS, THEIR LIVES, AND THEIR DREAMS. SO WHILE WE MOVED FORWARD FROM A YEAR OF ENDURANCE WE KEPT PACE WITH THE DIVERSE REQUIREMENTS OF THE NATION BY BEING A RESOURCEFUL AND EFFECTIVE BUSINESS THAT LOOKS TO CREATING A PERSONALISED AND CLOSE RELATIONSHIP WITH EACH AND EVERY ONE OF OUR CUSTOMERS. EVERY CONNECTION HELPED US GROW MORE FIRM AND HELPED US MAINTAIN AND TAKE ACTION THROUGH A COLLECTIVE PERSISTENCE; THE WILL TO SUCCEED NO MATTER WHAT IN DELIVERING ON WHAT REALLY MATTERS.

**A COLLECTIVE
PERSISTENCE**

CONTENTS

FORMING A COLLECTIVE VISION



This main section provides a succinct preamble to the Company's purpose and value statements, history, style of management and business frontiers. It also offers information about MI's business and success, along with future plans and insights to showcase the journey we have undertaken thus far and the path we intend to pursue as we move forward.

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FORMING A COLLECTIVE PARTNERSHIP



This section offers readers a comprehensive commentary on how we have created stakeholder value, our strategy, and the results we have achieved through our outstanding capital management efforts.

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BUILDING A COLLECTIVE MINDSET



As custodians of public funds in the dynamic finance industry, our leadership continually upholds effective governance and directs business in a prudent manner, consistently adopting best risk management practices. Our good governance approach and risk dynamics are explained concisely in this section.

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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



ACHIEVING A COLLECTIVE GOAL



The financial reporting section provides readers a comprehensive view of MI's financial results in the period under review, along with the independent audit report. The profitability and accumulated wealth during the successful business journey of the last five decades is showcased via the strong balance sheet, capital position and supportive numbers and graphs.

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REACHING A COLLECTIVE PINNACLE



This concluding section provides readers other vital information about MI's financial progress, investor information and guidelines on relating to this year's Annual Report and AGM.

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WEB CONTENT

Our website enriches stakeholders with an extensive array of information in support of this year's Annual Report.

Management Discussion and Analysis

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Corporate Governance

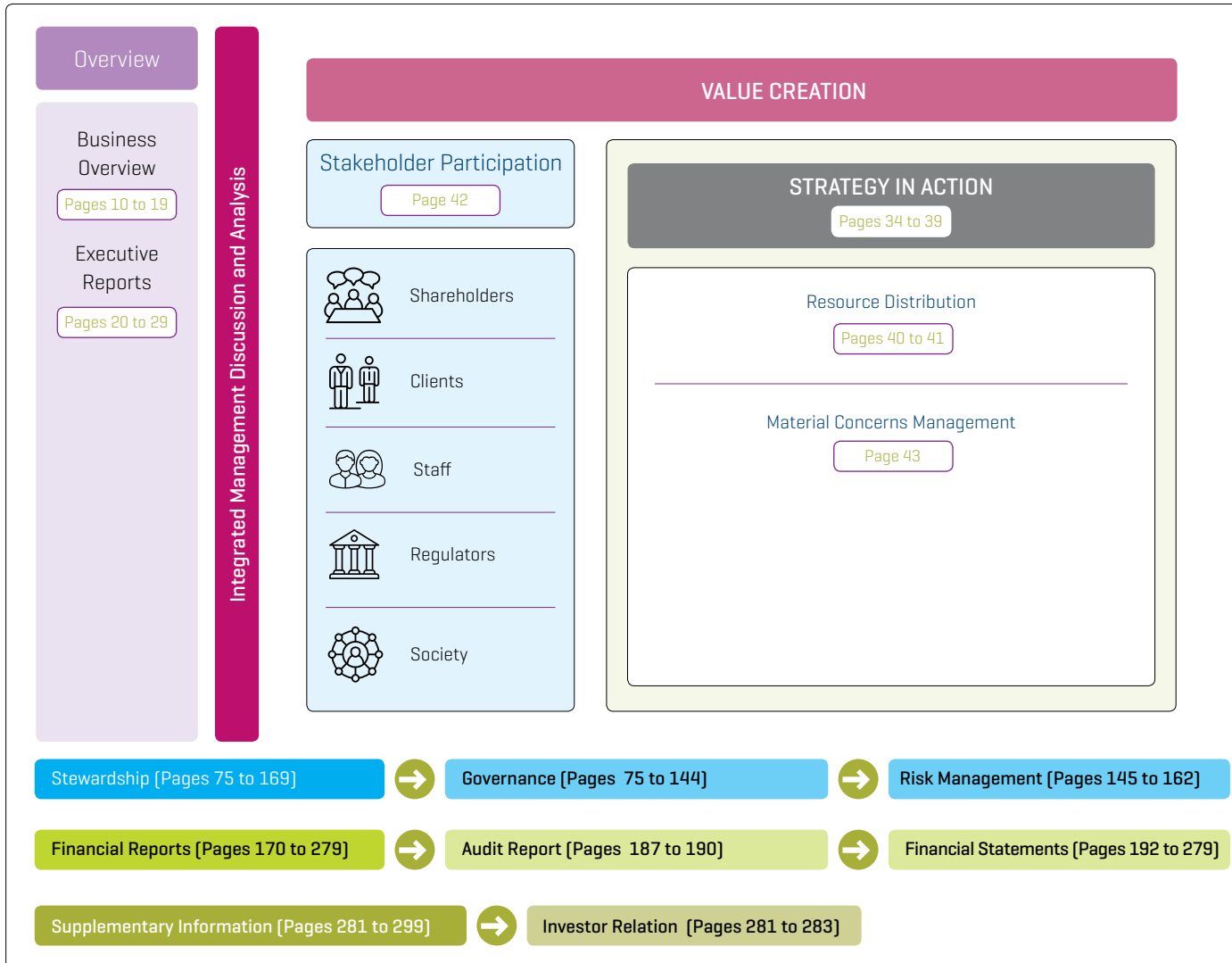
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Risk Management

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NAVIGATION

Annual Report



Navigation Icons

Capital Utilized

Our value creation process was driven by the following six capitals utilized by the company;



Financial Wealth: Shareholders' equity, funding received from clients and borrowings obtained from banks and financial intermediaries that are used to support our business



Alliances: Our strong commercial relationships and the bonds with our stakeholders, including the community and the wider society



Human Strength: The experienced and skillful workforce that drives our organization to deliver unique and competitive products and services, to our customer base



Intellect: Our intangible assets that include MI's brand value, reputation and business know-how



Infrastructure: Physical resources that support all our business operations



Nature: Natural resources that we utilize in our business and the impact we create on them in return

CAPITAL MANAGEMENT REPORT



Financial Wealth

Pages 46 to 54



Alliances

Pages 55 to 59



Human Strength

Pages 60 to 61



Intellect

Pages 62 to 63



Infrastructure

Pages 64 to 65



Nature

Pages 66 to 67



Committee Reports [Pages 163 to 169]



Supportive Financial Information [Pages 284 to 285]



Other Information [Pages 286 to 299]

Stakeholders



Shareholders: Our equity providers



Clients: Our credit customers, depositors, suppliers, business partners and lending institutions, such as banks and financial intermediaries



Staff: Our permanent and probationary employees



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 community and wider society we interact with

FORMING A COLLECTIVE VISION

This main section provides a succinct preamble to the Company's purpose and value statements, history, style of management and business frontiers. It also offers information about MI's business and success, along with future plans and insights to showcase the journey we have undertaken thus far and the path we intend to pursue as we move forward.

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BRIEF ABOUT THIS INTEGRATED REPORT

WE ARE PROUD TO PRESENT AN INTEGRATED ANNUAL REPORT FOR THE SEVENTH CONSECUTIVE YEAR TO ARTICULATE OUR PERFORMANCE AND PROGRESS FOR THE YEAR UNDER REVIEW. WE HAVE PREPARED OUR INTEGRATED REPORT IN ACCORDANCE WITH THE INTERNATIONAL INTEGRATED REPORTING COUNCIL'S (IIRC), INTERNATIONAL INTEGRATED REPORTING FRAMEWORK. THIS REPORT PROVIDES A GATEWAY FOR OUR STAKEHOLDERS TO UNDERSTAND OUR SUSTAINABLE BUSINESS PHILOSOPHIES ABOUT UTILIZING OUR BUSINESS STRENGTHS AND INDUSTRY EXPERTISE TOWARDS GENERATING POSITIVE STAKEHOLDER VALUE AS ARTICULATED IN OUR CORPORATE PURPOSE, VISION, MISSION AND VALUE STATEMENTS.

Reporting Parameters

☉ GRI | 102-4, 102-45, 102-46, 102-50 and 102-52

Period of Reporting

We publish our corporate reports annually, which addresses key corporate concerns (material concerns), while providing a comprehensive coverage about the company's financial and non-financial performance. Our current report was prepared for the financial period commencing from 1st of April 2019 to 31st March 2020, and followed a structured disclosure process to highlight our business model, strategy, key initiatives and performance results towards achieving our visionary aspirations. The significant material concerns after the reporting period, up to the Board approval date of 26th June 2020 have also been incorporated into our annual report 2019/20, to ensure that we present the most accurate picture about the company's performance.

Scope and Boundary of Reporting

This report encloses the core business operations of MI within Sri Lankan territory as it does not carry out business operations in other countries and there is no subsidiary holding relationship that exists locally or internationally. The Company's financial statements were prepared based on the Sri Lanka Accounting Standards and includes Nuwara Eliya Hotels Company PLC as an associate company, since MI holds a 26.12% stake in the company.

Extent of Reporting

Going beyond statutory financial reporting, we have extended our emphasis on non-financial performance attributes as well. Thus, we have reported on a wider range of topics and areas of focus to communicate how we identify and manage our strengths, weaknesses, opportunities and threats within our corporate governance, risk management and compliance framework.

Target Audience

Whilst our report is primarily directed at addressing the information needs of investors (shareholders and other funding providers), our report also acts as the information source for a wide array of stakeholders, which includes our clients, staff, regulators and society.

Key Concepts

Integrated Philosophy

The insightful business philosophy followed by our Board and management is intertwined with integrated thinking towards effective strategic decision making, in the process of stakeholder value creation. Our collaborative integrated efforts focus on the productive use of our unique capital resources in this value creation journey.

Value Creation

Value Creation is a result of how we transform our stocks of various capital towards superlative financial performance (outcomes), through our business operations to generate tangible and intangible returns to our stakeholders (output and outcomes), while creating trade-offs. Our unique value creation process

is a pivotal component of our integrated thinking and corporate planning process, the key components of which are highlighted in our business model, given on pages 32 to 33.

Materiality

☉ GRI | 102-10, 102-48, 102-49 and 102-51

Materiality is a key principle which we consider in determining which information to be included in our Integrated Report. This approach ensures that our integrated report reflects only on matters that are significant to both Mercantile Investments and its key stakeholders in assessing the progress of generating sustainable stakeholder value creation over the short, medium and long run. Assessing and evaluating the current and potential impacts stemming from these material concerns is an integral part of the MI's value creation process, which we have highlighted on pages 10 to 29. No significant changes were observed to the scope, boundary, and reporting basis since the last reporting date of 31st March 2019, except for the changes in the level of materiality from last year to this year and the application of the Sri Lanka Financial Reporting Standards (SLFRS) 16 - Leases (pages 240 to page 241) in the financial statements. Restatements of opening balances have been carried out in accordance with SLFRS 16.

BRIEF ABOUT THIS INTEGRATED REPORT

Reporting Regulations, Principles and Protocols

GRI | 102-5, 102-12, 102-54 and 102-56

Regulations and Frameworks Adopted

In keeping to the regulatory environment, our report was prepared in accordance with the Sri Lanka 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) 2017. Our report is also prepared in accordance with the Global Reporting Initiative (GRI) standards - Comprehensive option. Being a listed and registered Finance Company in Sri Lanka, we have duly provided all necessary corporate disclosures to comply with the Colombo Stock Exchange (CSE) and the Securities and 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 disclosure requirements.

Assurance

In keeping to statutory requirements and best practices of maintaining reporting integrity, independence and transparency, the MI Board duly obtained services of external experts to verify and report on our corporate disclosures as follows;

Area Assured	External Assurance Party	External Assurance Reports/ Certifications/ Assurance Statements
The Audited Financial Statements	Messrs. Ernst and Young, Chartered Accountants	Audit Report (Pages 187 to 190)
Sustainability Reporting	Messrs. Ernst and Young, Chartered Accountants	Limited Sustainability Assurance Report (Page 74)
Compliance with Central Bank Corporate Governance Directions	Messrs. Ernst and Young, Chartered Accountants	Assurance Statement on Corporate Governance Direction Compliance (Page 144)
Directors' Statement on Internal Controls Accuracy	Messrs. Ernst and Young, Chartered Accountants	Limited Assurance Report (Page 186)



Availability of the Annual Report

In accordance with the prescribed instructions on 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

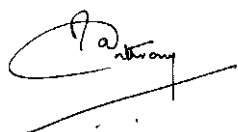
The Chief Financial Officer/Senior General Manager,
Mercantile Investments and Finance PLC,
236, Galle Rd,
Colombo 03.
E-mail: accounts@mi.com.lk

Board Approval for the Report

GRI | 102-32

The Board acknowledges its responsibility of ensuring the integrity of this integrated Annual 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 26th June 2020.

On behalf of the Board;



Deva Anthony

Chief Financial Officer/Senior General Manager



Shermal Jayasuriya

Finance Director

BUSINESS OVERVIEW

Our late founder Chairman, Desabandu George Ondaatje, envisioned identifying market opportunities through innovative financial solutions, while contributing towards the development of the finance sector and the Sri Lankan economy as a whole.

Since inception in 1964, the organization has evolved to offer innovative financial solutions through deposit mobilization and financing, catering to customer requirements through inspiring business offers, while creating stakeholder value and staying ahead in the finance business, in a sustainable manner.

As another significant milestone, in 2011, MI was listed in the Diri Savi Board of the Colombo Stock Exchange, enhancing MI's corporate profile. In tandem with this robust backdrop and our over 1,000 workforce, we stand strong as an outstanding finance company in the finance sector of Sri Lanka.



MI's Board and corporate management team are skilled, committed and highly receptive to market needs, and act beyond the conventional business approach, while implementing proactive risk management practices to achieve a wide array of goals and objectives. We offer products that are in line with all regulatory guidelines at an affordable and fair price. The business is governed to comply with the highest ethical standards and focuses on both financial and non-financial interests of our stakeholders.

GRI | 102-6

Our target market comprises all spheres of businesses and individuals that we reach through our network of 39 branches in Sri Lanka. We serve different locations and continue to cater to our customer requirements with innovative financial solutions in order to keep customers content and loyal.

GRI | 102-2

Our offerings reflect a well-diversified portfolio of lending and deposit products. In addition to traditional lending products, which include leasing and hire purchasing, we have diversified our products into personal and corporate loans, pledge loans,

property mortgage and micro financing. Our deposit product portfolio is attractive and will be enhanced to offer greater diversification in order to cater to different customer segments.

Our primary source of funding consists of capital invested by shareholders, customer deposits and borrowings from banks and other funding providers. There were no significant material changes to the capital mix and funding sources, except for the partnerships developed with new external funding providers.



Mercantile Investments and Finance PLC holds a 26.12% stake in its associate, Nuwara Eliya Hotels Company PLC, which is a public listed company. Major shares of MI are owned by a few large investors and there are no subsidiary and holding company relationships as at the balance sheet date. The authority and responsibility

of decision making and implementing strategies have been allocated clearly through the organization structure that makes each business function and department highly accountable for its actions.

- Key Business Lines Operated**
- Lending
 - Deposits
 - Investments
 - Other Ancillary Business

OUR PRODUCTS AND SERVICES

GRI 102-2

FINANCE AND LENDING PRODUCTS



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 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.

KEY INVESTMENT PRODUCTS

REGULATORY LIQUIDITY-BASED INVESTMENTS

EQUITY/DEBT 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 INVESTMENTS

Primarily investments in ordinary shares of listed entities.

CORPORATE DEBENTURES

Investment in debt securities of listed entities.

INSURANCE SUPPORT

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 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 vehicles



PAINT JOBS

Provides exclusive painting solutions

OUR PURPOSE, VISION, MISSION, PRINCIPLES AND VALUES

GRI 102-16

PURPOSE

Creating meaningful value that exceeds people's expectations.



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.



VISION

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

OUR SUSTAINABILITY PLEDGE



TO FULFILL STAKEHOLDER EXPECTATIONS TO THE BEST OF OUR ABILITY AND PLEDGE IN THE PROCESS, TO MEET WIDER ECONOMIC, SOCIAL AND ENVIRONMENTAL OBLIGATIONS IN A RIGHTFUL MANNER WHICH IN TURN, WILL SUPPORT THE PROCESS OF BUILDING A ROBUST SUSTAINABLE NATION.

As a responsible corporate entity committed to contributing to the betterment of society, we have realigned our business philosophy to focus on financial goals whilst concurrently embracing economic, social and environmental goals, as per UN Sustainability Development Goals, in our sustainability pledge and aspirations.

We have geared our operations to deliver a superlative service and initiated corporate social initiatives to meet a wider array of societal expectations. To do this, we have obtained our staff's commitment and declare this sustainability pledge for the greater good of society.

MI PRODUCTS AND SERVICES



Introduce innovative solutions to the market that will satisfy human wants, whilst protecting society and environment.



PRINCIPLES

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

OUR VALUES

- ✔ **Empathetic:** Proactively being sensitive to customer expectations
- ✔ **Respect:** Recognizing 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



KEY
STAKEHOLDERS
IMPACTED

SHAREHOLDERS



CLIENTS



STAFF



SOCIETY



REGULATORS



We keep adding more value to our stakeholders, while reaching our visionary aspirations.

MI OPERATIONS



We re-oriented our business processes and aligned our integrated thinking philosophy towards achieving corporate goals while contributing towards economic, societal and environmental goals.



MI CORPORATE SOCIAL INITIATIVES



Identification of unseen requirements of the community assisted us to design innovative solutions in terms of products and services and corporate social initiatives to support well-being of the communities, society and environment.



FINANCIAL HIGHLIGHTS

GRI 102-7

For the year ended 31 March	Actuals 2020 Rs.'000	Actuals 2019 Rs.'000	Change %	Actuals 2018 Rs.'000
Results for the year				
Gross Income	7,610,170	7,638,497	[0.37]	6,984,093
Interest Income	7,475,320	7,436,054	0.53	6,564,038
Interest Expenses	3,842,380	3,861,878	[0.50]	3,703,776
Profit Before Tax	691,791	786,653	[12.06]	858,771
Provision for Taxation	320,082	328,580	[2.59]	344,706
Profit After Tax	371,708	458,073	[18.85]	514,065
Financial Position at the year end				
Shareholders' Funds (Stated Capital and Reserves)	8,898,327	8,672,864	2.60	8,683,087
Deposits from Customers	22,814,923	21,176,433	7.74	20,073,010
Loans & Advances, Leases and Hire Purchases (Gross)	35,441,013	34,204,719	3.61	33,149,318
Total Assets	43,171,119	41,354,565	4.39	40,355,948
Investors				
Gross Dividend	60,120	-	100.00	45,090
Earnings per Share (Rs.)	123.66	152.39	[18.85]	171.01
Dividends per Share (Rs.)	20.00	-	100.00	15.00
Net Assets per Share (Rs.)	2,960	2,885	2.60	2,889
Ratios				
Return on Shareholders' Funds [%]	4.18	5.28	[1.10]	5.92
Return on Average Assets [%]	0.88	1.12	[0.24]	1.32
Interest Cover (Times)	1.18	1.20	[0.02]	1.24
Dividend Cover (Times)	6.18	-	6.18	11.40
Equity: Assets [%]	20.61	20.97	[0.36]	21.52
Debt: Equity (Times)	3.60	3.50	0.10	3.42
Dividend Payout Ratio [%]	16.17	-	16.17	8.77
P/E Ratio (Times)	21.03	16.93	4.09	15.09
Non-Performing Loans Ratio [%]	11.69	9.62	2.07	7.58
Total Asset Growth [%]	4.39	2.47	1.92	7.64
Advance Growth (Gross) [%]	3.61	3.18	0.43	12.04
Deposit Growth [%]	7.74	5.50	2.24	17.95
Operating Profit Margin [%]	8.87	9.25	[0.38]	11.2
Value Added per Employee (Rs. '000)	6,971	7,421	[6.06]	7444
Statutory Ratios				
Liquid Assets [%]	15.99	14.77	1.22	11.40
Core Capital Ratio [%] - Minimum Required 6.5% (2019 - 6%)*	13.56	14.98	[1.42]	16.24
Total Risk Weighted Capital Ratio [%] - Minimum Required 10.5% (2019 - 10%)*	15.25	16.69	[1.44]	17.36

*Revised ratio effective from 1st July 2019



Net Profit After Tax
Rs. 372 Mn



Net Interest Income
Rs. 3.6 Bn
grew by 2%



Total Assets
Rs. 43.2 Bn
grew by 4%



Gross Income
Rs. 7.6 Bn



Deposit Base
Rs. 22.8 Bn
grew by 8%



Core Capital Ratio
13.56%
[Minimum 6.5%]

Total Risk Weighted
Capital Ratio
15.25%
[Minimum 10.5%]



Awards and Accolades

Silver Award
Finance & Leasing Companies Sector
[Total Assets above Rs. 20 Billion]

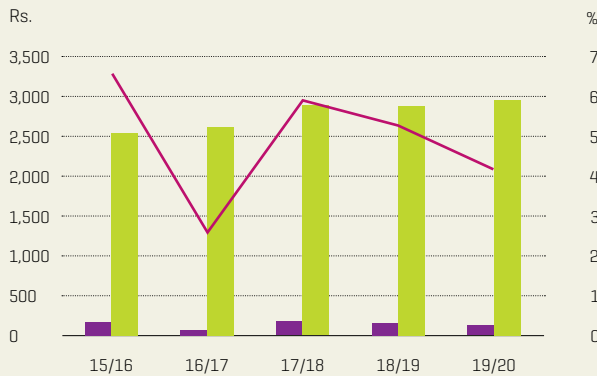
Recognised being within "Top 10 Annual Reports" of Sri Lanka

CA Sri Lanka Annual Report 2019 Competition

Recognised as being within the "Best Ten Integrated Reports" of Sri Lanka

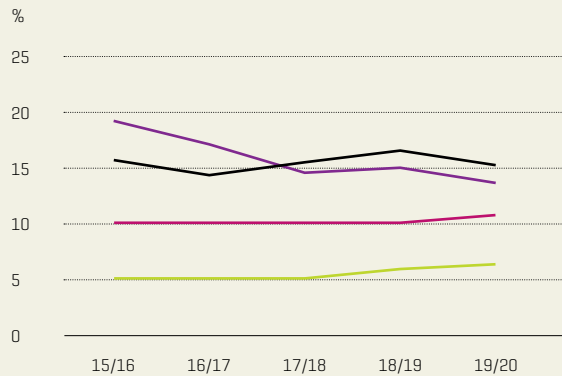
CMA Sri Lanka Excellence in Integrated Reporting Awards 2019"

Investor Returns



- EPS [LHS]
- Net Assets per share - [LHS]
- ROCE % [RHS]

Capital Adequacy



- Core capital CBSL Minimum Requirement
- MI's Core Capital Ratio
- Total Risk Weighted Ratio CBSL Minimum Requirement
- MI's Total Risk Weighted Capital Ratio

OPERATIONAL HIGHLIGHTS

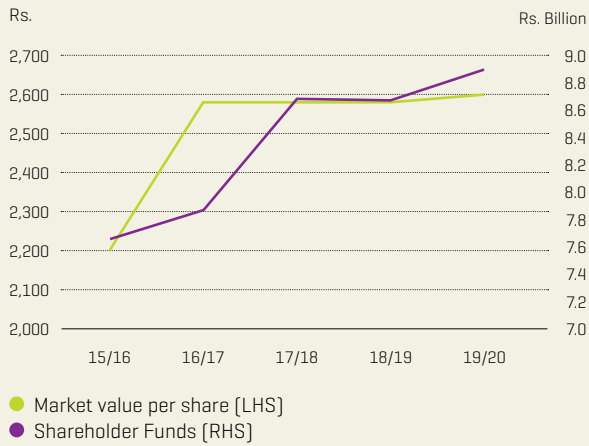
GRI 102-7

GRI Standard	For the year ended 31st March	2020	2019	Variance	2018
ALLIANCES					
413-1	Total clientele	> 65,000	> 60,000	Approx. 6%	> 60,000
	New products launched (Number)	2	3	-33%	-
204-1	Percentage of purchases from suppliers: Head office, Colombo (%)	53	55	-2%	58
	Other locations of Sri Lanka (%)	47	45	2%	42
419-1	Significant fines for product/service (Rs. '000)	-	-	-	-
413-1	Number of CSR Beneficiaries	2,217	113	1,862%	1,958
205-2	Training on Anti money laundering (number)	70	80	-13%	131
419-1	Significant fines for violation of laws/regulations (Rs. Million)	-	-	-	-
201-1	Community Investment cost (Rs. '000)	2,268	2,351	-4%	3,586
201-1	Staff volunteered time on CSR (hours)	3,776	447	745%	518
HUMAN STRENGTH					
401-1	Total workforce (Number)	1,094	1,040	5%	951
401-1	Female Representation (%)	21	20	1%	16
401-1	Recruitments for the year (Number)	346	436	-21%	321
202-2	Local hiring of senior managers (%)	76	88	-12%	89
401-1	Attrition rate (%)	27	35	-8%	26
401-3	Retention rate after parental leave (%)	80	67	13%	67
403-2	Number of injuries	6	11	-45%	5
403-2	Number of lost days	183	257	-29%	115
403-2	Absenteeism in days	81	32	153%	70
404-1	Training hours per participant as an average (Hours)	11	12	-8%	7.5
404-3	Employee performance appraisal as a percentage of total workforce (%)	64	65	-1%	85
103-2	Employee grievances reported and resolved (Number)	-	-	-	3
201-3	Employee benefit liability (Rs. '000)	254,385	238,112	7%	183,477
406-1, 408-1, 409-1, 103-2	Human rights violation	-	-	-	-
INTELLECT					
	Brand Expenditure (Rs. Million)	114	103	11%	68
	Market Share (%)	2.90	2.90	0%	2.90
INFRASTRUCTURE					
201-1	Number of new business locations launched	-	3	-100%	-
	Investment on IT (Invested/ to be invested in Rs. Million)	> 45	> 44	2%	> 72
	Investment in Property, Plant and Equipment (Rs. Million)	58	258	-78%	89
NATURE					
302-1	Electricity consumption (kWh)	1,443,926	1,352,395	7%	1,365,581
	Electricity consumption in value (Rs. '000)	37,736	34,834	8%	35,622
302-1	Total fuel usage (litres)	907,174	979,426	-7%	903,144
	Fuel costs (Rs. '000)	94,424	94,103	0%	77,253
303-1	Water consumption (Units '000)	12,487	12,325	1%	14,692
	Water consumption in value (Rs. '000)	3,433	3,620	-5%	3,493
306-2	Paper recycling (Kg)	2,579	1,394	85%	1,126
307-1	Significant environmental fines (Rs. '000)	-	-	-	-
	Environment protection expenditure (Rs. '000)	442	1,293	-66%	1,661

VALUE CREATED TOWARDS STAKEHOLDERS

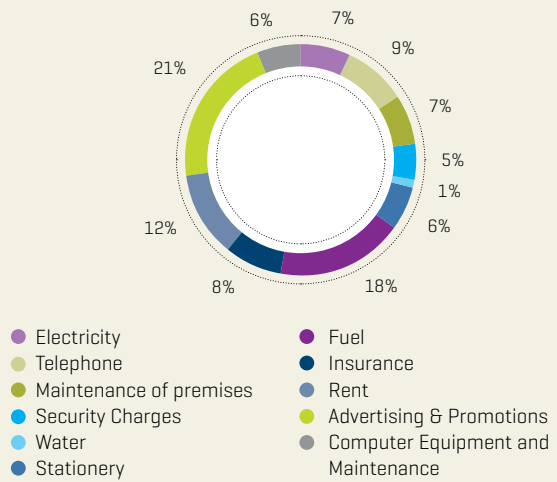
Investors

Investor Returns



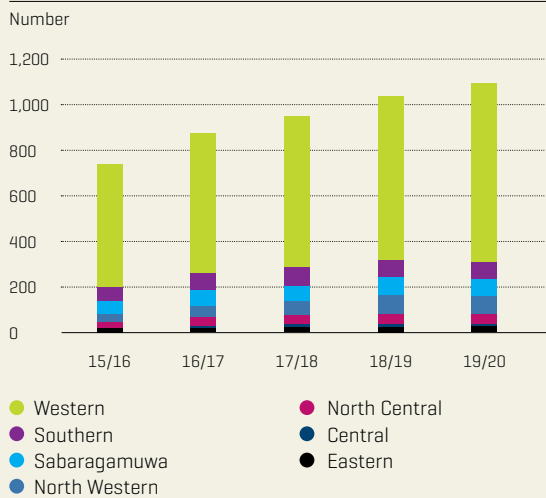
Clients

Spending on Suppliers



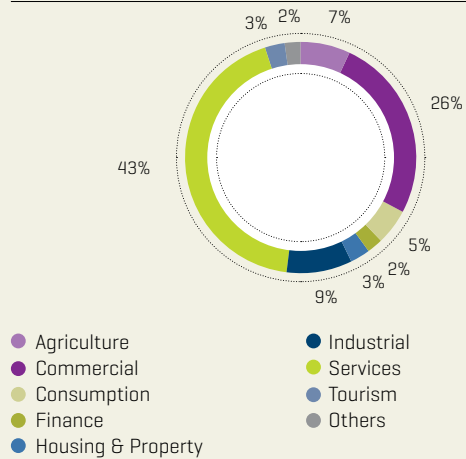
Staff

Employment Creation



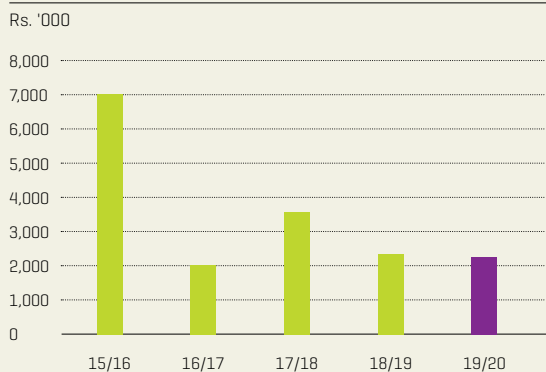
Economy

Credit Support to Various Sectors



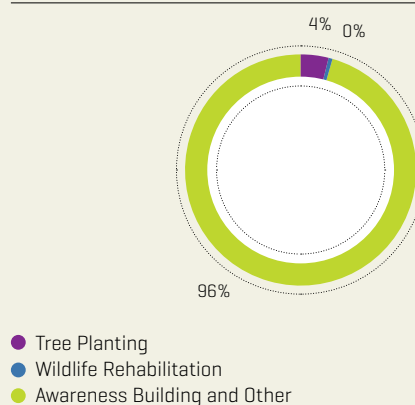
Society

Community Investment



Environment

Environmental Volunteerism



CHAIRMAN'S MESSAGE



“WE REMAINED ANCHORED TO OUR PURPOSE, TO ENRICH THE LIVES OF OUR CUSTOMERS, COMMUNITIES AND COLLEAGUES DESPITE THE ADVERSE IMPACTS OF PERSISTENT ECONOMIC HEADWINDS AND UNPRECEDENTED EVENTS THAT OCCURRED THROUGHOUT THE YEAR.”

Dear Stakeholders,

I would like to commence my message by conveying our sincere appreciations to my predecessor Mr. Saro Weerasuriya, who served as the Chairman of the Board for the past nine years, as an inspiring leader. On behalf of Mercantile Investment (MI) and its Board of Directors, I express my sincere gratitude for your staunch leadership, commendable guidance, and stewardship in steering the company to greater heights. I would also like to welcome Mr. Dinuka Perera, who joined the Board from March 2020, as an Independent Non-Executive Director.

Undoubtedly, the year under review was one of the most challenging periods not only for the Non-Banking Financial Institutions (NBFI) but also for our entire country, as the Sri Lankan economy experienced sluggish economic growth, first due to the unprecedented Easter Sunday attacks in

April 2019 and the political uncertainty surrounding the Presidential election in November 2019, followed by the outbreak of the COVID-19 pandemic. The Easter Sunday events had a negative spillover effect on our loan book growth and loan recovery, besides which the Presidential Election created political and economic uncertainties.

Moreover, the lockdown during the COVID-19 outbreak further obstructed operations of NBFIs, adversely affecting our collections and asset quality. However, despite this turbulent operating environment, I'm pleased to inform you that we were able to demonstrate strong resilience. Thus, we remained anchored to our purpose, to enrich the lives of our customers, communities and colleagues, despite the adverse impacts of persistent economic headwinds and unprecedented events that occurred throughout the year.



In 2019, Sri Lanka's GDP growth further decline to 2.3%, from 3.3% in 2018, and the banking and broader financial services industry came under pressure as earning potential declined on the back of poor advances growth, slower retail volumes and declining interest margins. With the continuous deterioration of borrower repayment capacity, the burden of higher Non-Performing Lending levels further impacted the subdued credit growth and sector profitability.

Although these unprecedented events brought forth to us a modest bottom line, we remained focused on building a solid foundation for future growth. We created a performance driven culture, while embracing technology to drive our vision.

We persistently improved our core business spheres, guided by the three year corporate plan and made prompt strategic adjustments to confront economic and industry volatilities in order to secure financial stability. We implemented necessary changes in processes, procedures and policies towards offering a fabulous customer experience.

Operating Landscape

The asset base of the NBFIs reported a marginal increase of 0.1% [2018-5.6%] with a negative credit growth of 3% reported as at December 2019 [2018-7.6% growth]. In the backdrop of credit growth contraction, the industry's gross NPL ratio increased to 10.6% in December 2019, compared to 7.7% reported in the previous year, reflecting stresses in key sectors such as tourism, agriculture and construction. The sector's profitability was impacted by narrower interest margins, rising impairment charges,

increased overhead costs and a considerable increase in the effective tax rate for the year, mainly due to the Deb Repayment Levy which was effective from 1st October 2018, being applicable for the first three quarters in the current financial year, though it was removed from January 2020.

However, positive sentiments were reflected after the Presidential Election under the new leadership with the introduction of monetary and fiscal stimulus aimed at reviving the economy. Thus, the reduction in interest rates, tax concessions and other strategic initiatives boosted the growth momentum with a slight upturn in credit growth before the COVID-19 outbreak in mid-March 2020.

CHAIRMAN'S MESSAGE

With the outbreak of COVID-19, all social and economic progress came to a halt with an indefinite curfew in Colombo. Like most industries, the finance sector faced a challenging period with the measures to provide relief to borrowers via a moratorium and the curtailed rental recovery. Accordingly, market liquidity levels further contracted with these moratorium measures. Fear of the impact of COVID-19 on the global economy, hurt investor sentiment and brought down prices in the Sri Lankan stock market by unprecedented levels.

Although the exchange rate remained comparatively stable against the dollar, up to March 2020, with the COVID-19 outbreak, a sharp devaluation of 7.4% was observed with the lockdown situation.

However, with the strategic initiatives taken by the Government to revive the economy and the regulatory concessions and flexibilities granted to safeguard the finance sector, we believe that market conditions will gradually improve in the medium term, though the recovery will be slow with international border controls.

Financial Results in Brief

Despite the challenging economic conditions, subdued loan book growth of 2.6% and thinning margins, it is noteworthy that we demonstrated strong resilience by securing our market share and recording Rs. 7,610 million in revenue, though our revenue targets were pegged back compared to the Rs. 7,638 million recorded in the last year. Our total assets advanced to Rs. 43,171 million, reflecting a moderate increase of Rs. 1,816 million in absolute terms with a 4.4% growth [2.5% in 2018/19], though the industry average growth stood at 0.1% as at 31st December 2019. Loans and advances also increased in parallel by 2.6% [0.03% in 2018/19], which is a relatively slower rate of growth than the last five years' average of 11%, and amounted to Rs. 32,759 million.

In this challenging backdrop, our resilience enabled us to record a robust Net Profit Before Tax of Rs. 692 million and to conclude the financial year with a satisfactory Rs. 372 million Net Profit After Tax (NPAT). Even though both Pre-tax and Post-tax profits declined by 12% and 19% respectively year-on-year and consequently, the Earnings Per Share of the company dipped to Rs. 124 per share [FY 2018/19 - Rs. 152 per share] and the Return on

Capital Employed (ROCE) of MI stood at 4.18%, which was below the optimum projected levels, I urge stakeholders to look at these figures in the context of the economic challenges we faced in the current financial year.

Deterioration in borrower repayment capacity slowed down our collections and asset quality declined with the Non Performing Loan levels (past due 180 day basis) rising to 11.69%, which however mainly comprised of few large accounts fully collateral backed by prime properties stemming from past few years. We were able to control the impairment charge to Rs. 484 million, recording a 29% reduction against last year, due to proactive recovery measures. Our emphasis on targeting the less than 90 day arrears stringent Asset Quality measures since the adoption of SLFRS 9 in 2018/19, gave us a head start in this process.

Even though in the beginning of the year, stringent deposit mobilization regulations were imposed, subsequent amendments to deposit interest rates regulations combined with effective mobilization strategy helped us to boost the deposit base by 8% to Rs. 22.8 billion in 2019/20. The continuous decline in interest rates and lending rate caps introduced to the banking sector contributed positively towards reducing our overall cost of funds more than 2%.

We managed to control the total overhead cost escalation to 8% [11% in 2018/19], as we expanded our cost optimization programme through business process re-engineering, to eliminate waste and move towards automation. However, the cost to income ratio increased to 69% from 63% last year, mainly due to the decline in operating income against the escalation in overheads. The increase in VAT on financial services expense by 12% [8% in 2018/19] and Debt Repayment Levy cost by 38% also escalated the overall increase in expenses.

Our ancillary business revenue too was somewhat impacted with a total 18% drop. Treasury based investment interest income, generated via government securities, was Rs. 159 million with a year-on-year decrease of 4% due to government monetary policy changes during the year. Dividend income from equity investments also declined by 57%, from Rs. 48 million in 2018/19 to Rs. 21 million in 2019/20 due to the sluggish performance of the

equity markets. Furthermore, a continued bearish nature of the equity market due to the COVID-19 outbreak contracted our investment portfolio fair values by Rs. 252 million as unrealized losses for the year.

Insurance referral income of lending clients also reduced by 13% compared to the previous year but yet generated commissions totaling to Rs. 83 million. [Rs. 94 million in 2018/19]. The workshop service and repair business also contributed Rs. 69 million, in revenue reflecting a marginal reduction of 4% year-on-year, boosting non fund based income.

Uplifting Future Growth Potential

We remained committed to developing our workforce through continuous training and up skilling. While expanding our staff strength by 5.2% which stood at 1,094 in 2019/20, we placed greater emphasis on talent building across all levels of the organization. With the objective of creating a performance driven culture, we launched a new performance management system and restructured our business processes to build a lean and agile operating model. Keeping efficiency and effectiveness in our service delivery as a high priority, we formed a business process re-engineering division in 2019 that undertook several measures to improve lead times and bolster productivity.

We sought to improve our competitive edge by embracing digitization and offering innovative customer solutions. The adoption of sophisticated IT systems and digitalized business platforms are priorities to boost our future performance. Thus, we strengthened the "Technology and Digitization" front, upgrading our systems and digital platforms to support our core business operations.

Though we did not open any new branches during the year, we expanded our footprint through the conversion of seven service centres into branches. This will increase regional contributions towards our overall performance, while enriching client experiences and convenience.

Commitment towards Strategic Corporate Sustainability

As a corporate envisioning the building of a solid sustainable nation, we continued to reorient our thinking process. Despite challenging economic conditions we continued to extend our legendary service through greater financial inclusion and diversity, going beyond the commercial boundaries. We also ensured that we take prompt preventive measures to safeguard the health and safety of our employees, customers and all our stakeholders, while supporting the government to contain the spread of COVID-19 and working with the regulator to evaluate and extend moratorium reliefs to those borrowers affected.

Even with the reduced margins, our micro finance arm continued granting financial assistance to the poor and less-privileged, who have little or no access to funds. During the year, we were able to expand our services to a client base of more than 65,000, from different geographical locations, by providing a vibrant array of services. While mitigating our negative footprint, during the year, we incurred a community investment of Rs. 2.3 million, as part of our corporate sustainability commitment.

Strong Governance Framework and Regulatory Compliance

We ensured that MI's operations were underpinned by a solid governance framework at all times that complies strictly with governing regulations. There was greater focus on strengthening risk management mechanisms, to minimize adverse impacts of economic and political volatilities.

The Board was committed in adhering to all corporate governance requirements set by the regulators and voluntarily embraced Corporate Governance Guidelines issued in December 2017 by the Institute of Chartered Accountants of Sri Lanka. During the year, we strengthened our credit evaluation process with a newly introduced internal rating scheme and expanded the evaluation criteria.

The Board took positive note of policy directions and guidance received from regulatory authorities, and took measures to stay compliant. We took proactive measures to comply with strengthened regulatory guidelines, which included higher capital adequacy requirements, customer protection and on-going work on credit risk management while strengthening the IT platform to support the changing regulatory environment.

Responding to the formidable challenge of controlling the rise in non-performing advances, the Board focused on, and spent much time with the management, to formulate and implement strategies to strengthen recovery measures and lending practices.

Future Outlook and Challenges

The COVID-19 outbreak has become one of the biggest threats to the global economy and financial markets. The lockdown policies being implemented across the globe to control the virus spread, is having instantaneous and dramatic effects on both global and local economic activities across all the industries. Thus, it is expected that 2020 would be more adverse than the 2008 global financial crisis and also may lead to a deep economic recession seen only after the 2nd World War.

Despite the uncertainty and the speed in which the COVID-19 pandemic is evolving, it is evident that significant adjustments will be necessitated to our business model to adjust to the "new normal" and competitive landscape. Furthermore, with the depreciation of the Rupee and import restrictions imposed by the government, LFCs' will refocus efforts towards continuing demand for registered vehicle financing and other forms of lending, but can expect a positive outlook in the medium term with the upward revision of Loan to Value (LTV) ratio and liquidity reliefs offered.

Though we can expect collections to remain slow paced in the next few months, once normalcy is reestablished, we hope to see an immediate boost to collection levels. Moreover, the new political leadership and the unwavering commitment of the Sri Lankan government to mitigate and control the pandemic and the fiscal stimulus packages introduced to revive the local economy, will create positive sentiments towards future growth prospects.

Furthermore, it is expected that the interest rates will be further reduced and inflation is to be kept lower and will be managed at one digit level, thus creating a favorable economic platform for the ease of doing business. Extended tax relief and easing of the monetary policy will also contribute towards positive growth momentum.

Despite these challenging conditions, our continued focus on human resource development and technology enhancement will help us stay competitive with right agility to remain in the forefront of the industry. We emphasize that we are driven by our desire to enhance the value we create for our stakeholders. We believe our strategy to deliver sustainable returns in line with our targets, diversify our product mix to enhance the robustness of our asset base and focus on improving the customer value proposition, will accelerate our medium-term growth trajectory.

Acknowledgements

I take this opportunity to record my gratitude and sincere appreciation to those who contributed immensely to MI's journey towards sustainable value creation.

Firstly, I would like to thank my colleagues on the Board for their contribution and tremendous support and for steering MI in a difficult year with a focus on long term sustainability. I would also like to extend my sincere gratitude to the Managing Director, Mr. Gerard Ondaatjie for his visionary leadership and also to the MI corporate management team members and staff for being the backbone of this tremendous business journey with their admirable commitment and dedication.

Secondly, I take this moment to thank the Governor, Deputy Governor, Director Non-Banking Supervision Department, and all staff of the Central Bank of Sri Lanka for their continued guidance and cooperation extended. I also thank all our customers, agents and other business partners for upholding their trust and loyalty in this phase and also for their immense support thus far to navigate the challenging road ahead.

I extend my gratitude to all of our investors for constantly placing their confidence in the Board. As the Chairman, I reassure you that MI is well geared in all aspects, to drive the business towards new horizons for the betterment of all stakeholders. Finally, I wish to convey our sincere good wishes to all our stakeholders and look forward to your continued support in the future.

S. Bandara

Sanjaya Bandara
Chairman
26th June 2020

MANAGING DIRECTOR'S REVIEW

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“DURING THESE TRYING BUSINESS CONDITIONS AND ECONOMIC HEADWINDS, WE REMAINED COMMITTED TO OUR QUEST OF IMPROVING THE QUALITY OF OUR SERVICE THROUGH EFFECTIVE WORK FLOW ENHANCEMENTS AND OTHER BOLD INITIATIVES”

The unprecedented events that arose as the financial year unfolded, starting with the Easter Sunday events that shook the nation in April 2020 and thereafter the lockdowns across the country due to the emergence of the COVID-19 epidemic in March of 2020, left an immediate negative imprint on almost all industries including the Non-Bank Financial Institutions (NBFIs). For the financial year under review, first quarter was the most negative in terms of revenues and profitability levels, which fell considerably across the sector.

In the aftermath of the tragic Easter Sunday events, tourism and related industries took a major hit, which had a cascading effect on vehicle financing and the general appetite for credit, which resulted in marginal loan book growth year-on-year. The Easter Sunday impact, together with the unprecedented economic fallout emerging as a result of the COVID-19 outbreak, resulted in the decline in collections across the industry. As a result of the deterioration in asset quality, NPL levels rose and stood higher than last year, with unexpected impairment charges for the company.



Although our profitability was impacted due to these unprecedented events, the staunch resilience, commitment and clear focus shown by the Board and corporate management, enabled the company to make noteworthy progress in moving towards implementing key strategic priorities to boost lending revenue and deposit mobilization, especially targeting the medium- and longer-term horizon.

During these trying business conditions and economic headwinds, we remained committed to our quest of improving the quality of our service through effective work flow enhancements, and other bold initiatives. We invested notably in enhancing our workforce capabilities and embraced state-of-the-art technology and IT system platforms to lay a solid foundation for future business growth.

How the Sri Lankan Economy Fared

The Sri Lankan economy during the first half of the year was disrupted by the Easter Sunday events, which marred the progress made since conflict times. Nonetheless, elections in November 2019 and the dawn of a new leadership saw the negative economic outlook of the country gradually receding, especially with the political climate stabilizing and positive sentiments of the business community picking up-until end February 2020. These positive vibes were short lived with the imposition of a lockdown across the country in March 2020 to manage the spreading of the COVID-19 outbreak that brought the Sri Lankan economy to an unprecedented standstill.

For the calendar year 2019, in this backdrop, the Sri Lankan economy fared modestly, recording a 2.3% real GDP growth compared to a 3.3% growth recorded in the previous calendar year. Market interest rates continued to fall with policy rates being revised downward in total by 175 basis points to stimulate credit growth and to keep inflation managed at yet again one-digit levels with the CCPI at 4.3%. From December 2019, as an immediate fiscal measure, tax relief was extended to both the corporate sector and individuals alike, to stimulate the economy. However, these initiatives were overshadowed by the curfew imposed due to COVID-19 and restriction on economic activities across the country, except for essential services, at the tail end of the financial year.

MANAGING DIRECTOR'S REVIEW

Though the rupee exchange rate remained stable against the dollar during most of the year, the disruptions to export markets and constraint measures imposed on international trade due to the COVID-19 outbreak saw the rapid depreciation of the rupee by 7.44% year-on-year by end March 2020. Apart from the COVID-19 impact, foreign reserves depleted because of government debt repayments falling due this period, while the anticipated Foreign Direct Investment (FDI) stayed modest on account of the Easter Sunday events, political volatility and global perceptions and policy.

NBFI Sector's Resilience in Tough Conditions

For the finance companies sector, it was a challenging year amidst the economic slow-down and volatility, which stifled industry progress and optimism, despite the continued post conflict development. Though the 2% Nation Building Tax and the Debt Repayment Levy of 7% were eliminated during the latter part of the financial year, the continuation of the 15% VAT on financial services, left the industry effective tax rate still high above 40%, keeping Industry post-tax profits down by 31.9% year-on-year. Moreover, profitability levels were hit by the higher impairment charges on credit, stemming from the slower repayment patterns witnessed.

The tourism moratorium on repayment of loans extended amidst the Easter Sunday events and repayment relief extended due to the COVID-19 outbreak, led to a sharp increase in the 180 day non-performing loan levels of the industry, which stood at 10.6% by end December 2019. Finance companies were nonetheless able to stay resilient, adopting effective strategies to sustain business and stay liquid, even under these trying conditions.

How MI Progressed Amidst Challenges

Though conditions for business remained challenging, we managed to stay resilient and proactive by manoeuvring our business with a clear focus. We continued to consolidate on the strong branch presence built over the last decade, to develop business beyond the Western Province. Through a structured development program, we invested in our people to enhance their skills and at the same time, placed greater emphasis on technology towards customer convenience. We continued to extend our financial services to most segments of society and create further employment opportunities across the country.

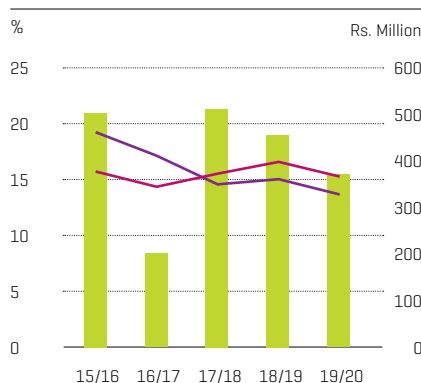
By continuing to grow and expand business operations, we believe we fulfilled most of our key stakeholder expectations. Despite the overall economic outlook remaining negative, and we see this continuing into the next financial year due to the on-going COVID-19 outbreak, our relentless commitment towards achieving stable financial results and our efforts at helping communities build livelihoods and broad-based social initiatives, have contributed immensely to make a lasting impression on the Sri Lankan economy, society and the environment, yet again this year.

Financial Results

As a result of the two unprecedented events and resultant challenging business conditions experienced in one financial year, we understandably fell somewhat behind in terms of targeted portfolio growths, revenue and profitability. Net Profit Before Tax stood robustly at Rs. 692 million for FY 2019/20, though decreasing by 12% from the year before. Similarly, Net Profit After Tax of the company stood satisfactorily at Rs. 372 million, reflecting a decline of 19% year-on-year. With the decrease in profitability, the Earnings Per Share of the company dropped to Rs. 124 per share (FY 2018/19 – Rs. 152 per share), while the Return on Capital Employed was recorded at 4.18%, remaining behind targeted levels.

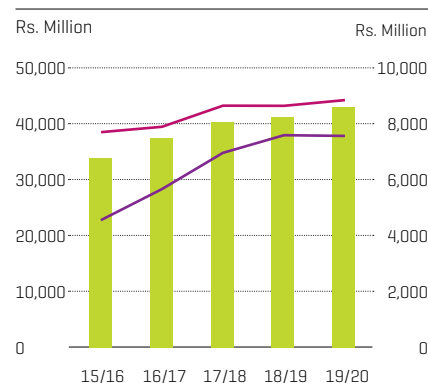
The marginal 2.6% loan book growth sustained in these challenging conditions, kept core lending interest income stagnant with only a 1% growth compared to the three year moving average growth of 19%. This, together with pressure exerted on maintaining core-margins, kept Net Interest Income (NII) pegged back behind projected levels at Rs. 3,633 million, marginally up by 1.6% year-on-year. Subdued growth in NII coupled with 33% drop witnessed in non-fund based Income, constricted the upward trend in the total gross revenue that MI had maintained in the past, reflecting a marginal 0.4% decrease, though surpassing the Rs. 7.6 billion mark.

Earning Performance and Capital Strength



- Profit After Tax (RHS)
- MI's Core Capital Ratio (LHS)
- MI's Total Risk Weighted Capital Ratio (LHS)

Revenue and Asset Base



- Total Assets (LHS)
- Total Revenue (RHS)
- Shareholder Funds (RHS)

Slowdown in collections and repayment ability of borrowers impacted asset quality, with Non-Performing Loan levels (past due 180 day basis) rising to 11.69%. However, a significant percentage of this NPL comprised a few large accounts, fully collateral backed by prime collateral and adequate prudential provisions, made in the past few years. Whilst strong proactive recovery measures controlled the asset quality erosion during this challenging business environment, the company had to nevertheless bear a loan impairment charge of Rs. 484 million, though this reflected a 29% reduction from last year.

Increased operations and inflationary effects kept overhead expenditure escalation at 8% though controlled due to cost optimization activities implemented, especially through the initiatives of the newly set up business process re-engineering unit combined with the cost-conscious culture introduced across all functions.

Whilst enjoying a strong capital base accumulated from our past business success and being able to again grow retained earnings this year, from internally generated operations, we ensured our prudential capital adequacy ratios stayed well above the Tier 1 regulatory minimum limit of 6.5% and the total risk weighted capital ratio of 10.5%, at 13.56% and 15.25% respectively, reaffirming MI's capital strength and stability within the NBF1 sector.

How Key Business Lines Fared Lending Business

Challenging macro-economic factors and market conditions kept expansion of credit across the industry considerably constricted. In the backdrop of slower loan book growth, MI's loan book advanced by Rs. 815 million to Rs. 32.8 billion while lending-based interest income reached to Rs. 7,287 million, out of which, 34% was derived from outside the Western Province. At the same time, lending yields decreased in line with the market, in the backdrop of the economic slowdown and heightened competition, which kept Net Interest Margins (NIM) somewhat thinner and this led to a NIM dip of 0.2% year-on-year.

In contrast to previous financial year, MI's main products of lease financing and term-based lending performed modestly, behind higher fund-based revenue targets set for the year. Lease book expansion remained lower than expected at 8%, while in contrast vehicle loans, which continued to be a popular credit option in the vehicle trade, went up encouragingly by 23%. Because of these growth levels, related interest income moved steadily up by 14% and 32% respectively, compared to a year before.

In general, the continuation of the regulatory restrictions on the Loan to Value (LTV) on credit, and the prevailing relatively high import duty structure, kept demand for credit related to vehicle ownership, somewhat pegged back. The import restrictions placed just before the year end will hamper the industry loan book growth further at least in the first quarter of next financial year.

With the observed economic slowdown, we took a cautious approach towards high risk credit and was also selective in promoting specific lines, such as property mortgage lending and micro financing, the portfolios of which dipped by 19% and 24% respectively year-on-year. Regulatory measures introduced in the last financial year setting out maximum interest rates on micro finance lending, coupled with weather disasters, hindered progress made in developing micro-financing related revenue.

Deposit Mobilization

Despite the economic shocks and impacts to people's savings, our deposit mobilization was satisfactory with the deposit base surpassing the Rs. 22 billion mark by the balance sheet date, reflecting a 8% growth year-on-year. Based on the regulator's maximum ceiling limits for the industry, deposit rates were compelled to be reduced, which somewhat pegged back the possibility of us further growing the base.

Rate sensitiveness of depositors and increased competition, especially with the banking sector maintaining momentum, kept mobilization challenging. I am pleased to observe the commitment displayed by the deposit marketing team in expanding the retail-based depositor relationships which grew by 4% and are expected to broad base despite the prevailing liquidity hardships of people during this challenging COVID-19 outbreak period, that is bound to ease with the economy bouncing back to normalcy.

Treasury Management

With treasury markets remaining volatile and the interest rates taking a downward trend, we managed our funding efficiently for working capital and investment purposes, whilst keeping costs minimal. Through longer tenor borrowings, we bridged the less than one-year assets and liability mismatches, which tended to somewhat rise with deposit tenor being predominantly shorter. We secured Rs. 5.3 billion in long term borrowings tying up with our banking partners and other financial intermediaries, which resulted in total borrowings moving up by 1.9% year-on-year.

We recorded a 12.9% decline in returns from our treasury investments, mainly derived from interest income from government securities, down by 3.7% from a year before while bank deposits contributed a modest 14% to treasury related revenue. Though the stock market performance picked up as soon as Presidential Elections concluded in late 2019, it afterwards took a huge plunge once the COVID-19 outbreak deepened by March 2020. Accordingly, we had to make a fair value capital loss adjustment of Rs. 252 million to the Other Comprehensive Income Statement. Though the stock market experienced a temporary set back, we are optimistic of the market rebounding once economy is in full operation and market sentiments improve.

MANAGING DIRECTOR'S REVIEW

Ancillary Business Performance

Insurance Referral Services

By making insurance services available under one roof, our credit clientele's insurance requests were forwarded to the insurance brokering company housed in the same premises in Kollupitiya. We recorded Rs. 83 million in insurance commissions, which reflected a 12.7% year-on-year downward movement. By creating synergies between the two companies, we were able to deliver a more comprehensive value-added solution for our vehicle-based borrowers, focusing on aspects such as convenience, personal service and promptness.

Workshop Business Unit Performance

Through our special workshop servicing and repair unit located in the motor vehicle hub of Kohuwala, we generated total revenue of Rs. 69 million, though experiencing a marginal decline of 4% from a year before. Total workshop repairs and vehicle servicing demand was hampered especially during the first and last quarters due to the explained unprecedented events.

Governance Highlights

Chairman Mr. Saro Weerasuriya upon reaching nine years as a Non-Executive Director retired and handed over the helm of Chairmanship to Non-Executive Director Mr. Sanjaya Bandara, who has been with the MI Board for eight years and is well qualified and experienced in the field of finance. At the same time, let me welcome Mr. Dinuka Perera who joined the Board from March 2020 as a Non Executive Director.

On behalf of the Board and management, I would like to thank Mr. Saro Weerasuriya for his invaluable contribution towards Mercantile Investments' success and wish him well for his future.

In terms of direction and governance, there was strong leadership and guidance displayed by the MI Board in all key dimensions and functions of the company, throughout the year. In the backdrop of a volatile market and changing risk dynamics, Executive Directors worked closely with the senior corporate management team towards immediate short-term goals and targets, and for risk mitigation and proactive strategy for future business growth and sustenance.

As we stood firm after the Easter Sunday events, the Board worked closely with the corporate management to meet immediate needs of our stakeholders during the COVID-19 outbreak. Despite the lockdown and curfew being imposed from the latter part of March 2020, we prioritized essential activities. During the crisis days, utilising minimal staff and technological solutions, we made arrangements to credit monthly interest payments into depositor accounts in advance, as a gesture of goodwill and support. We also took steps to pay salaries early for all our staff and took effective health and safety measures to protect workers and customers alike, following Government regulations on social distancing and hygiene safeguards.

Outlook for 2020 and Beyond

As the COVID-19 pandemic continues to engulf the world, with dire economic consequences stemming from indefinite lockdowns, including closing of borders and trade, we can expect the Sri Lankan economy too, to undergo unprecedented challenges for most of 2020. Already, the Sri Lankan real GDP forecast prior to the COVID-19 outbreak, which was estimated to be well over 3%, has been revised significantly downward, while unemployment rates are bound to rapidly increase as witnessed globally. Once the COVID-19 outbreak eases across the country and normalcy prevails, we can expect effective macro-economic policy measures, including government measures to boost market liquidity, ease monetary policy, subsidies and further tax concessions, will stimulate the economy, particularly boosting the self-employed, SME, tourism, exports and local produce sectors.

The initiatives kick started to increase domestic food production, thereby ease imports and encourage overall exports, relaxing of exchange regulations to encourage free flow of foreign currency and the special refinance facilities extended through the Banking and NBF sector to provide refinance and moratorium reliefs to various borrowers, will help somewhat ease the prevailing economic challenges for individuals and corporates alike. It is expected that more policy measures will be imposed to stabilize the economy in the next six months, to bring relief. Initiatives taken to boost the small and medium enterprises, even prior to the COVID-19 outbreak, and expected assistance to vulnerable sectors, which include the unemployed and lower income earners, is bound to be a catalyst in rejuvenating lives and livelihoods of communities already fallen due to business stoppages experienced after mid-March 2020.

Though there will be headwinds globally and domestically to control the economic repercussions of the pandemic, we can expect the Sri Lankan economy to display resilience. We can expect the interest rates to move further downward this year and government to continue easing the monetary policy stance to stimulate credit and economic growth. The steep decline in world oil prices is bound to ease inflationary pressures, but is off-set by the dramatic decline in investor confidence, poor foreign participation in the stock market and impending challenges in mobilizing Foreign Direct Investment and foreign currency reserves, to get through this difficult period.

The finance sector as a whole will stay resilient to ride out the immediate six months of this challenging period, on the back of tax concessions and other reliefs and expected gradual pickup in credit demand and improved collections. The reduction in the corporate tax rate from 28% to 24% and easing of the regulatory environment by bringing down the statutory liquidity ratio and extending the time frame to meet higher capital adequacy requirements and easing of regulatory environment in specific areas, will provide adequate time for LFCs to recoup and forge ahead once economy accelerates. We expect development activities to recommence economy to gain momentum with the expected completion of the Colombo Port City project, as well as other large scale public and private ventures of high economic importance, and national level road development projects, such as the continuation of the Central Express Way.

Though the government has imposed a three month halt on vehicle imports due to the present COVID-19 health crises, the eventual economic pick-up is bound to fuel demand for credit and need for vehicle financing. The registered motor vehicle trade demand is bound to accelerate within the next 12 months. In contrast, deposit mobilization will remain challenging, especially because of the impact caused on people's savings and the economic pessimism that would prevail, at least in the shorter term.

During these challenging times, let me reassure you that Mercantile Investments will remain resilient and will stay receptive to grasp emerging opportunities and forge ahead with confidence.

With customer needs in the forefront, our decision making will be directed at ensuring financial stability and prudent management of all our activities. As corporates come to grips to adjust to the "new normal", we will continue to pursue technology solutions and process rationalisations as means of catering to future needs to enhance service quality and customer convenience. We will continue to invest in our people, to develop skills and enhance knowledge to face future complexities. To drive talent cultivation, we hope to nurture the full potential of our people through effective training and development and HR practices, which will remain an on-going priority, in the medium term.

Concluding Remarks

Though the year was quite challenging, the unwavering commitment displayed by everyone at MI ensured that we remained close to our immediate goals and aspirations. Despite unprecedented events derailing some of the planned targets, I would like to thank all staff members, for their efforts in eventually concluding the financial year with satisfactory results.

Let me also specially extend my gratitude to all Directors of the Board for their tireless efforts, for providing their invaluable input and advice to steer the organization during these unprecedented times, towards a position of consolidation and strength.

I would like to take this opportunity to thank both the previous Governor and at the same time, the new Governor of the Central Bank and his able staff, for their support and cooperation extended to us during this financial year.

It is also appropriate at this juncture that I thank our valued customers for selecting MI and placing their trust in us, even in these challenging times. Your continued loyalty is a source of strength and inspiration for us to strive for excellence and go beyond boundaries.

While finally extending a word of thanks to all our shareholders for keeping faith in our Board, especially in challenging times, I wish to reiterate that your Board will emphasise sound governance to manage affairs prudently and strive towards enhancing stakeholder value overtime. We hope to build on the solid foundation laid down from past efforts, keeping to basics by nurturing our human resources, technology capabilities and those other factors deemed critical to better serve our customers, society and the nation.



Gerard G. Ondaatjie
Managing Director

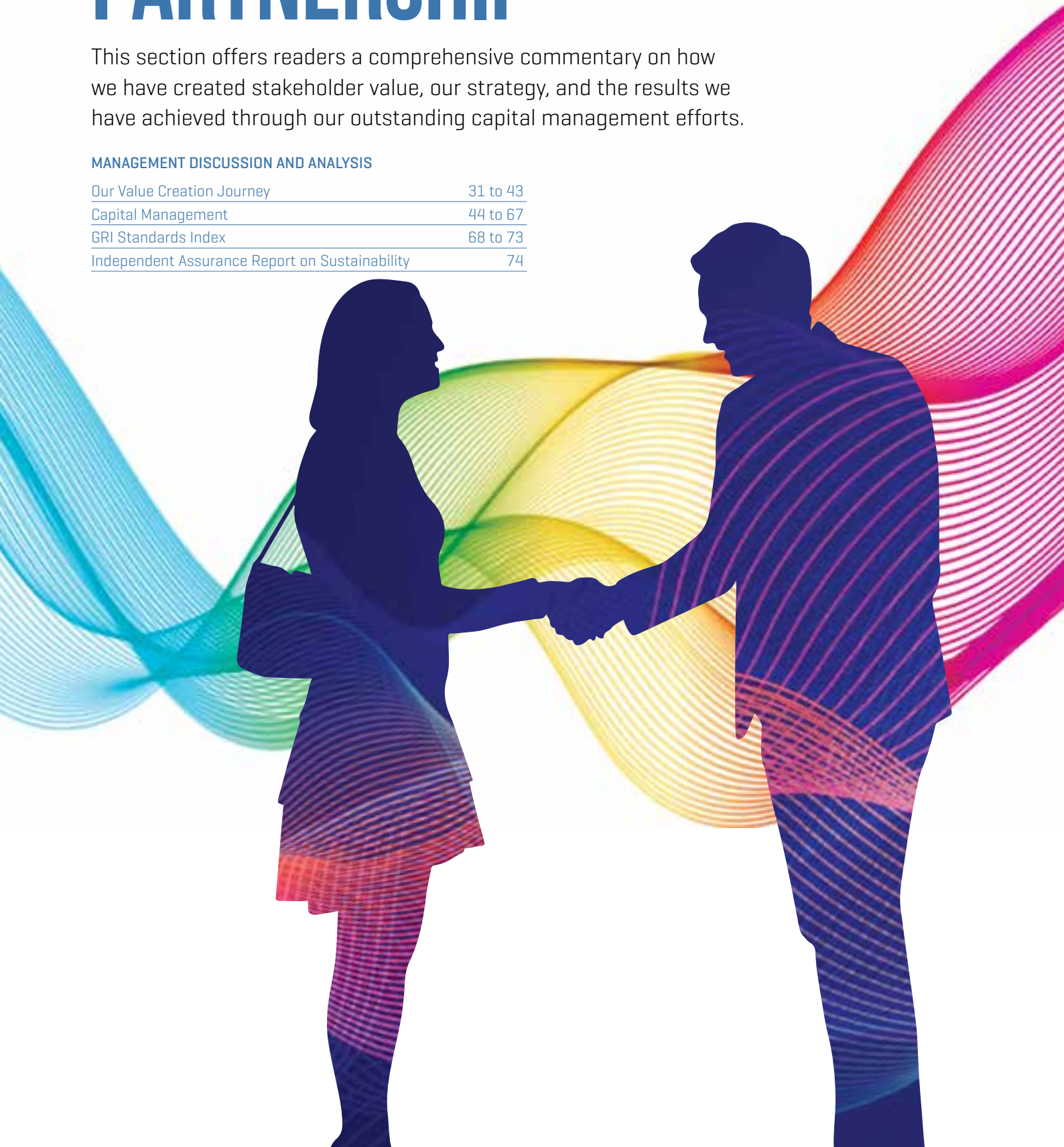
26th June 2020

FORMING A COLLECTIVE PARTNERSHIP

This section offers readers a comprehensive commentary on how we have created stakeholder value, our strategy, and the results we have achieved through our outstanding capital management efforts.

MANAGEMENT DISCUSSION AND ANALYSIS

Our Value Creation Journey	31 to 43
Capital Management	44 to 67
GRI Standards Index	68 to 73
Independent Assurance Report on Sustainability	74



OUR VALUE CREATION JOURNEY

MI holds a solid competitive position in the finance industry of Sri Lanka as one of the most trustworthy financial service providers, with a history that spans over five decades. MI's operations are spread over seven provinces across the country to deliver exceptional value for our stakeholders, economy and the environment.

We have remained committed to generating sustainable and consistent returns for our stakeholders, as promised in our strategy formulation process. We offer our customers attractive returns and funding, in tandem with an unparalleled customer experience.

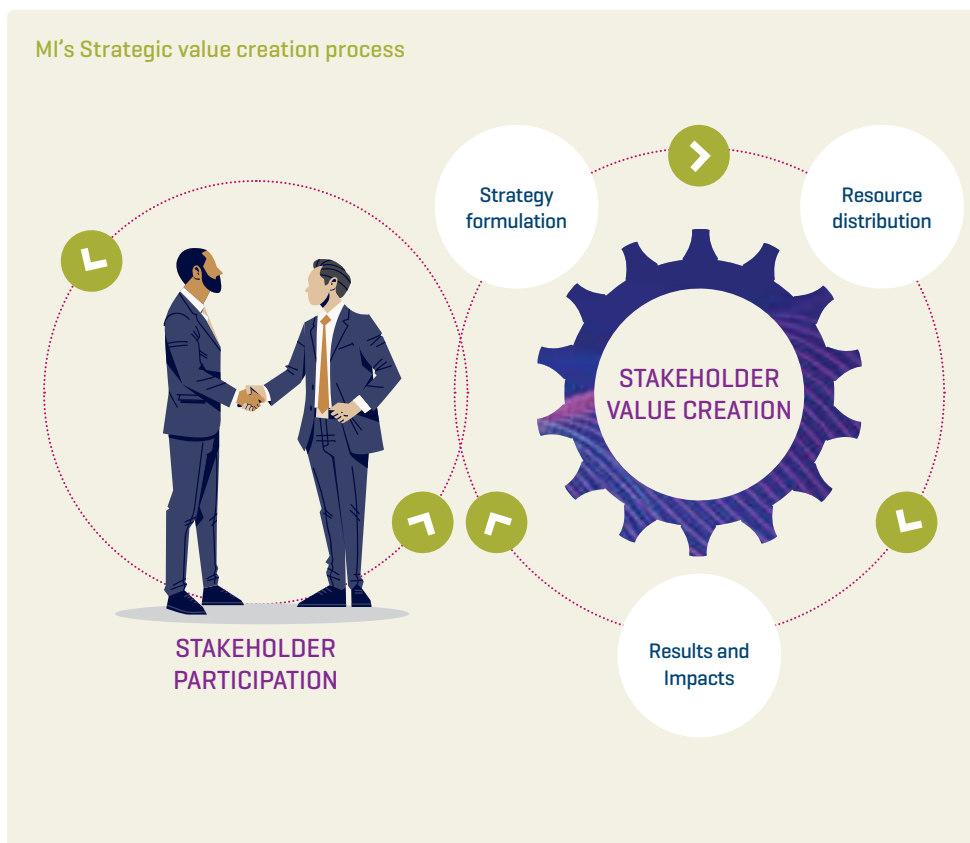
Moreover, as a tax payer and an employer, MI plays a vital role in the society and economy by creating, a wider impact. Our accelerated growth offers employment opportunities while we contribute towards the economy, society and environment through our products, operations and corporate social initiatives.

Our Business Model represents the integration of vision, mission and corporate strategy towards achieving goals and objectives influenced by the challenging internal environment and external environmental factors, maximizing shareholder's wealth. We uphold an effective business model [Refer pages 32 to 33], utilizing various inputs and relationships derived from capitals to deliver stakeholder value that is enhanced over time.

In this value enhancement journey, we deploy key capital resources, which include financial wealth, infrastructure, alliances, intellect, human strength and nature, unique to our business success [Refer pages 44 to 67]. We have carefully selected and engaged the identified set of input capitals as drivers of our value creation process. The integration of each resource component through various business functions enables us to generate intrinsic and extrinsic value to the company with a sustainable long-term perspective in mind.

Outlining the Value Creation Process

The needs and aspirations of our stakeholders are driven through our unique value creation process which allocates, manages and utilizes the capital inputs efficiently and effectively in order to derive the optimum value to meet stakeholder expectations that we identify through various engagement methods. After understanding and analyzing market information and stakeholder preferences, we follow a systematic approach from strategy formulation, to resource allocation, to ultimate value creation and as post action initiatives, a thorough impact assessment, to evaluate effectiveness and corrections needed. We endorse strategies continuously by adopting feedback control mechanisms and feed forward control mechanisms to meet our desired outcomes, keeping our stakeholders content and loyal.

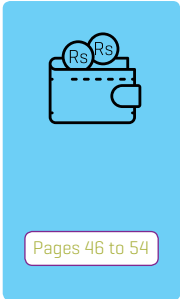


“THE WIN-WIN AND SHARED APPROACH IS A CENTRAL STRATEGY INTRINSIC TO OUR SUCCESS STORY. WE CONSIDER OUR BUSINESS AS AN AVENUE FOR WEALTH CREATION AND FINANCIAL INCLUSION, WHICH IS VITAL FOR THE LONG-TERM PROGRESS OF THE NATION...”

OUR BUSINESS MODEL DYNAMICS

CAPITAL INPUT

Capital Management Report [Pages 44 to 67](#)



FINANCIAL WEALTH

- Shareholder funds - **Rs. 8.9 Billion**
- Deposit Base
Fixed Deposits - **Rs. 23 Billion**
Savings - **Rs. 243 Million**
- Borrowings
Institutional Borrowings - **Rs. 9.1 Billion**

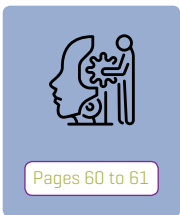
[Pages 46 to 54](#)



ALLIANCES

- Clientele >65,000
- Relationship Management Team
Employees >600
- Social Investment - **Rs. 1.8 Million**

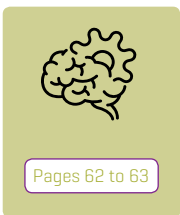
[Pages 55 to 59](#)



HUMAN STRENGTH

- Number of employees - **1,094**
- Investment on training - **Rs. 7.7 Million**
- Work life balance spending - **Rs. 2.9 Million**

[Pages 60 to 61](#)



INTELLECT

- Industry expertise - **56 years**
- Financial professionals with over 10 years of experience - **14%**
- Credit rating - **BBB-[ka] negative outlook**

[Pages 62 to 63](#)



INFRASTRUCTURE

- Branch network - **39 branches**
- Total property, plant and equipment - **Rs. 3.1 Billion**

[Pages 64 to 65](#)



NATURE

- Water Consumption - **12,487 m³**
- Energy Consumption - **1,443,926 kWh**

[Pages 66 to 67](#)

MI'S VALUE CREATION PROCESS

Vision, Mission and Values



Internal and Operating Environmental Review



Stakeholder
Engagement

[Page 42](#)

Corporate
Goals/Targets

[Pages 14 to 15](#)

Strategy and
Resource
Distribution

[Pages 34 to 41](#)



Support Functions

Corporate Planning and Monitoring | Finance and Accounting |
Operations and Business Process Re-engineering | Human
Resource Management | Marketing and Communications |
Information Technology Services | Audit and Control |
Sustainability Management

Governance and Risk Management

[Pages 75 to 162](#)

OUTPUT

IMPACTS

CAPITAL OUTCOMES

Capital Management Report [Pages 44 to 67](#)



LENDING

- Leases Granted - Rs. 7.2 Billion
- Hire purchases granted - Rs. 25 Million
- Loans and other advances granted - Rs. 12.5 Billion



DEPOSIT MOBILIZATION

- Deposits mobilised - Rs. 5.4 Billion
- New deposits customers >300



INVESTMENTS

- Investment Revenue - Rs. 209 Million



OTHER ANCILLARY BUSINESS

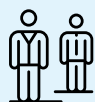
- Number of Insurance policies referred - 36,601
- Insurance Commission income - Rs. 82.9 Million
- Number of customers/partnerships > 600
- Workshop revenue - Rs. 68.7 Million

STAKEHOLDER PARTICIPATION

[Page 42](#)



SHAREHOLDERS



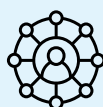
CLIENTS



STAFF



REGULATORS



SOCIETY



Impact Management Report is made available in our website.



FINANCIAL WEALTH

- Net interest income - Rs. 3.6 Billion
- Profit after tax - Rs. 372 Million
- Return on Equity - 4.17%

[Pages 46 to 54](#)



ALLIANCES

- New customers >19,000
- Number of beneficiaries of social initiatives - 2,217
- Customer survey score - 92% satisfied customers

[Pages 55 to 59](#)



HUMAN STRENGTH

- Employee training - 9,553 hours
- Attrition Rate - 27.37%
- Diversity profile - 21% women: 79% men
- Employee volunteerism - 796 hours

[Pages 60 to 61](#)



INTELLECT

- New policies and procedures developed and adopted
- Business process re-engineering including automation of existing systems

[Pages 62 to 63](#)



INFRASTRUCTURE

- Investment in fixed assets - Rs. 58 Million
- Return on physical infrastructure - 11%

[Pages 64 to 65](#)



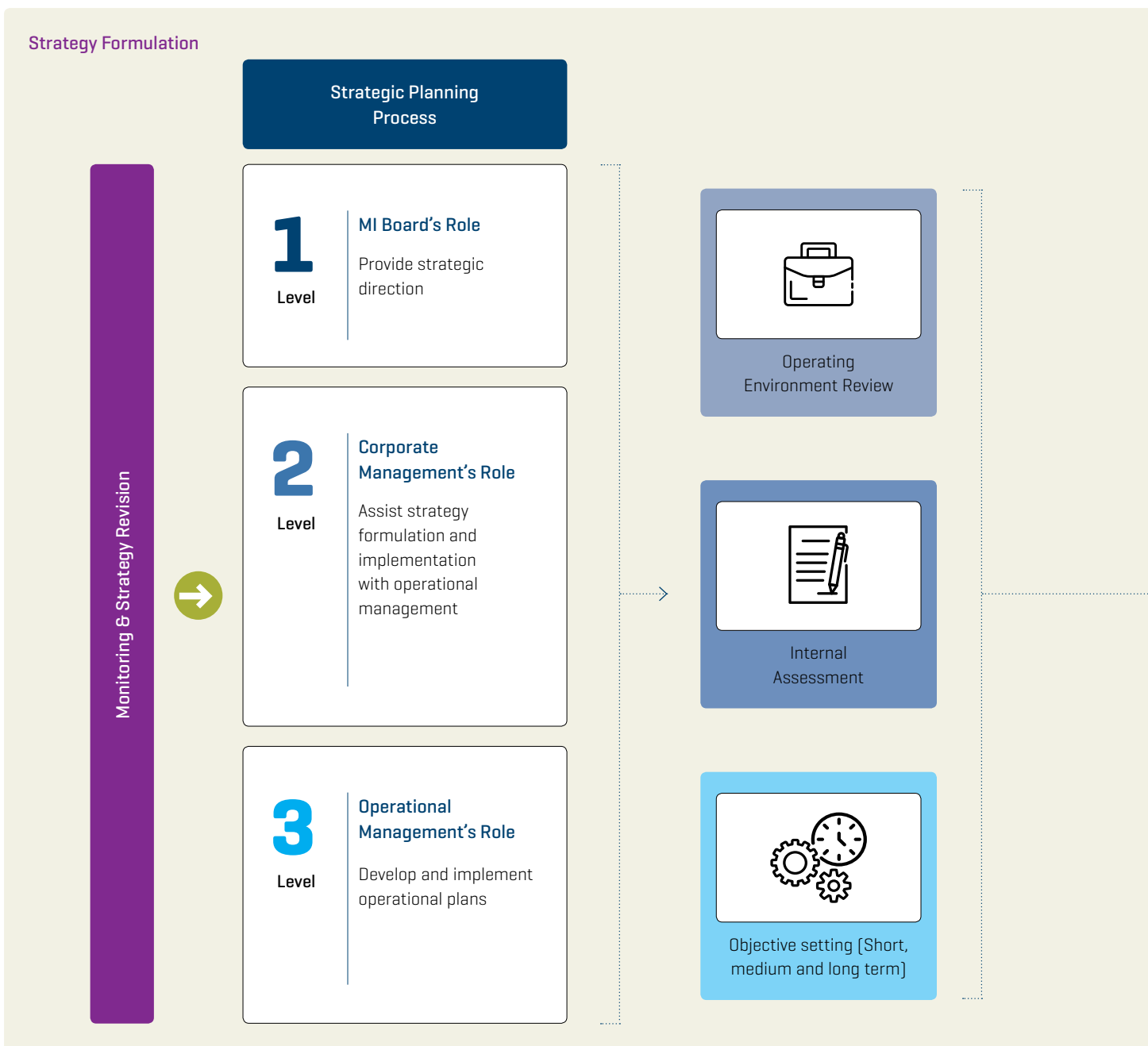
NATURE

- Green lending


[Pages 66 to 67](#)

STRATEGY IN ACTION


In pursuing our vision to be the top of the mind financial services provider, while simultaneously blending this with our corporate values, we aligned our strategic direction towards developing our core competencies for the future and building a performance oriented culture. Whilst governing principles and stakeholder expectations form the foundation of all our strategies and initiatives, we carried out a thorough business environment review and internal assessment and thereafter devised our strategy with an integrated thinking process, addressing all the material concerns identified [Refer page 43] by setting short, medium and long term objectives with the ultimate aim of maximizing stakeholder value. We analysed our internal strengths and weaknesses, focusing on maximizing opportunities prevalent in the external environment, whilst taking measures to counter possible challenges, risks and negative impacts. The Strategic Planning process for us is an ongoing exercise especially in the current context where market changes are unprecedentedly changing with the Easter Sunday attacks and moreover the COVID-19 threats and uncertainties. Thus, we periodically reviewed our strategic objectives, along with performance reviews and incorporated necessary amendments to address any challenging risks and opportunities.

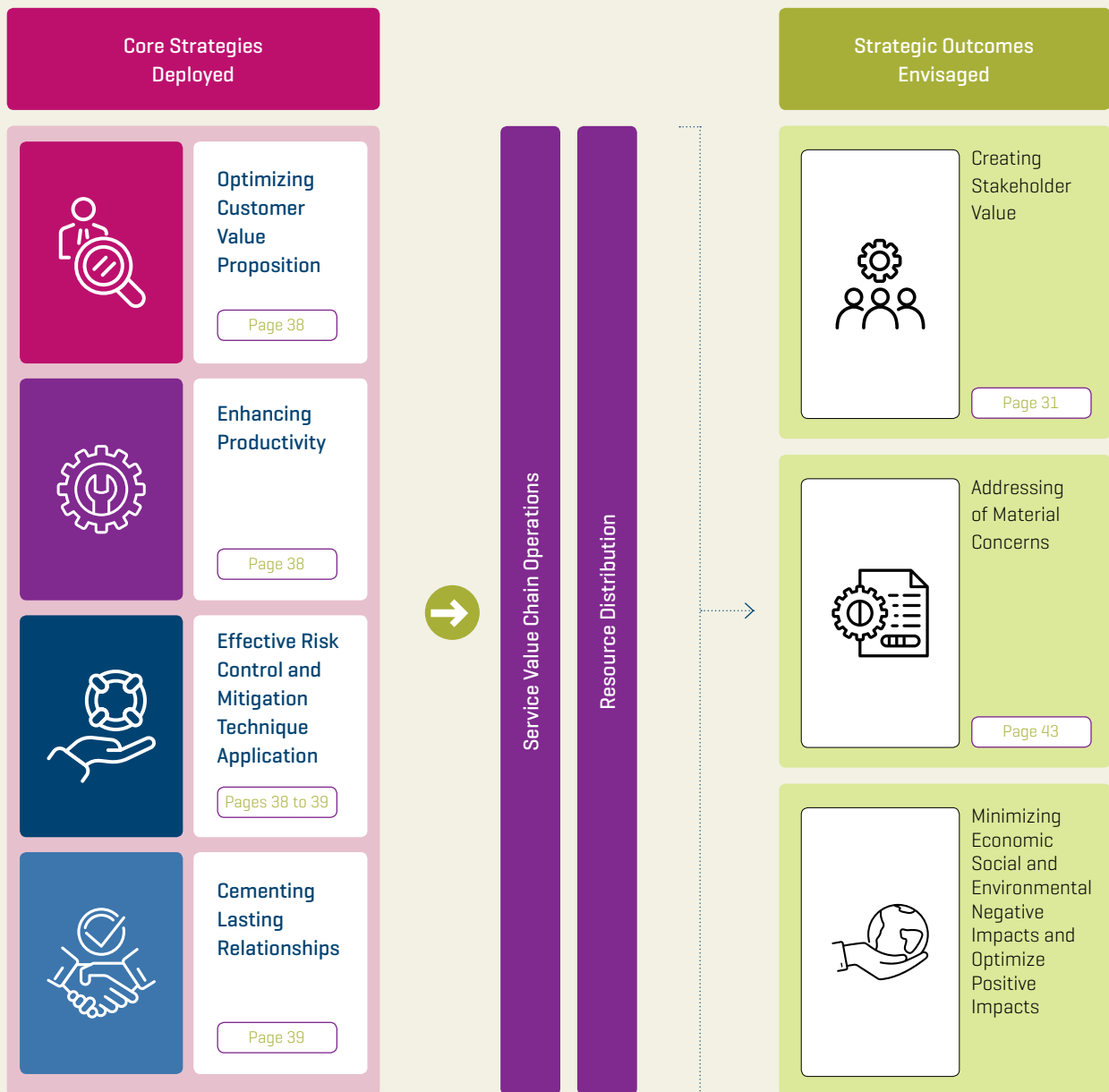


During the year, with the volatile and fragile market conditions that prevailed due to the Easter Sunday events and the COVID-19 pandemic, we had to prioritize mitigating our credit risk, which occurred as a result of the deterioration in borrower repayments and credit quality. In light of this, we strengthened our recoveries to manage non performing lending and unexpected impairment charges to the company, like others in the industry. Furthermore, we revisited our strategic goals and objectives, and made necessary revisions to pursue more realistic targets, while staying committed to improving competency levels of our human resources to effectively face market challenges, improving product value and enhancing overall quality of our services to gain the needed competitive edge in turbulent market conditions.






Detailed disclosure about the Internal Assessment, the Operating Environment Review and Service Value Chain are made available in the "Value Creation" web content pages 7 to 19 and 33.








STRATEGY IN ACTION

How We Managed Risks and Challenges

 <p>POLITICAL</p>	<p>Impact on the LFC Sector</p> <ul style="list-style-type: none"> Political instability and changing political environment negatively affected macroeconomic policies during the first half of the year Positive sentiments and stabilized political environment with the new President reflecting future growth prospects during the latter part of the year Since Easter Sunday attacks and COVID-19 outbreak, industry-wide policy changes, including moratoriums offered Tax concessions introduced in the latter part of the year, uplifted market sentiments including purchasing power of society 	<p>MI's Approach</p> <ul style="list-style-type: none"> Despite the challenging and volatile business context, MI's proactive strategic approach empowered successful confronting of short, medium and long term challenges, while adhering to heightened regulatory requirements
 <p>ECONOMIC</p>	<p>Impact on the LFC Sector</p> <ul style="list-style-type: none"> Easter Sunday attack and COVID-19 outbreak strained the financial services sector, slowing the growth trajectory of the economy Economic slowdown, over indebtedness and multiple borrowing deteriorated the repayment capacity of borrowers Downward trend in market interest rates, in response to monetary and regulatory measures introduced in last quarter. [AWPR declined to single-digit levels] Reduction in cost of funding and deposit interest rates Depreciation in rupee value by 7.4% with export decline as a result of the lockdown Repatriation of foreign investments due to adverse political and economic conditions of the country 	<p>MI's Approach</p> <ul style="list-style-type: none"> MI followed a conservative lending approach to minimize credit risk by curtailing riskier products and strengthening the credit evaluation process to mitigate the impact from deterioration in asset quality Introduced an internal rating scheme to manage the customer risk profiles To manage the rising NPL levels and the impairment charges, strengthened the recovery process and expanded the dedicated recovery team while recruiting an AGM for Recoveries Offered competitive rates to attract and expand the deposit base while focusing more on branch deposit mobilization Introduction of new products such as the Draft Over Property [DPI] to meet evolving customer demands and enhance customer convenience
 <p>SOCIAL</p>	<p>Impact on the LFC Sector</p> <ul style="list-style-type: none"> Few LFC failures continued to impact investor confidence and trust Widened financial literacy heightened market competition with evolving customer requirements and greater demand for social consciousness when doing business With the economic slowdown after the Easter Sunday events, declining per capita income reduced living standards Health threats due to the fast spreading COVID-19 negatively influenced people's movements 	<p>MI's Approach</p> <ul style="list-style-type: none"> MI continued to cement trust and confidence among customers and the general public Through business process re-engineering and continuous training, MI continued to differentiate its customer focused service MI's distinctive product range and competitive price differentiations throughout each segment, expanded services for an inclusive customer base. While investing in social welfare, MI offered special rates and rewards for senior citizens MI's growing market network supported credit needy individuals who lacked access to funding Despite the COVID-19 pandemic challenges, MI continued to focus on the well-being of employees and their families, and continued to support customers and other stakeholders and manage new challenges with resilience.

 <p>TECHNOLOGICAL</p>	<p>Impact on the LFC Sector</p> <ul style="list-style-type: none"> ❑ Use of Robotic Process Automation (RPA) to automate transactional activities to enhance accuracy, efficiency, and speed of critical business processes while also freeing up people to focus on more strategic work ❑ Capitalizing on artificial intelligence and smart financing as a competitive advantage ❑ Expansion of electronic payment methods and fund transfer systems ❑ Increase in risk of cyber security threats due to technological sophistication and increase computer usage due to COVID-19 	<p>MI's Approach</p> <ul style="list-style-type: none"> ❑ Formed a "Digitization Committee" to identify and recommend the core business and operational processes to be digitized to improve process efficiency and customer convenience ❑ Automated several core business and operational functions through a Business Process Re-engineering drive ❑ Expedited the migration process of selected core functions to a new IT system, which supported the expansion of the payment platforms, improving the process efficiency and overall productivity ❑ Upgraded IT security systems reduced the risk of cyber security threats
 <p>LEGAL</p>	<p>Impact on the LFC Sector</p> <ul style="list-style-type: none"> ❑ Increased impairment effect from SLFRS 9, reduced the bottom line of the sector ❑ Annual enhancement of the risk weighted regulatory capital ratio required a solid capital base with close monitoring ❑ New directions applicable from the next financial year on classification and measurement of advances, required stringent monitoring and controlling of non-performing assets ❑ Implementation of SLFRS 16 – Leases, with single accounting model for all leases 	<p>MI's Approach</p> <ul style="list-style-type: none"> ❑ By deploying an effective risk control mechanism, we continuously monitored and upgraded the risk management framework, while welcoming new regulatory and statutory changes ❑ With the introduction of the risk register for core departments, maintained focused proactive measures towards risk mitigation ❑ The three-year corporate plan was revisited and being revised, incorporating necessary adjustments based on current market conditions, emerging risks and regulatory environment
 <p>ENVIRONMENTAL</p>	<p>Impact on the LFC Sector</p> <ul style="list-style-type: none"> ❑ Increasing need for sound environmental protection due to global natural disasters ❑ Continuous attention on financial and non-financial disclosures of environmental impacts on business activities ❑ Evolving demand for greener environmental practices towards social sustenance 	<p>MI's Approach</p> <ul style="list-style-type: none"> ❑ Continued to reduce GHG emissions to minimize adverse effects of operations on the environment while focusing on becoming carbon neutral by 2022 ❑ Carried out CSR activities on environmental conservation, including beach cleaning programmes and awareness sessions on environmental protection

STRATEGY IN ACTION

Core Strategy Deployed: Optimizing Customer Value Proposition

GRI | 102-15

As a company operating in a fiercely competitive market, we pursued our strategic objectives towards maximizing customer value proposition, in the process of stakeholder value creation. Thus, more emphasis was given on expanding our product offering, unparalleled service, regional presence and brand image.

KPIs Achieved

	Actual FY 2019/20	Planned FY 2019/20	Past FY 2018/19
Portfolio Growth			
- Lending	2.5%	> 15%	3.1%
- Deposits	7.7%	> 12%	5%
Growth in Total Customer Base	> 65,000	> 65,000	> 60,000
New Branches Opened/Expansions	-	1	3
New Product Innovation	2	> 1	2
New Processes Automated	6	> 5	2
Planned Investment in Automation	> Rs. 40 Million	> Rs. 50 Million	> Rs. 30 Million

Core Strategy Deployed: Enhancing Productivity

GRI | 102-15

With people as the driving force of all our endeavours, we continued to deploy the right tools to harness the best in people towards a more productive work force. We combined direct human resource measures to boost productivity with business process changes, embracing technology and best in industry practices, to iron out bottlenecks.

KPIs Achieved

	Actual FY 2019/20	Planned FY 2019/20	Past FY 2018/19
Training hours per employee	8 hours	> 10 hours	10 hours
Attrition rate	27%	< 25%	35%
Total employee benefits	Rs. 990 Million	> Rs. 950 Million	Rs. 923 Million
Return on Assets	0.88%	> 1%	1.12%
Cost to Income ratio	69%	< 60%	63%

Core Strategy Deployed: Effective Risk Control and Mitigation Technique Application

GRI | 102-15

With market uncertainty and evolving risks, we understood the importance of having a robust, resilient and an agile risk management framework to face unprecedented risks and challenges successfully. During the year, with the challenging economic conditions, deterioration in borrower repayment capacity and adverse impacts resulting from the Easter Sunday events and COVID-19 outbreak, we strengthened our risk management controls to effectively manage the adverse impacts and challenges successfully. While incorporating risk management in every aspect of our business, we ensured that the risk profiles are regularly assessed and managed proactively, to minimize chances of losses and simultaneously to gain a competitive advantage in an ever-shifting internal and external environment. This enabled us to design and implement the most appropriate risk management strategy for the company and maintain a healthy balance between risks and returns, without hindering any business opportunities.

KPIs Achieved

	Actual FY 2019/20	Planned FY 2019/20	Past FY 2018/19
New initiatives on risk management	7	9	9
One year maturity mismatch	Rs. [6.8] Billion	< Rs. [6] Billion	Rs. [5.7] Billion
Collection ratio	> 70%	> 80%	> 90%
NPL ratio	11.69%	< 8%	9.62%
Repossessions	< 1,200	< 1,000	< 900

Core Strategy Deployed: Cementing Lasting Relationships

GRI | 102-15

In today's dynamic and competitive business environment, corporate sustainability hinges on the social license and strength of stakeholder relationships. Having identified lasting relationships with stakeholders as a strategic pillar in our value creation journey, we increased our efforts to build strong and mutually beneficial relationships with our stakeholders, offering "shared growth opportunities". As a five decade business, built on trust and loyalty, we continued to cultivate new relationships, and nurture existing ones towards a more lasting bonding.

KPIs Achieved

	Actual FY 2019/20	Planned FY 2019/20	Past FY 2018/19
Deposit retention	> 70%	> 75%	74%
Growth in customer base	> 65,000	> 65,000	> 60,000
Social investment	Rs. 1.8 Million	Rs. 1 Million	Rs. 1.1 Million

Overall Objectives Achieved

	Short Term Target		Medium Term Objective			Long Term Goals	
	Gross Revenue Growth > 20%	Net Interest Margin [NIM] > 8%	Asset Quality [NPL] < 8%	Net Profit After Tax > Rs. 600 Million	Growth in Customer Base > 15%	Market Share > 3%	Asset Base > 10%
Current Year Performance FY 2019/20	-0.37%	9.85%	11.69%	372	Approx 6%	2.9%	4%
Past 3 Year Average FY 2016/17 - FY 2018/19	20%	8.74%	8.04%	391	Approx 7%	2.9%	7%



Detailed disclosure about Core Strategies Deployed are made available in the "Value Creation" web content pages 22 to 30.



RESOURCE DISTRIBUTION

Our resources, which mainly comprise of the six capitals we deploy are allocated and distributed among the main business lines in an optimum way, delivering anticipated value enhancing outcomes to our stakeholders. We directed resources based on the need and criticality, which was mainly driven by strategies we followed to develop and nurture each revenue generating business lines.

We articulate below how the resources were utilized this year to the critical functions, towards improving service delivery, customer reach and satisfaction and eventually improved revenue and bottom line growth.

Business Lines			
 LENDING	Critical	Critical	Critical
 INVESTMENTS	Moderate	Not Required	Critical
 DEPOSIT MOBILIZATION	Moderate	Critical	Moderate
 OTHER ANCILLARY BUSINESS	Moderate	Not Required	Moderate
	↑	↑	↑
Business Activities Affected	Working Capital	Customer Intelligence and Product Design	Evaluation and Execution
Key Resources Mobilized			
 FINANCIAL WEALTH	<ul style="list-style-type: none"> Accumulated funds Fund availability 	<ul style="list-style-type: none"> Staff development cost 	<ul style="list-style-type: none"> Staffing cost Staff development cost
 HUMAN STRENGTH	<ul style="list-style-type: none"> Deposits team Treasury team 	<ul style="list-style-type: none"> Front end evaluation teams Product design teams 	<ul style="list-style-type: none"> Payments team Credit teams/branch staff
 ALLIANCES	<ul style="list-style-type: none"> Depositors Banks Other lenders Investors 	<ul style="list-style-type: none"> Customer relationship 	<ul style="list-style-type: none"> No significant resources were allocated
 INFRASTRUCTURE	<ul style="list-style-type: none"> Branch network Core IT system 	<ul style="list-style-type: none"> Customer database 	<ul style="list-style-type: none"> Internal IT solutions Online payment platform enabling system
 INTELLECT	<ul style="list-style-type: none"> Finance professional expertise Brand strength Rating 	<ul style="list-style-type: none"> Experienced and skilled officers Customer track records 	<ul style="list-style-type: none"> Branch network collaboration Operational processes
 NATURE	<ul style="list-style-type: none"> Consumables Stationery Utilities 	<ul style="list-style-type: none"> Consumables Stationery Utilities 	<ul style="list-style-type: none"> No significant resources were allocated

Critical	Moderate	Critical	Moderate
Moderate	Moderate	Critical	Moderate
Critical	Critical	Critical	Moderate
Critical	Critical	Critical	Moderate
↑	↑	↑	↑
Collections	After Sales Support	Customer Relationship Management	Support Services
<ul style="list-style-type: none"> Staffing cost Staff development cost 	<ul style="list-style-type: none"> Staffing cost Staff development cost 	<ul style="list-style-type: none"> Staffing cost Staff development cost 	<ul style="list-style-type: none"> Staffing cost Staff development cost
<ul style="list-style-type: none"> Recoveries team Business specific marketing staff 	<ul style="list-style-type: none"> Workshop staff Business specific marketing Staff 	<ul style="list-style-type: none"> Marketing team Other field staff 	<ul style="list-style-type: none"> Support staff Re-engineering Team
<ul style="list-style-type: none"> Ongoing relationships 	<ul style="list-style-type: none"> Ongoing relationships 	<ul style="list-style-type: none"> Continuous relationship building Social relationships 	<ul style="list-style-type: none"> Interpersonal relationships Teams Committees
<ul style="list-style-type: none"> IT-based monitoring support 	<ul style="list-style-type: none"> Tools and equipment 	<ul style="list-style-type: none"> Customer database Branch network Workshops 	<ul style="list-style-type: none"> IT systems Office workspace
<ul style="list-style-type: none"> Legal and recoveries expertise 	<ul style="list-style-type: none"> No significant resources were allocated 	<ul style="list-style-type: none"> Brand strength Reputation 	<ul style="list-style-type: none"> Efficient work processes Functional expertise
<ul style="list-style-type: none"> No significant resources were allocated 	<ul style="list-style-type: none"> No significant resources were allocated 	<ul style="list-style-type: none"> Consumables Stationery Utilities 	<ul style="list-style-type: none"> Consumables Stationery Utilities

STAKEHOLDER PARTICIPATION

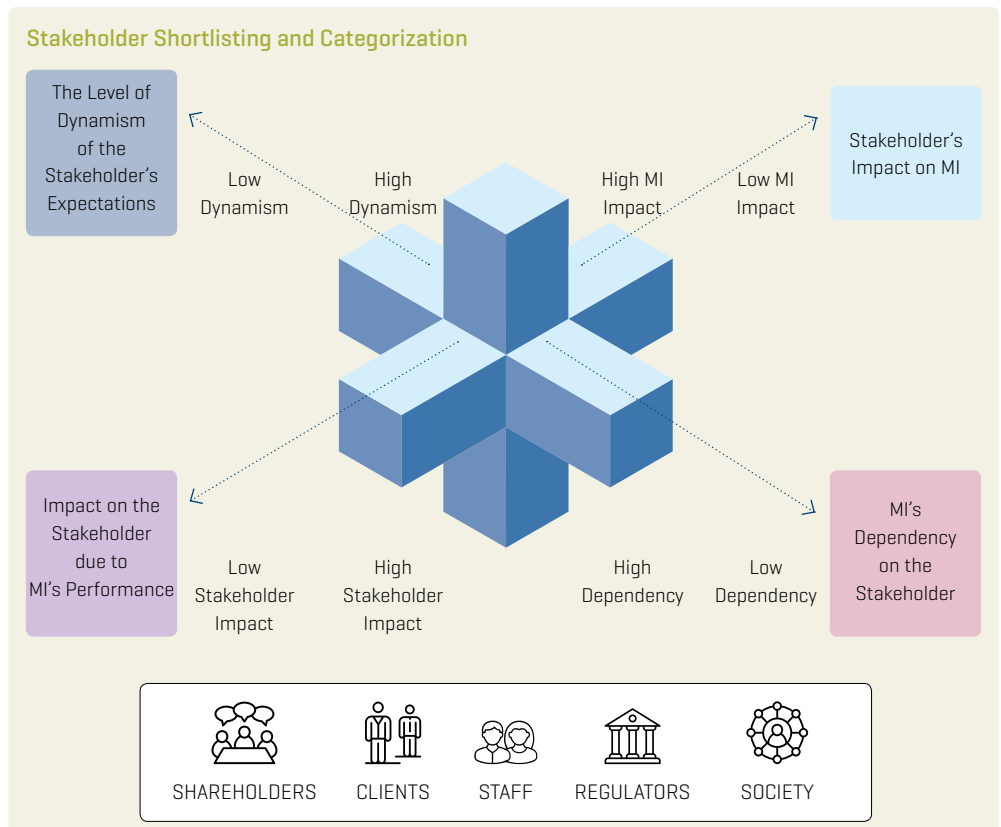
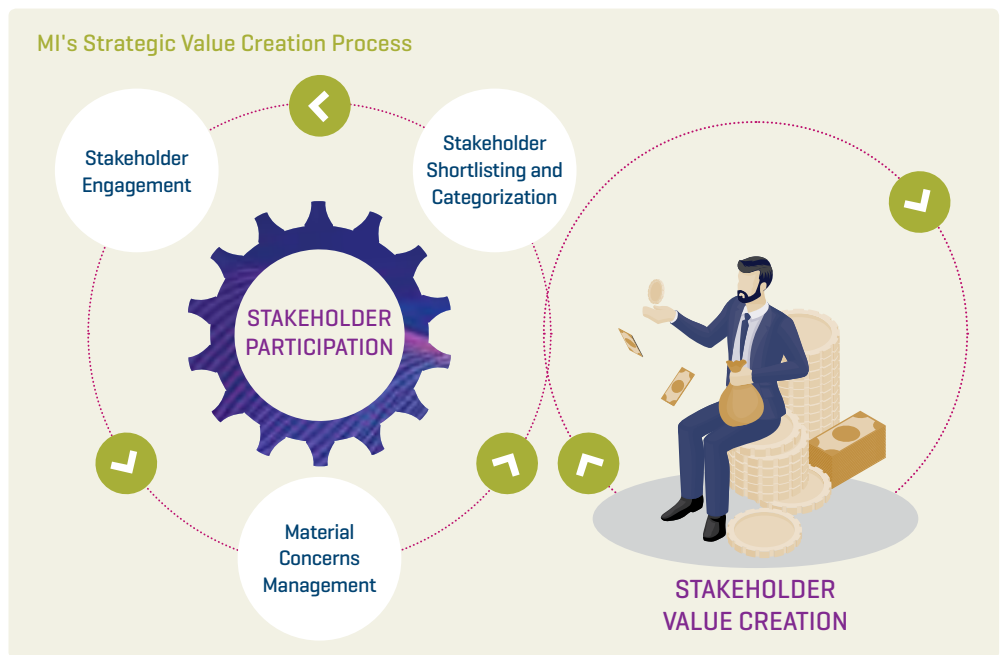
GRI | 102-42


Value creation is an ongoing process at MI which commences and concludes through the close engagement and participation of our key stakeholders and includes three phases of stakeholder shortlisting and categorization, stakeholder engagement and material concerns management. At the commencement stage, stakeholder primacy is at the heart of whatever we do and their expectations are routed through the strategy formulation process leading to enhanced decision making. Proper understanding of the stakeholder's aspirations and expectations immensely influences the strategy shaping and our future corporate actions. Impact assessment and stakeholder feedback helps us refine the way we do things, and has helped us evolve into a more effective enterprise.


Stakeholder Shortlisting and Categorization

GRI | 102-40 and 102-42

A standard evaluation mechanism is applied to gauge our impacts on stakeholder groups that have increasing interest in our operations over the last decade, in terms of economic, social and environmental dynamics. This systematic approach of stakeholder shortlisting and categorization enables MI to address emergent material concerns. As given in the diagram, our four dimensional filtering approach allows us to prioritize the most relevant stakeholder groups under five key groups, to focus on them and maintain necessary interaction, communication and relations. Accordingly, the five stakeholders are our shareholders, clients, staff, regulators and society.



 Detailed disclosure about Stakeholder Engagement is made available in the "Value Creation" section web content pages 35 to 36.



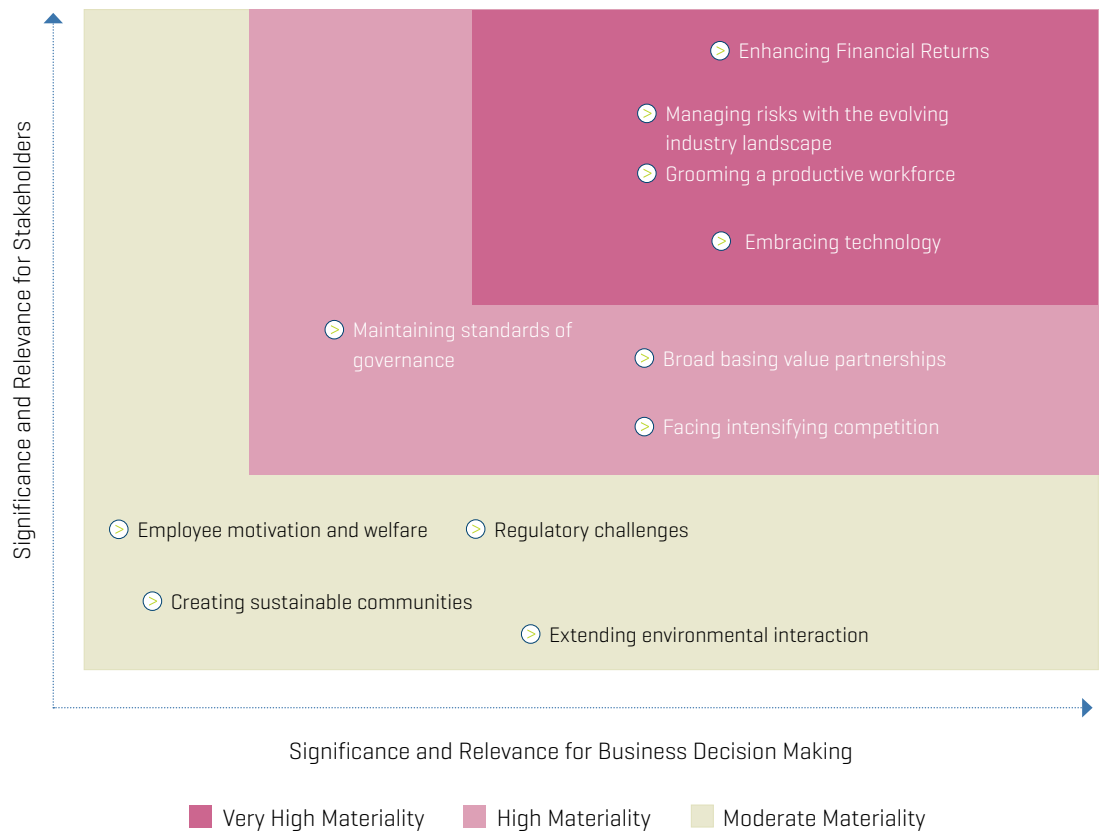
Material Concerns Management


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


The number and type of material concerns have remained unchanged from the previous financial year at 11. In identifying, managing and reporting on these key concerns, we followed the guidelines of the IIRC (International Integrated Reporting Council), the GRI Standards (Global Reporting Initiative) and the UN SDGs (Sustainability Development Goals).

These material concerns address how we have managed 23 GRI topics, while emphasizing matters specific to MI, which extend beyond the GRI framework. The stewardship of this full exercise came under the Sustainability Governance Committee, which reassessed 2018/19 concerns by evaluating stakeholder feedback and comparing them with business, industry and country specific factors. Furthermore, the Committee also considered the economic fluctuations and market uncertainties arising from the Easter Sunday events and the COVID-19 outbreak, especially on the industry’s asset quality and socio-economic repercussions. The material business concerns we cover may change in the future as per future assessments, resulting in possible changes in the level of importance with material concerns being added, adopted or eliminated.

The Materiality Gauge Matrix below summarizes the significance of the 11 key material concerns to both the stakeholders and MI, derived from the final outcomes of our stakeholder participation process and corporate strategy.



 Detailed disclosure about Material Concerns, approach and coverage are made available in the "Value Creation" section web content pages 37 to 45.



CAPITAL MANAGEMENT

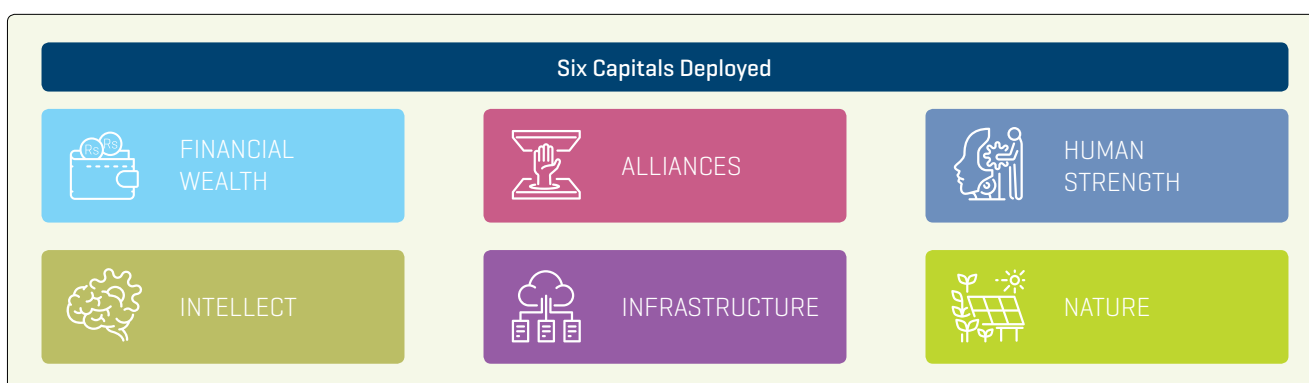
How Capital Management Leads to Value Creation

We utilize various tangible and intangible resources in our unique value creation process, which we call capitals. These capitals are deployed in the business and may be increased, decreased or transformed through capital management activities. In our integrated report, we have clearly defined, measured and reported how we deploy capital, and how we transform them in the process of creating meaningful value for our stakeholders.

Our capitals consist of financial wealth, human strength, alliances, intellect, infrastructure and natural resources. By deploying these capitals in our business operations, we strive to deliver positive impacts to the economy, society and the environment, while managing the negative impacts and capital trade-offs.

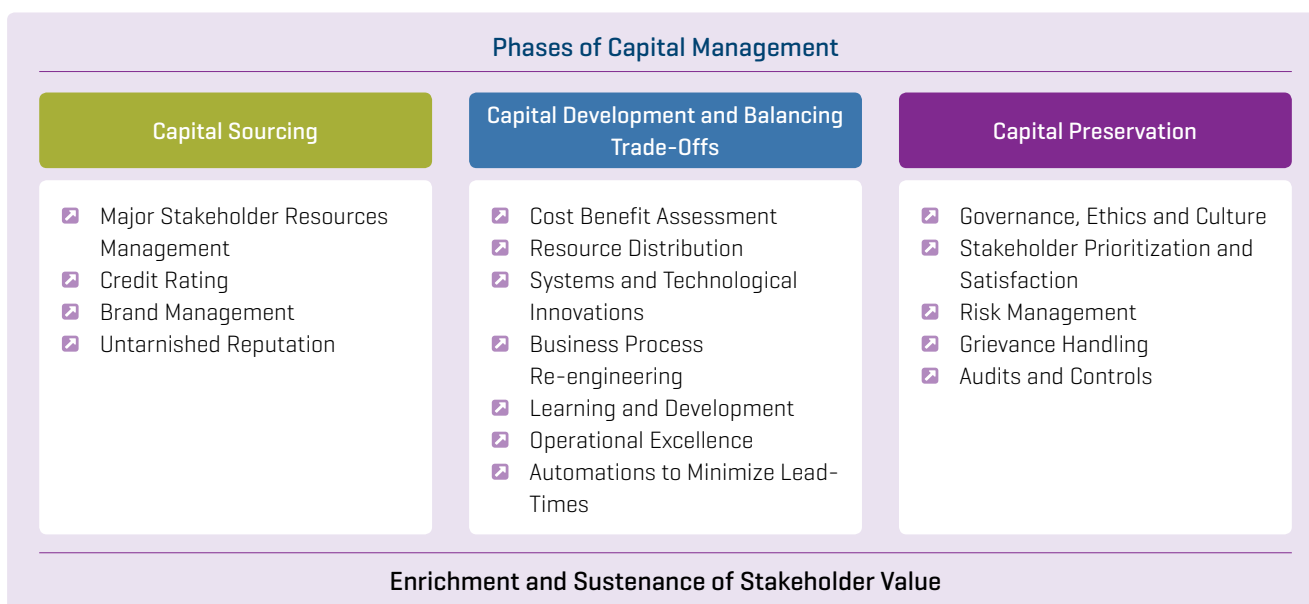
MI's strategic approach backed by integrated thinking, allowed the MI Board and management to utilize the capitals in the value creation process optimally, to generate sound business returns in the short, medium and long run, while being a socially and environmentally responsible corporate citizen.

During the year, our business process re-engineering activities resulted in streamlining of our business processes of all business segments and eliminated non value adding workflows, which positively influenced our capital management mechanism.



Capital Management Approach

The holistic approach we follow optimized the deployment of each capital in our value creation process. In the process of maximizing stakeholder value, we sourced capitals and allocated them in an optimal manner, while also working towards preserving these capitals for the company's long term aspirations, as well as for the betterment of society, without compromising on the ability to gain positive, expected value in the future.



SYNOPSIS OF CAPITAL PERFORMANCE - FY 2019/20

Financial Wealth

- ✔ Net interest income - Rs. 3.6 Billion
- ✔ Profit after tax - Rs. 372 Million
- ✔ Return on equity - 4.18%

Intellect

- ✔ New policies and procedures adopted
- ✔ Business process re-engineering including automation of existing systems

Human Strength

- ✔ Employee training - 9,553 hours
- ✔ Attrition Rate - 27%
- ✔ Diversity profile - 21% women: 79% men



Peduru party - December 2019

Alliances

- ✔ New customers canvassed >19,000
- ✔ No of beneficiaries of social initiatives - 2,217
- ✔ Customer survey score - 92% satisfied customers



Celebrating Christmas at "Apeksha" Hospital

Infrastructure

- ✔ Investment in Property, Plant and Equipment - Rs. 58 Million
- ✔ Return on physical infrastructure - 11%



Washing hands before entering to the office premises

Nature

- ✔ Green financing: Agriculture lending outstanding - Rs. 2.3 Billion
- ✔ Extending environmental protection support



Mount Lavinia beach cleanup

FINANCIAL WEALTH



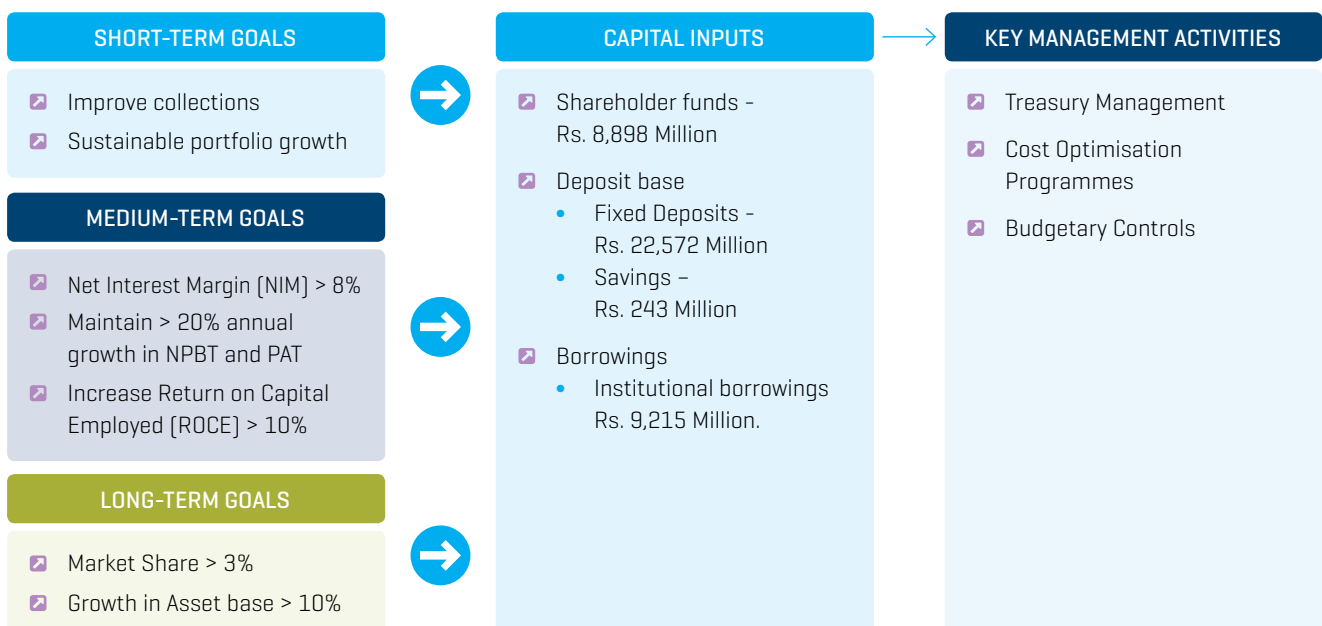
Maintaining Robust Financial Returns amidst Challenging Environment

GRI | 103-2 and 103-3

Our financial wealth has been a key determinant in driving our value creation journey towards our farsighted and enterprising aspirations. In the midst of market challenges, we remained committed to the accumulation of a strong capital base to support business expansion, provide a cushion against unforeseen risks, safeguard shareholder wealth and foster investor confidence. With a sound capital base and a satisfactory growth trajectory, we were able to access cost-effective funding, which ultimately impacts our competitive pricing. Despite the unprecedented Easter Sunday events, the COVID-19 outbreak and their spill-over effects, we were able to deliver a resilient performance through our unwavering commitment by deploying our financial resources effectively, while balancing growth and risk considerations towards growth momentum, performance excellence and stability.

Financial Wealth Value Creation in a Nutshell

Financial wealth creation primarily revolves around generating satisfactory investor returns, maintaining financial soundness with adequate flexibility, meeting prudential requirements and realising a host of other financial goals. We direct our financial and treasury management effectively towards achieving our strategic goals focusing on improved revenue, cost optimisation and budgetary controls, with the aim of creating a robust bottom line.



OUTPUTS

Rs. 7.6 Billion

Gross Revenue

Constant Growth in Net Interest Income

Rs. 372 Million

Net Profit After Tax

Asset growth restricted to **4%**

Deterioration in asset quality by **2% YOY**

PRIMARY IMPACTS ON OTHER CAPITALS



- Created new opportunities for upholding employee skills and competencies
- Attractive returns to drive employee morale and productivity



- Sustain a deep sense of corporate acceptance and bonding
- Built public trust through financial stability
- Increase in mutually-beneficial relationships
 - Customer retention ratio of above 70%



- Expanded branch network – conversion of seven service centres as branches
- Increased decentralization
- Optimised operational efficiency



- Increased productivity through process re-engineering
- Increased automation investments, leading to 04 new key automations



- Cost consciousness has led to preservation of limited resources
- Controlled usage of stationery costs and consumables

VALUE ADDING OUTCOMES

Sustainable investor earnings
[Earnings per Share Rs. 124]

Solid Capital Base of
Rs. 8.9 Billion

Sound Capital Adequacy Ratio
[CAR] Position

Tier 1 13.56 %

Tier 2 15.25 %

Trade-Offs

We utilise financial resources towards nurturing employee talents, embracing advanced technology and preserving our natural resources.

We are confident that anticipated long-term benefits will improve our bottom line, through increased business volumes, operational efficiency and productivity. This will in turn secure financial wealth resources, which will cascade and drive the growth of the other capitals we deploy.

FINANCIAL WEALTH

Financial Management

Despite the adverse impacts of the unprecedented black swan events and resultant challenging economic conditions, MI demonstrated remarkable resilience by recording sustainable revenue targets while managing Net Interest Margins (NIM) and spreads in line with expectations. We aligned our core business strategies with the clear direction given by the Director Board on financial areas needing attention, especially in terms of maintaining our yields and improving investment returns whilst simultaneously keeping costs minimal through the deployment of lower cost funding and focused management of overhead expenses. In turn we created sustainable returns while recording modest profitability levels and asset growth.

Key financial management activities revolved around;

- ✔ Treasury management
- ✔ Cost optimisation
- ✔ Budgetary control

✔ Treasury Management

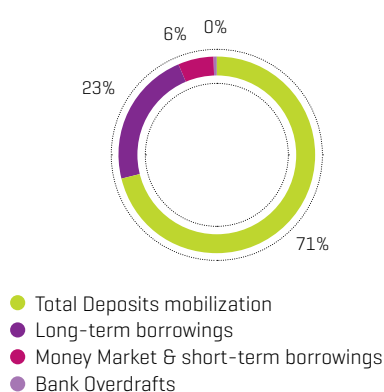
In creating financial wealth, we continued to prioritise effective fund management strategies, focusing on minimising our funding costs, reducing existing assets and liability maturity mismatches and enhancing treasury control mechanisms, to manage our yields and investment risks. Despite impacts to collections from borrowers stemming from the Easter Sunday events and resultant shocks to economy and relief measures extended during the year, our Treasury Division played a leading role in balancing the short-term and long-term funding needs of the Company, while optimising funding cost.

Treasury Management Priorities	Target	Status
Generate sound investment yields and optimise cost of funding to boost NIMs/spread above	> 8%	Achieved
Maintain optimum liquidity levels whilst bridging maturity mismatches	< Staying below threshold level of Rs. 6 billion.	Achieved partially Board expects to lower mismatch below Rs. 4 billion, once funding markets stabilize

Funding Mix

We maintained the right funding blend between deposits and borrowings while minimising our weighted average cost of funding. The Deposits business remained the largest contributor to the funding mix, amounting to 71%, generating Rs. 22,815 million in funding, while the balance was generated from borrowings.

Funding Mix



Funding Cost

The downward revision of deposit rates by more than 1.5%, together with the reprising effect resulted in a decline in deposit interest expenses by 2% despite 8% growth in the deposit base. Similarly, borrowing cost also declined by 2% given the downward trend in AWPLR by 2%, whereas total borrowings marginally increased by 0.8% as at the balance sheet date.

Analysis of Interest Expense



Detailed disclosure about source of funds are made available in our website.



<http://mi.com.lk/images/qr/financial-wealth.pdf>

Deposit Funding

Despite the economic slowdown and the adverse impact on people’s savings, deposit mobilisation was satisfactory. We surpassed the Rs. 22 billion mark in our deposit base with 8% growth [5% in 2018/19], which helped us balance funding requirements for loan book growth and provided an avenue to improve our NII.

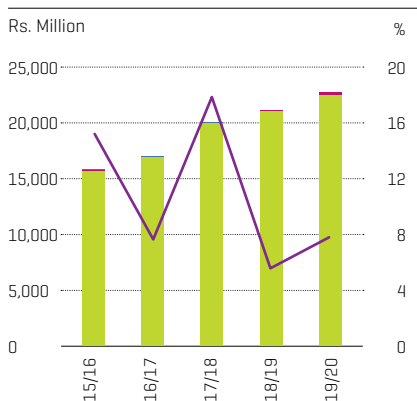
Fixed Deposits

Fixed Deposits, our primary deposit product, contributed 99% to the total base. Despite the reduction in policy rates and high price sensitivity, our Fixed Deposits base also recorded a 8% growth, reaching Rs. 22,572 Million. We deployed aggressive Fixed Deposit campaigns targeting greater mobilisation of retail deposits through our branch network, aimed at retail clients and specific market segments.

Savings Deposits

MI’s savings base increased handsomely from Rs. 77 million to Rs. 243 million with a remarkable year-on-year growth of 214%, mainly driven by the promotion of micro savings.

Deposit Mix and Growth



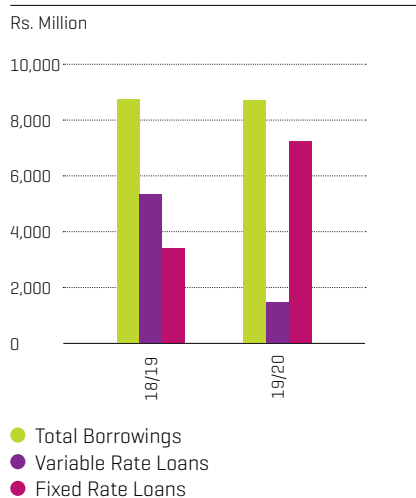
- Certificate of Deposit Base [LHS]
- Savings Deposits Base [LHS]
- Fixed Deposit Base [LHS]
- Growth [RHS]

While ensuring attractive returns to our customers, we concentrated on improving the overall service standards of our branch network through a focused marketing drive. We also continued to drive greater deposit flow from branch level, with a 4% increase year-on-year contributing 14%. However, with the Head Office premises located in the Western Province, it remained the primary mobilisation point. With the planned enhancement of systems extending ATM facilities and through our decentralisation efforts, we expect rapid growth in our deposit base across the branch network in the near future.

Borrowings and Debt Funding

During the year, a total of Rs. 5,337 Million was sourced from MI’s longstanding banking partners, which resulted in total borrowings rising marginally by 0.8 % to Rs. 9,215 million.

Total Borrowing Analysis [Variable vs. Fixed rate]



Cost Optimisation

In the backdrop of the challenging economic environment, we placed more emphasis and importance on the cost optimisation programme commenced in the year before, spearheaded by the Managing Director together with the Corporate Management. During the year, several changes were made to internal processes and procedures through the business process re-engineering drive, which helped reduce lead times and underlying costs. We continued to implement lean management practices across all departments and branches during the financial year to manage overhead cost escalation. This will be an ongoing initiative, especially focused on managing COVID-19 pandemic-related impacts on the bottom line.

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. However, considering the spill-over effect of the unprecedented Easter Sunday events, we were compelled to revise our budgets to provide more realistic targets. Corporate Management and branch heads were able to monitor their business unit revenues, costs and key KPIs closely and identify better budgetary control measures. Budgetary variances were tabled periodically by the Finance Director for the review and action of the Board.

FINANCIAL WEALTH

FINANCIAL RESULTS REVIEW

Despite the challenging business conditions arising from the two unprecedented black swan events, further aggravated by the political uncertainty that prevailed at various moments of the financial year; we were able to display strong financial resilience, recording sturdy gross revenue and post-tax profits, as at the balance sheet date. Despite the challenging environment, our unwavering commitment to implementing our key strategic priorities meant we were able to record noteworthy progress in our lending and deposit businesses by recording positive portfolio growth whilst managing our net interest margin. By instilling operational improvements, cost optimisation programmes and asset quality measures, we successfully controlled overhead cost escalation but had to bear higher impairment charges, thereby falling short of our optimistic targets.

Profitability

The Company posted robust pre-tax profits of Rs. 691 million and concluded the year with a satisfactory net profit after tax of Rs. 372 million. With the spill-over effects of the unprecedented events, profitability levels were pegged back by the slowing down of revenue and unexpected loan impairment arising in the backdrop of increasing non-performing levels [90-day basis] and rising margin pressure. Impairment charges on credit, which stemmed from the slower repayment patterns, were witnessed due to the subdued economic activities resulting from economic shock events impacts lingering throughout the year.

Furthermore, the decline in other income, mainly resulting from the reduction in associate profit share and the Debt Repayment Levy [DRL] of 7% on value addition which prevailed during the first three quarters of the financial year, constricted MI's profitability growth targets, despite keeping the overhead costs escalation at 8% [2018/19 - 11%].

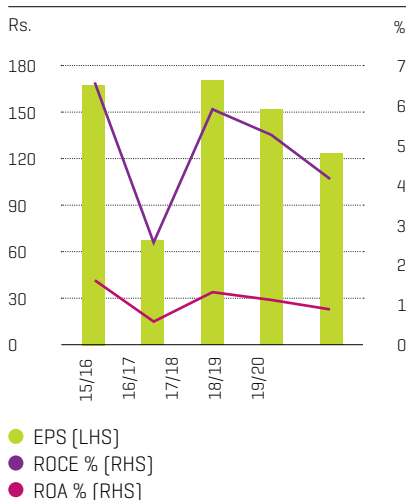
Earnings Performance



Investor Returns

As a result of the challenging economic conditions, industry-wide negative credit growth, thinning margins and deterioration in asset quality, Return on Capital Employed [ROCE] marginally dipped from 5.28% to 4.17%, below higher targeted levels. With the SLFRS 16 transitional impact on lease rent changes of Rs. 58 million being charged to Retained Earnings and the negative OCI Reserve of Rs. 327 million, resulting from the sharp decline in the equity market, mainly due to the COVID-19 outbreak, shareholder funds and net assets per share remained at Rs. 8,898 million and Rs. 2,960 respectively. However, Earnings per Share remained at high levels of Rs. 124 per share, irrespective of the 19% dip observed. Refer the 'Investor Review' section, which highlights MI's continuing capital strengths and investor returns trajectory.

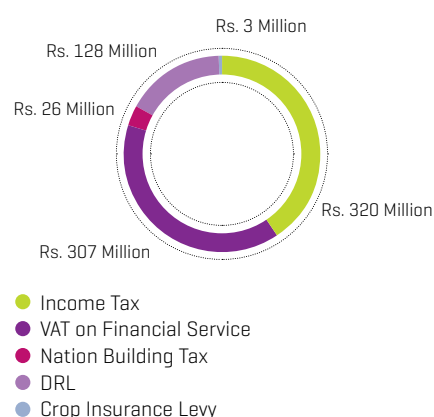
ROCE, ROA and EPS



Tax Impact on Profitability

Total tax expense increased by 6.5% to Rs. 784 million during the year, while the effective income tax rate was recorded at 42.2% with a marginal increase of 2% compared to 40.18% recorded in the previous year. Corporation tax rate of 28% was revised downward from 1st January 2020 by 4% to 24% resulting in a 2.6% dip to Rs. 320 million, while VAT on Financial Services, being the other material tax, also increased to Rs. 307 million, despite the decline in profitability. The Debt Repayment Levy which was effective from 1st October 2018 amounted to Rs. 128 million, making it the third highest tax compound to the total tax expense although it was removed in the last quarter. [Refer Financial Statements Note 15.]

Tax Payments

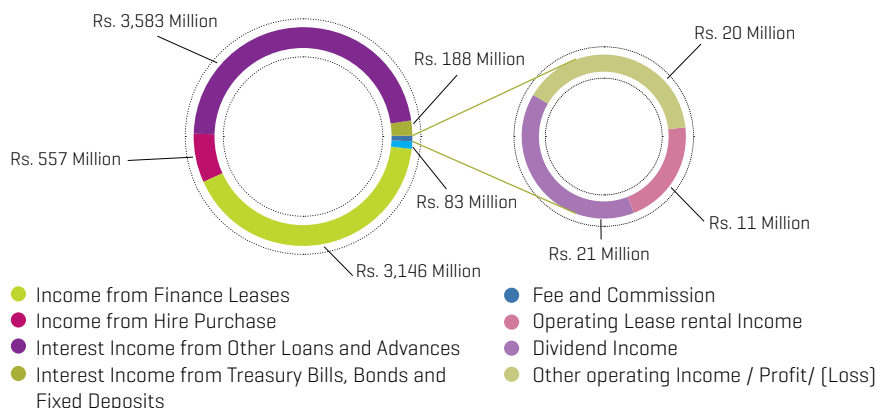


Gross Revenue

In the backdrop of deteriorating credit growth and slight contraction of product yields, MI recorded gross revenue of Rs. 7,610 million for the year, reflecting a marginal decline of 0.4% against Rs. 7,638 million recorded in the previous year. Interest income nevertheless marginally increased by 0.5% given the subdued portfolio growth, in contrast to the reduction in other income resulting from the decline in equity gains caused by the gross revenue drop.

In terms of gross revenue, 95.8% of the contribution arose from our core lending business, while investment income from Treasury activities contributed 2.9%. Non-fee based income derived from insurance, workshop and other fee-based revenue contributed to the balance 1.3%.

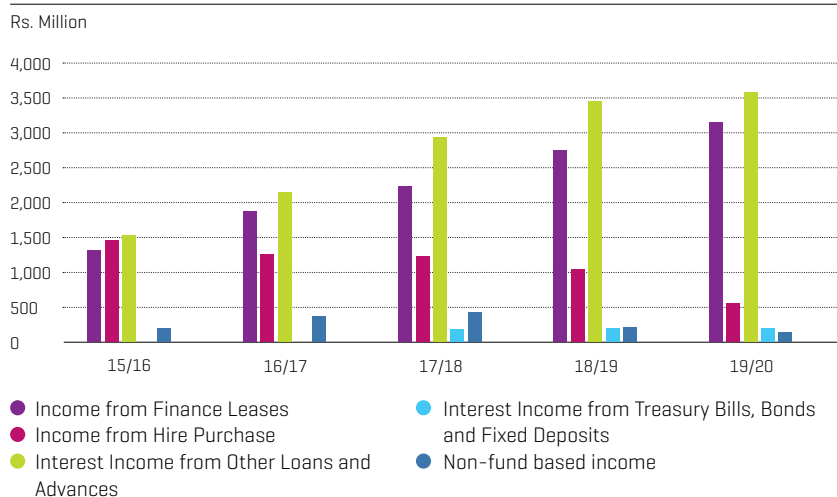
Composition of Gross Revenue



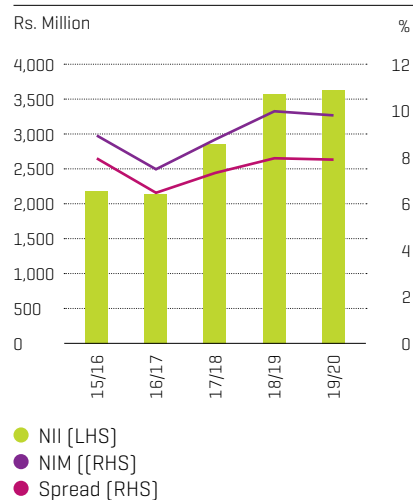
Net Interest Income (NII), Net Interest Margin (NIM) and Core Spread

Though interest income remained pegged back due to market conditions, the downward revision in deposit rates and banks' Average Prime Lending Rates (AWPLR) helped keep cost of funding lower, driving net interest income with a marginal growth of 1.7% compared to the previous year. However, NIM remained at less than the projected levels, recording 9.85%, nevertheless staying above the industry average of 7.7% recorded in December 2019.

Composition of Gross Income



Spread, NIM and Net Interest Income



Revenue Generated from Core Lending Business

Lease vs. Hire Purchase Performance

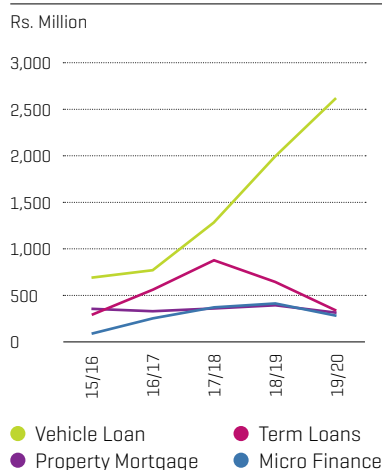
Leases, being our traditional and most popular product, contributed 43% of the core lending revenue representing 14% satisfactory growth in income, despite the sluggish market conditions and pressure on margins, though it is behind the last year growth of 23%. In contrast, Hire Purchase revenue declined by 46% contributing only 8% of the lending income, being a dying product consequent to the tax changes introduced in 2015.

Term-based Lending

Term-based lending, which mainly revolved around vehicle loans, property mortgage loans, term loans, pledged loans and micro finance loans categorised under MI's loans and advances portfolio contributed 49% to the core lending revenue, reflected a modest growth of 4% compared to the 18% growth recorded for

the previous year. Vehicle loans being the primary contributor with 73% of the term based lending revenue, performed well during the year with a satisfactory growth of 32%. Other products were cautiously managed, owing to increased inherent credit risk in such products.

Term Based Lending Revenue



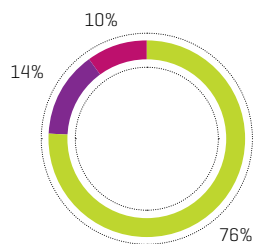
Investment Income

Our investment income contributed 2.5% to gross revenue, driven primarily by Government security returns, while modest results of specific industry corporates and the lacklustre share market during most part of the year, with restricted earnings of blue chips kept dividend income and trading gains minimal.

We invested Rs. 1,989 million in Government securities and bank deposits to maintain our regulatory liquidity levels and to park excess funds, which generated Rs. 188 million, contributing 90% of the investment income. With the economic slowdown, sluggish stock market conditions propelled by the unprecedented events, MI recorded subdued returns as dividends and trading gains, reflecting a 57% YOY decline. During the year, market value of equity investments declined by Rs. 252 million, which was adjusted in the Statement of Other Comprehensive Income.

FINANCIAL WEALTH

Investment Income Composition

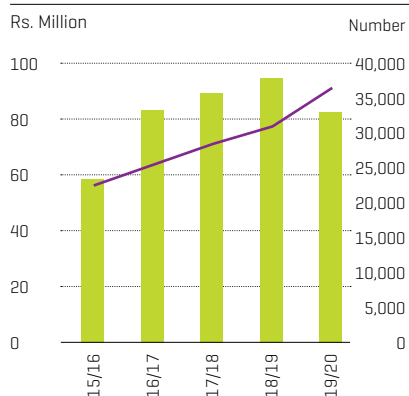


- Investment Income from T Bills and Bonds
- Income from Fixed Deposits
- Dividends Income

Insurance Services

Insurance income contributed Rs. 83 million to gross revenue, recording a dip of 13% compared to the previous year given the subdued credit growth and economic slowdown. Nevertheless, through the satisfactory track record in recovering insurance claims which stood at Rs. 183 million [Rs. 163 million for 2018/19], MI was able to sustain sound customer retention levels, while also attracting new customers.

Insurance Commission and No of Insurance Policies

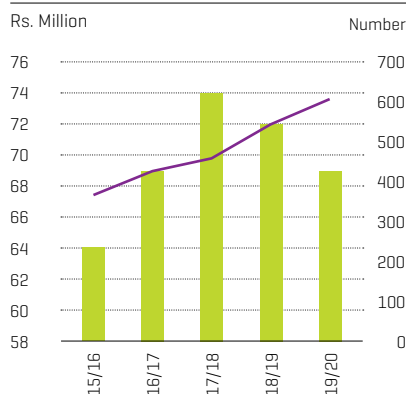


- Insurance Commission [LHS]
- No. of Insurance Policies [RHS]

Workshop Services

We generated total revenue of Rs. 69 million, through our special workshop servicing and repair unit which reflected 4% decline against the previous year due to hampered demand for motor vehicle repairs and servicing resulting especially from the Easter events first quarter hit.

Workshop Revenue and Customer Base



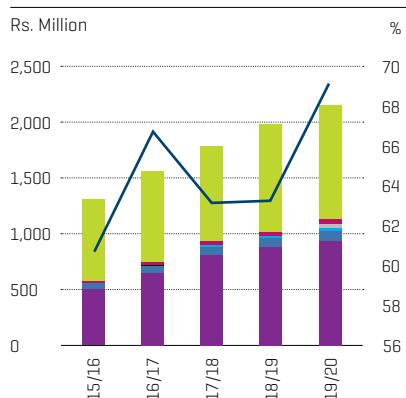
- Workshop Revenue [LHS]
- No of Customers [RHS]

Expenditure Management

Controlling of Overhead Escalation

Given our relentless commitment towards the cost optimisation drive, we were able to limit overhead cost escalation to Rs. 2,147 million with a moderate increase of 8% as against the 11% increase recorded in the previous year. The increase corresponds to annual salary increments, business promotion and general increase in other overhead expenses which commensurate with the rate of inflation. Despite these efforts, the cost to income ratio increased from 63% to 69% during the year, resulting primarily from the decline in operating income relative to the increase in overheads.

Composition of Operating Expenses Vs Cost Income Ratio



- Other operating expenses [LHS]
- Defined benefit plans [LHS]
- Depreciation of ROU Assets [LHS]
- Amortization of leasehold property [LHS]
- Amortization of intangible assets [LHS]
- Depreciation of property and equipment [LHS]
- Personnel expenses [LHS]
- Cost to income [RHS]

Capital Expenditure

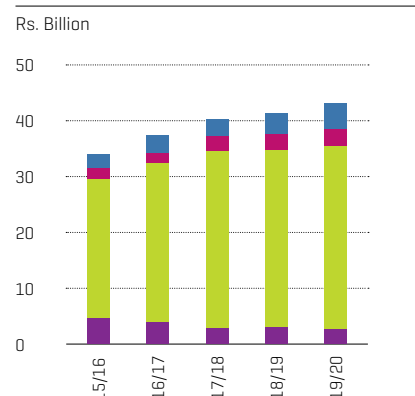
In line with the economic slowdown and challenging operating environment, we were mindful in prioritising our long-term projects. However, as the Company focused on long-term growth sustainability, we invested Rs. 57 million in expanding our operational capabilities, especially kick-starting the IT migration to enhance selected parts of the core business system.

Financial Position, Strength, Blend and Efficiency

Total Assets Position

Despite the subdued economic growth, our total assets advanced to Rs. 43,171 million, reflecting a moderate increase of Rs. 1,817 million in absolute terms and a 4.4% growth; however, above the industry average growth of 0.1% recorded as at 31st December 2019.

Total Asset Composition

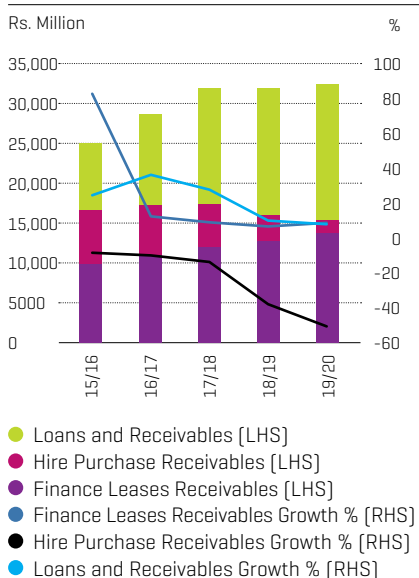


- Other Assets
- Property Plant and Equipment
- Loans and advances
- Financial Investments - Fair Value through OCI

Loans and Advances

Loans and advances receivable remained the largest asset component, accounting for 76% of total assets. In the backdrop of economic slowdown and the spill-over effects of the two black swan events, we placed great emphasis on our primary business of lending to maintain sustainable portfolio growth. As a result, our loans and advances reached Rs. 32,759 million, recording however a marginal portfolio growth of 2.5% [0.3% in 2018/19] in a challenging environment with margin pressure and industry-wide negative credit growth being experienced by December 2019. We maintained an optimal product mix, whilst controlling asset quality, although our non-performing levels rose somewhat than anticipated. Our lending business was driven by MI's primary product, lease financing and term-based product categories as depicted below.

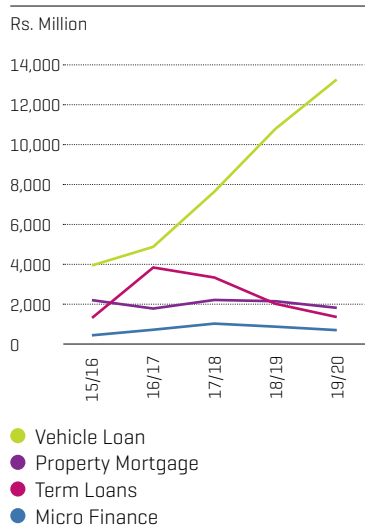
Total Lending Portfolio Progress



Leases representing 42% of our total lending portfolio, performed at satisfactory levels in terms of loan book growth, recording 8% portfolio growth, compared to the previous year's loan book growth of 6%. However Hire Purchase portfolio further contracted reflecting 51% YOY decline.

Term-based lending, which represented 53% of the total advances continued with moderate performance reported for the year with a 9% YOY growth. (2018/19-9%) with the curtailed micro finance and property mortgaged lending. However, Vehicle Loans which consist of 76% of the term based lending performed handsomely with a 23% growth. Individual key product growth results are as follows:

Term Based Lending - Growth



Asset Quality

While witnessing an industry-wide deterioration in repayment impacting asset quality, which was attributable primary due to the two unprecedented events and measures, introduced and request made by borrowers to ease their repayment positions, the company's Non-Performing Lending [NPLs] escalated by the balance sheet date. However, the Company managed to control the rise by adopting a conservative lending approach, while applying robust risk management techniques together with strengthened recovery initiatives. A few large contracts stemming from the past few years although adequately backed by prime properties kept the 180-day NPL ratio at 11.69% as at 31st March 2020 [9.68% FY 2018/19].

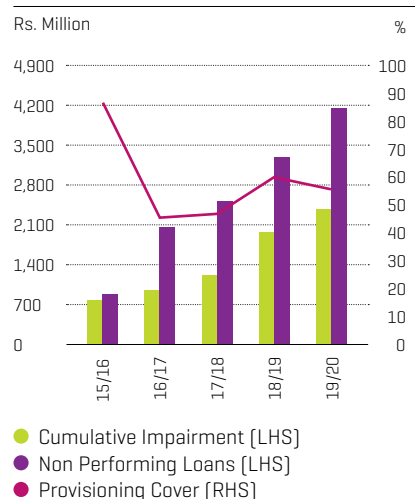
A specialised recovery team termed the Special Recoveries Force [SRF] was put into action to provide a 24/7 recovery effort. Moreover, with the formation of a dedicated call centre from late 2019, recovery dues were closely monitored for prompt regularisation. The specialised Internal Valuation and Disposal Unit located in Maharagama handled seized vehicle disposals totalling 756 compared to 513 done in the previous year. The unit played the additional role of ensuring accuracy of asset valuations earmarked as security by borrowers. Simultaneously, the Legal Department played a key support role in recoveries, being a vital cog in the bad debt recovery process, expediting cases with speed and efficiency.

Impairment Charges

Despite the increase in non-performing advances, we were able to contain the impairment charge at Rs. 424 million from Rs. 681 million, recording a 29% reduction against last year, due to proactive recovery measures introduced in the current year. Our emphasis on targeting to keep arrears less than 90-day with the advent of SLFRS 9 in 2018/19 with due changes to recovery strategy and practices to align to these shorter recovery cycles, eventually helped us control impairment impacts.

Cumulative impairment provision increased to Rs. 2,371 million as at 31st March 2020, maintaining the provisioning cover at 57% compared to last year's 60%. (Refer Financial Statements Note on Impairment from pages 224 to 228)

Cumulative Impairment, NPL and Provision cover



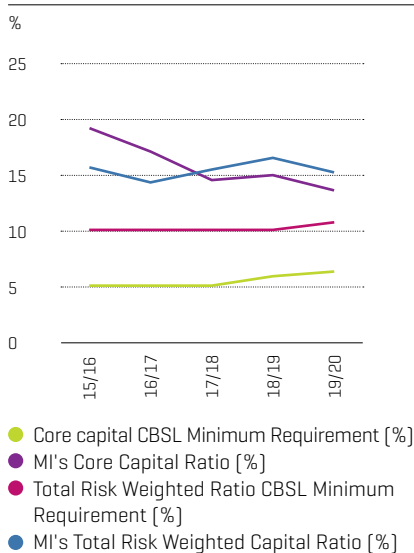
FINANCIAL WEALTH

Capital Strength

Regulatory Capital

Our core capital remained well above the 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 capital adequacy ratio of tier 1 and total risk weighted assets ratio stood at 13% and 15% respectively, higher than the minimum regulatory limits specified.

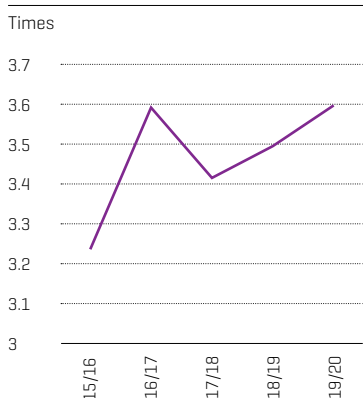
Capital Adequacy Five Year Analysis



Debt to Equity

Debt to Equity ratio remained at 3.6 compared to the 3.5 reported in previous year. Based on the inherent nature of the industry of mobilising deposits to fund business, these levels were executed in a satisfactory and acceptable manner.

Debt to Equity Ratio



Liquidity

Short and Medium Term Liquidity

Despite the deterioration in asset quality and recovery delays in the industry, the Company maintained a solid liquidity position throughout the year, managing the trade-off between liquidity and profitability levels. Statutory liquidity requirements were eased by the regulator post-COVID-19 and in comparison, MI maintained enhanced robust liquidity levels as at the balance sheet date with the liquid asset ratio at 15.99% as at 31st March 2020 compared to 14.78% recorded in previous year [Refer Risk Management Report page 271 for detailed ratio breakdown].

Long-Term Liquidity

By securing over Rs. 5.3 billion in long-term funding from banking partners, we ensured that the maturity mismatches of less than one year was managed within board approved levels [Refer Risk Report page 272].

Cash Flow Position

The Treasury Division managed cash flows effectively to meet both short 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 to Rs. 1,727 million from Rs. 1,009 million a year before, reflecting a strong liquidity position, despite the COVID-19 outbreak.

Cash Flow from Operating Activities

Net movement of MI's operating cash flows reflected an inflow of Rs. 503 million for the current year compared to Rs. 1,097 million inflows recorded for the previous year. The inflow of cash from operating activities arose mainly from interest and commission receipts and through the efficient management of operating activities.

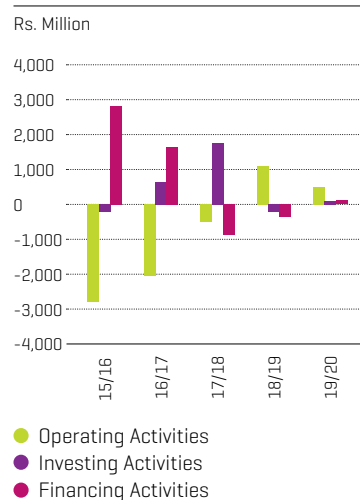
Cash Flow from Investing Activities

MI's cash flow from investing activities reflected an inflow of Rs. 102 million for the period under review, compared to the outflow of Rs. 226 million recorded in last year. The net proceeds from share trading activities resulted in the net cash inflow of the current year.

Cash Flow from Financing Activities

Cash flow from financing activities showed a positive cash flow, totalling Rs. 111 million as at 31st March 2020, compared to a negative cash flow of Rs. 370 million recorded during the previous period. The positive cash inflow was attributable to the relatively high level of debt being taken during this period.

Cash Flow Analysis



Outlook

The outlook for the forthcoming year is likely to be largely dependent on the future impact of the COVID-19 pandemic on the Finance sector as well as the country's economic growth. Though we expect a decline in collections in the next six months given the moratorium and other reliefs, once normalcy is re-established, we expect an immediate boost in collection levels.

Moreover, the new political leadership and the unwavering commitment of the Sri Lankan Government to mitigate and control the pandemic and the fiscal stimulus packages introduced to revive the local economy will create positive sentiments towards future growth prospects. Thus, the downward revision of interest rates, liquidity relief and upward revision of Loan-to-Value ratio [LTV] will have a positive effect, despite the curtailing of importation of motor vehicles and the volatile exchange rate position witnessed, which will have negative impact on the sector. While we expect a deterioration of credit growth and asset quality, resulting in subdued performance within the first two quarters of the forthcoming year, we expect positive growth thereafter.



Leveraging Alliances towards Growth and Sustenance

GRI | 103-2 and 103-3

In today's dynamic and competitive business climate, corporate sustainability hinges on the social license and strength of stakeholder relationships. Following our vision to be a top of the mind financial services provider with a deep sense of corporate responsibility, MI always strives to maximize organizational value for each stakeholder group through a 'shared growth' approach. While engaging stakeholders in our strategic decision making process, we cement lasting bonds and relationships which we call "Alliances", creating win-win solutions for either party. By staying receptive, we cater to untapped credit needs of society and also offer attractive investment opportunities which have helped us cement lasting alliances. Going beyond the commercial boundaries, we focus on supporting varying other needs of society, especially those unmet needs of the poor and less privileged.

Today, MI capitalizes on the unblemished and trusted brand image built among our stakeholders through these mutually beneficial alliances that enabled us to drive towards this sustainable business journey of over 5 decades.

VALUE CRITERION

- ✔ Creating and uplifting lasting bonds with customers
- ✔ Ethical Conduct
- ✔ Constructive and trustworthy relationships
- ✔ Respecting and safeguarding investor rights
- ✔ Underpinning the fulfillment of societal requirements



ATTACHED ALLIANCES

Commercial Alliances

- ✔ Customer Relationships
- ✔ Investor Relations
- ✔ Intermediary Partnerships

Social Alliances

COMMERCIAL ALLIANCES

Being a financial services provider, the relationships we build and nurture with our clients play a pivotal role in building repeat business and brand image. Broad based strategies have been adopted to further strengthen commercial alliances and transform them into assets which we can capitalize in differentiating our products and services in the market to gain a competitive edge.

Customer Relationships

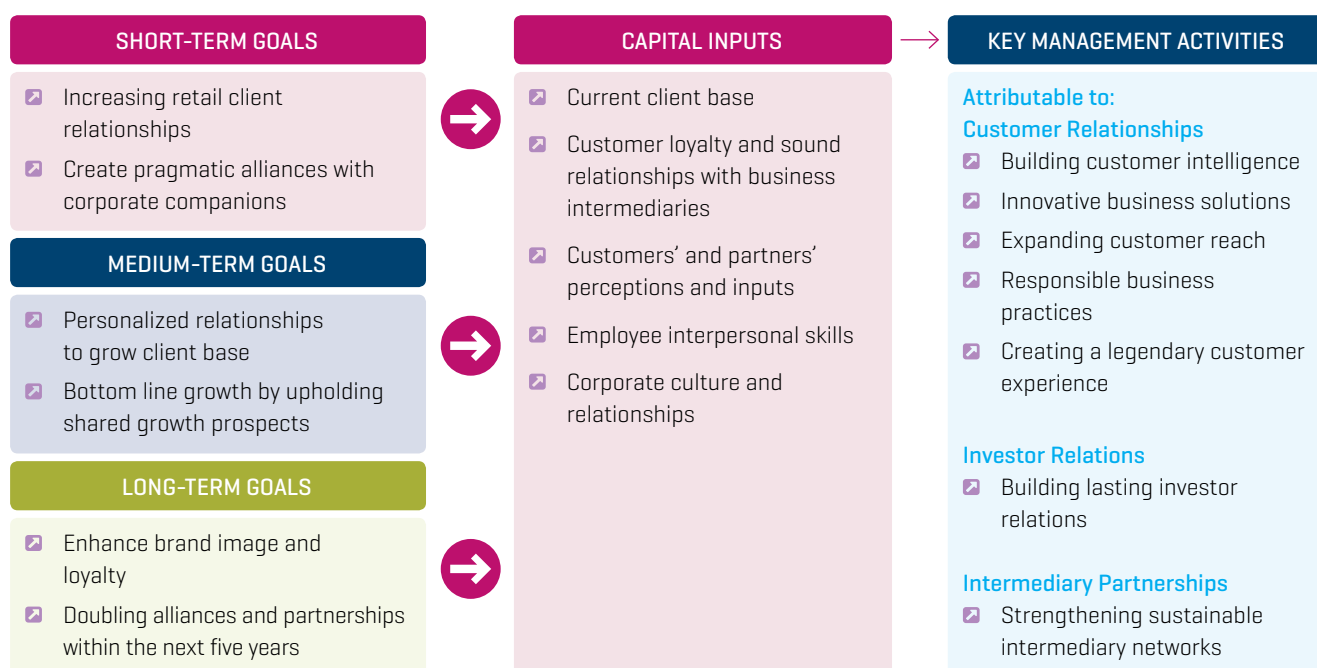
Having understood the importance of a customer centric business approach, the MI Board and management have geared its corporate strategies to build strong and mutually beneficial relationships, by continuing to offer innovative economical financial solutions to meet evolving customer demands, while strengthening service quality. With its unparalleled services, offered for over five decades, MI has built trust and a vibrant brand image among customers, attracting and retaining a loyal customer base despite the intensified market competition.

Investor Relations

Whilst our ordinary investor share base is limited, we continued to sustain lasting bonds with all our investors through continuous engagements with them. As the primary corporate objective, we aligned strategic direction towards maximizing shareholder wealth through sustainable returns.

Intermediary Partnerships

We have created rewarding and sustainable business partnerships with our funding intermediaries, vendors, suppliers and other intermediaries through our "Partnering a Shared Growth" business proposition. Having understood the importance of their pivotal role in our supply chain, we strive to build lasting relationships through mutually beneficial strategic initiatives.



OUTPUTS

Customer Relationships
New customers attracted
>19,000

Maintained sound deposit retention level over
70%

Investor Relationship
Shareholder funds
Rs. 8.9 Billion

Greater investor corporate involvement

Optimal management of portfolio

Intermediary Partnerships

Effective liquidity and gearing management

High quality products and services

PRIMARY IMPACTS ON OTHER CAPITALS



- New customer deposits mobilised
> Rs. 5 Billion
- Credit disbursements
> Rs. 19 Billion



- Number of training hours on competency development
4,568 hours



- Conversion of 7 service centres into branches



- Enhancement of brand image



- Green lending for hybrid and electric vehicles

VALUE ADDING OUTCOMES

For our Customers

- Innovative personalized solutions
- Convenient transacting
- Customer privacy and confidentiality
- Lasting trust and business confidence

For our Investors

- Sound returns
- Financial stability
- Prudent decision making and confidence

For our Intermediaries

- Shared growth prospects

Trade-Offs

Although we spent large amounts to acquire, retain and nurture alliances with customers, investors and business intermediaries, these alliances will yield greater returns monetarily in the longer time horizon also boosting the MI brand, trust and loyalty.

The long standing alliances we have built 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.



Detailed disclosure about Commercial Alliance key management activities, outputs, outcomes and other key performance indicators are made available in our website.



<http://mi.com.lk/images/qr/alliances.pdf>

SOCIAL ALLIANCES

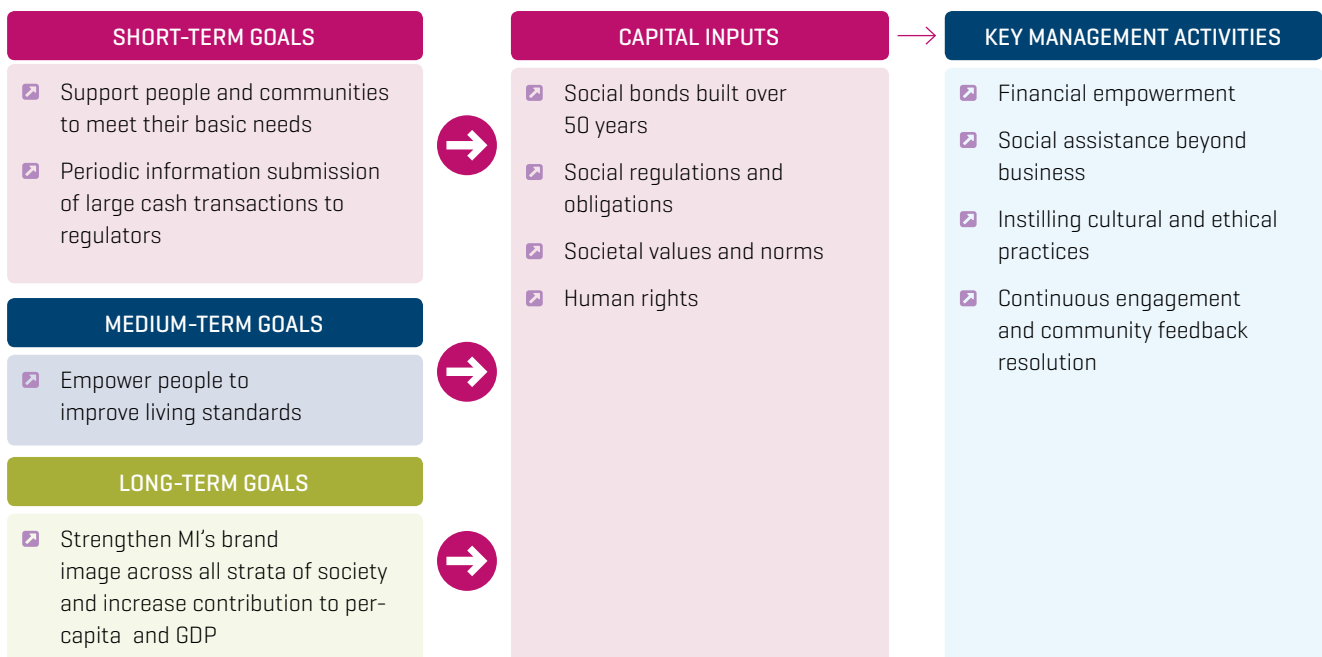
Creating Meaningful Relationships and Social Impacts

We have adopted a broader view to business, going beyond commercial boundaries for the betterment of society. While being a responsible corporate citizen, we have embedded corporate sustainability into our business model and corporate strategy, to create a sustainable future for the society, by looking at various avenues to satisfy their varying needs, empowering them to pursue their goals and raising their living standards.

In our journey towards sustainable value creation, we strived to optimize the positive impacts to society while maintaining our negative impacts at minimal level. During the year, we continued to broad base our efforts in uplifting communities and securing the sustainable well-being of our employees. With these broader social goals in mind, the Sustainability Governance Committee is entrusted with pursuing proposed future sustainable development goals, which form part of the next three year corporate plan.

Social Alliances Value Creation in a Nutshell

With the objective of creating a more inclusive future, where everyone has the opportunity to prosper, we continued to build a sustainable development platform for the community by way of greater financial empowerment, social assistance and ethical business practices. These efforts in turn enriched our brand equity in terms of increased brand awareness and recognition, while directly contributing to uplift the living standards of communities towards a sustainable nation.



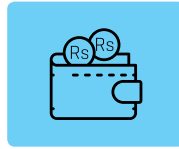
OUTPUTS

Deep sense of corporate acceptance and bonding

Social investment stood at **Rs. 1.8 Million**

Wider employee contribution towards building social alliances

PRIMARY IMPACTS ON OTHER CAPITALS



Perceived long-term benefits to revenue



Number of employment opportunities created **346**



Improved social awareness among employees



Agriculture credit disbursements **Rs. 1.5 Billion**

VALUE ADDING OUTCOMES

- ☑ Beneficiaries meeting needs from social projects
- ☑ Development of sustainable communities with improved earning capacity
- ☑ Improved quality of life of those supported
- ☑ Controlling financial crimes and adverse social activities

Trade-Offs

In creating an effective sustainable development platform, we have already invested money, management time and effort and this will be an ongoing journey. However, we foresee intangible positives reciprocating back mostly in the longer term, which will enrich our business in terms of increased brand image and reputation as a “Responsible Corporate Citizen”



Detailed disclosure about Social Alliance key management activities, outputs, outcomes and other key performance indicators are made available in our website.



<http://mi.com.lk/images/qr/alliances.pdf>



HUMAN STRENGTH



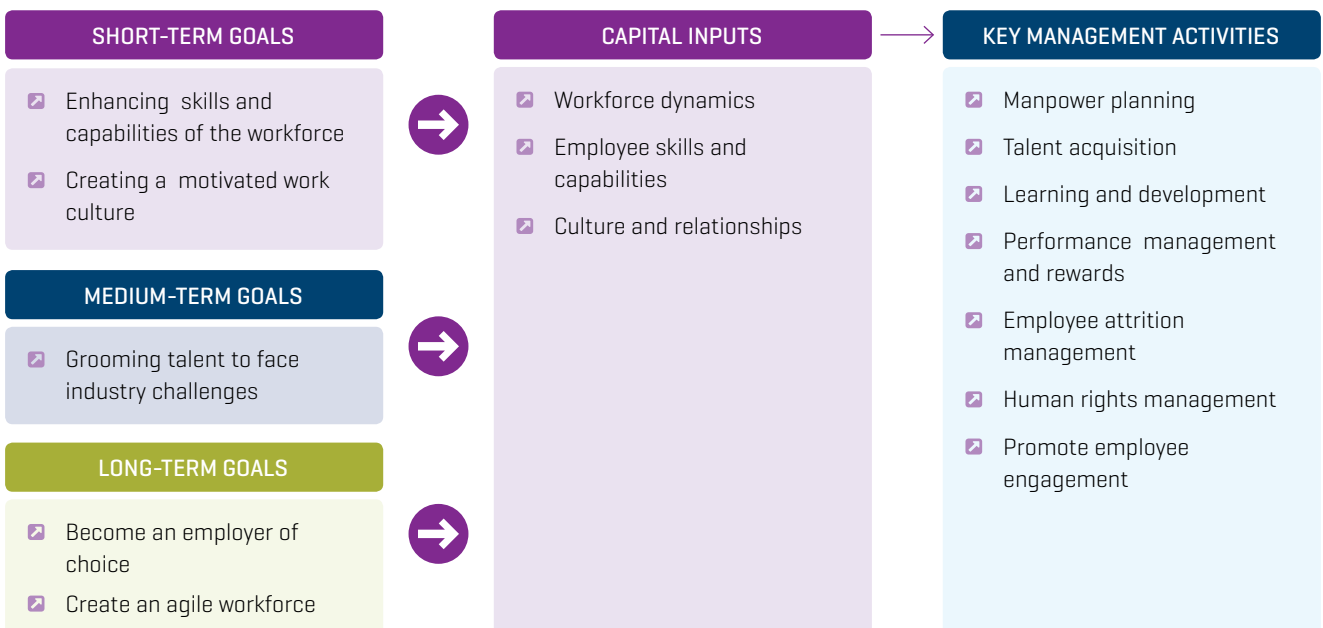
Driving Productivity

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

Our workforce has been fundamental to our business success. Staff skills, business knowhow and experience create a competitive advantage and therefore, we consider our human strength a valuable asset. Our staff capabilities have created meaningful value that exceeds peoples' expectations. We introduced a set of well-structured policies and procedures covering recruitment, training, performance management and employee rewards, which are communicated to employees through a Board approved HR Policy, Employee Handbook, Code of Conduct, HR information system and numerous learning and development initiatives.

Human Resource Value Creation in a Nutshell

Our unparalleled work culture and HR strategy have been successful in attracting and retaining many talented employees, while driving them to excel in their fields, and allowing them to enjoy benefits that extend beyond monetary terms, to fulfill wider personal and social aspirations. Thus, our approach to people management has maximized benefits, career opportunities and job security, for all staff.



OUTPUTS

Employee productivity - Assets per employee
Rs. 39 Million

Innovation/ideas contributed
6

Employer employee harmony

An attractive corporate culture

Compliance with internal policies and labor laws

PRIMARY IMPACTS ON OTHER CAPITALS



- Revenue per employee **Rs. 7 Million**
- Employee expenditure up by 7% to **Rs. 990 Million**



- Improved employee knowledge, skills and personality



- Enhanced client relationships



- Optimized use of physical infrastructure



- Increased natural resource usage due to expanding workforce
- Employee volunteerism in environmental initiatives **796 hours**

VALUE ADDING OUTCOMES

Gratifying rewards with recognition
Average salary increase > 6% yoy

Clear career prospects

Broad-based knowledge and skills for career development

Post-employment benefits **> Rs. 100 Million**

Cultural association and belonging

Trade-Offs
 By investing in the development of staff skills, we expect to enhance productivity and build intellect for the business, especially in the medium and long-term. Having identified the importance of creating a performance driven culture, we aligned our rewards system to the new approach, for better results. We expect quality and speed of delivery to improve further in this strong performance culture.

Detailed disclosure about Human Strength key management activities, outputs, outcomes and other key performance indicators are made available in our website.

<http://mi.com.lk/images/qr/human-strength.pdf>



Building Intangible Assets Value towards Competitive Advantage

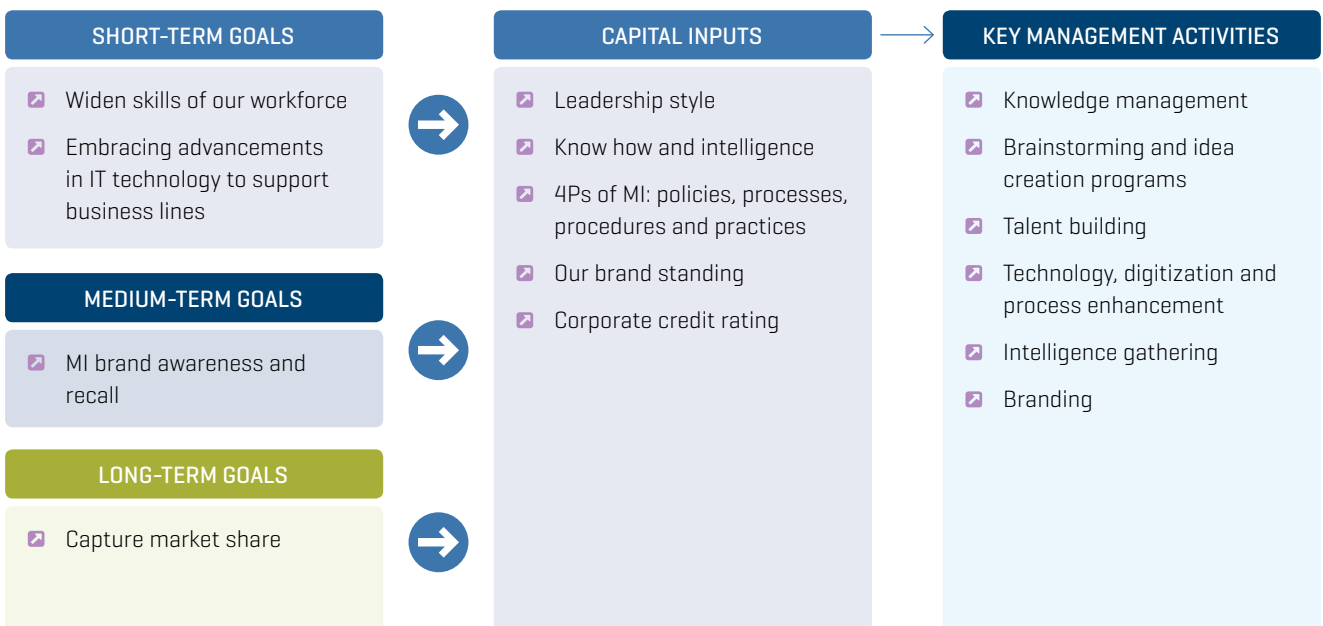
GRI | 103-2 and 103-3

As a preeminent finance company with a history of more than five decades, MI has gathered a wealth of expertise and intelligence over the years, which has led to the formation of a team of competent and experienced individuals. Our organizational knowledge base is not only driven by our market insights and in-depth understanding about the intricacies of financial products, but also includes the unparalleled service we extended through the MI brand throughout this long history, as a friendly financial specialist and a trustworthy partner.

In the last few years, our strategic approach towards enhancing productivity and efficiency has been focused on technology, process re-engineering and talent building. While good governance and staunch leadership have fortified our brand image over the years, we also gained recognition both locally and internationally for excellence in financial reporting. Furthermore, our customer service excellence allowed us to sustain our market share, despite the intense competition in the market.

Intellectual Value Creation in a Nutshell

With a visionary leadership style that emphasizes the importance of intangible assets, MI has geared its core competencies, technical know-how and brand image towards maximizing stakeholder value creation through increased efficiency, effectiveness and productivity, while enhancing customer convenience.



OUTPUTS

Recognition of becoming within
Top 100 corporate brands

Two Annual Report Awards for excellence in financial reporting

Increased efficiency and productivity

Infused innovation

PRIMARY IMPACTS ON OTHER CAPITALS



- Revenue per employee
Rs. 7 Million
- Software related expenditure
Rs. 45 Million



- Skilled and experienced employees
- Number of training
9,553 hours



- Customer oriented workforce
- Service excellence through technology



- Greater productivity and efficiency in operations



- Automation led controlled use of paper


VALUE ADDING OUTCOMES

Strengthened reputation and public confidence

Accumulated employee knowledge

A secure information security environment

Trade-Offs
The cascading effect from our efforts towards strengthening our IT system, knowledge and skills and uplifting our brand image has enriched all capitals we utilize. Though upgrading talent and technology involves continuous expenditure, we have groomed a strong, competent and motivated workforce to support our performance driven culture and strengthened our IT system to be on par with industry standards. Moreover, we have acquired new customers and cemented lasting relationships with most of our clients, extending an unparalleled service beyond their expectations.

 Detailed disclosure about Intellect key management activities, outputs, outcomes and other key performance indicators are made available in our website.

<http://mi.com.lk/images/qr/intellect.pdf>



INFRASTRUCTURE



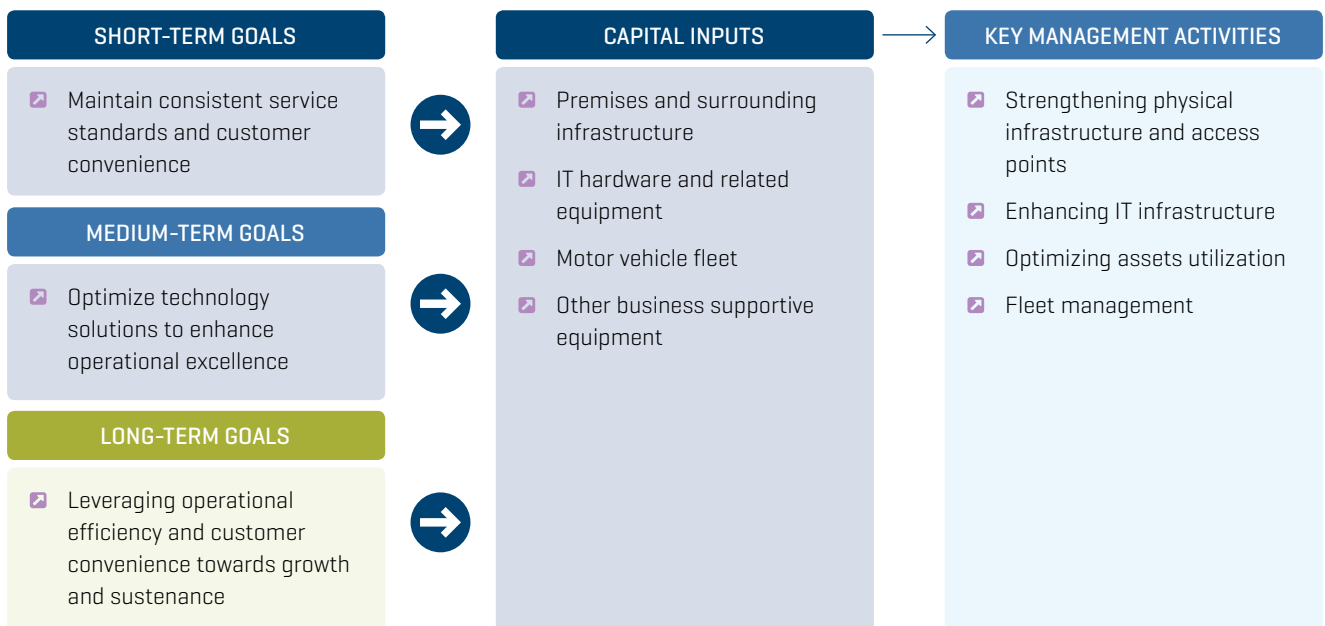
Building Effective Infrastructure to Support Growth

GRI | 103-2 and 103-3

Our service excellence, product innovation and customer outreach is driven by effective infrastructure platforms built across our branch network. Our digital infrastructure, consisting of IT systems and software, enabled us to extend our reach in more innovative, efficient and relevant ways while our physical infrastructure, such as our budding branch network, enabled us to retain the vital human touch in our operations. Recognizing the critical role played by infrastructure capital in our overall value creation process and future growth path, MI placed strategic significance in expanding and enhancing our infrastructure to face future sophistication and planned growth.

Infrastructure Value Creation in a Nutshell

Our infrastructure value building process enables intangible and tangible benefits for the Company by extending core business functions to support growing business needs and to penetrate existing markets, as well as new markets, while enhancing overall efficiency and productivity.



OUTPUTS

7 new deposit mobilization access points

Optimized operational efficiency

Maintaining confidentiality and safety of records via document retention policy

Safe and concurrent business operations

PRIMARY IMPACTS ON OTHER CAPITALS



- Investment in Property, Plant and Equipment stood at **Rs. 58 Million**
- Recorded appreciation in land and building value **> Rs. 300 Million**



- Geographically scattered recruitment
- Safer working conditions



- Easy client access and convenience
- New customer relationships tapped **> 19,000**
- Microfinance based outlets **19**



- Office environment facilitated innovation and synergy




- Use of water, electricity and paper for routine operations


VALUE ADDING OUTCOMES

Return on physical infrastructure **11%**

Broad-based business penetration

Trade-Offs
 Infrastructure investments support the achievement of strategic goals and objectives in a more efficient and effective manner. Though adopting up-to-date technology involves continuous expenditure and depletes nature, we maintain a balance between infrastructure and natural resources while exercising sustainable best practices. Effective use of technology has enhanced workforce productivity and strengthened commercial alliances.

 Detailed disclosure about Infrastructure key management activities, outputs, outcomes and other key performance indicators are made available in our website.



<http://mi.com.lk/images/qr/infrastructure.pdf>



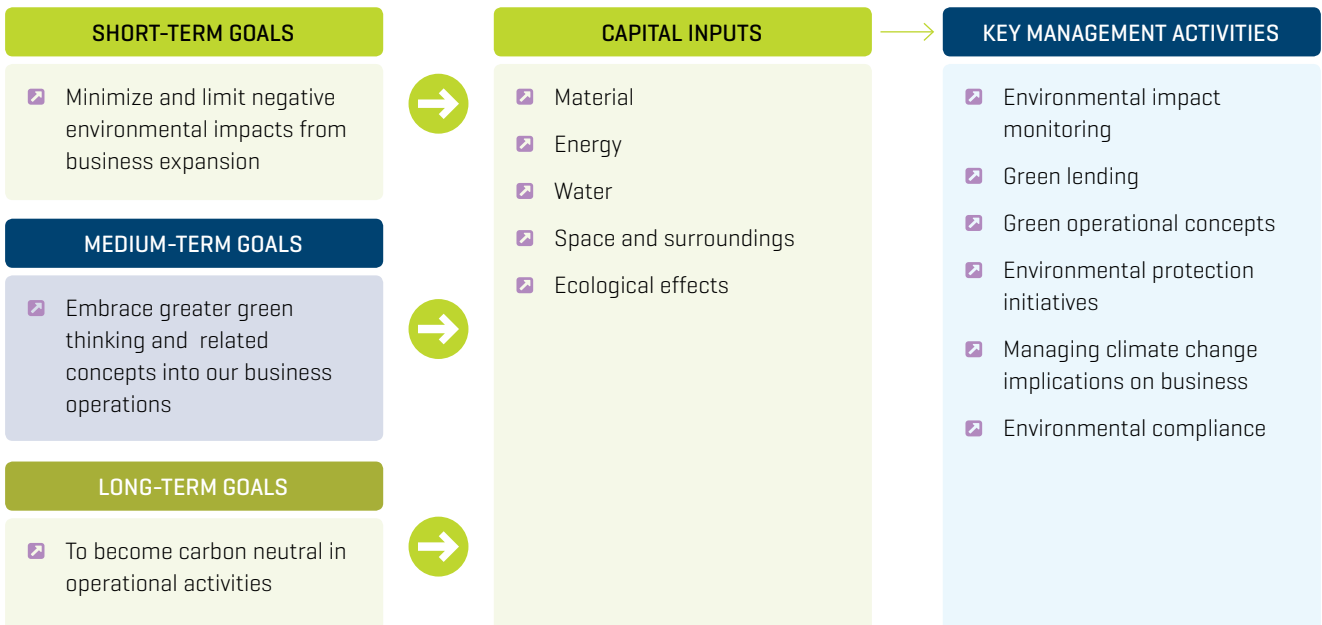
Preserving Natural Resources and Environment

GRI | 103-2 and 103-3

We remained committed towards environmental sustainability as our business strategy incorporates managing and minimizing direct and indirect detrimental environmental impacts from our business operations. We utilize all natural resources mindfully, while conserving and rebuilding impaired resources and habitats. Our Sustainability Governance Committee provides an oversight for the effective management of our environmental policies and procedures by establishing thematic environmental protection programs.

Natural Value Creation in a Nutshell

As a responsible corporate citizen, we effectively utilize material, energy, water, and our surroundings to better serve our stakeholders, while preserving natural resources and reducing our impact on the ecosystem. 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 nature to create value for society.



OUTPUTS

Contributed to 3,500 tree samplings for Wilpattu reforestation

Waste managed efficiently

Used water, electricity and paper sparingly

PRIMARY IMPACTS ON OTHER CAPITALS



Environmental and habitat conservation investment
Rs. 442,470



Environmental employee volunteerism
796 hours

Broad-based employee awareness



Increased community benefits

Partnerships and alliances



Electricity usage
1,443,926 kWh



Green oriented automation and digitization

Enhanced brand image with 11% increase in advertising expenditure

VALUE ADDING OUTCOMES


Improved eco-system

Optimized natural resources usage

Long term environmental sustenance

Trade-Offs

Though we incurred additional costs to safeguard the environment, the business and social benefits will remain for a longer time horizon. With the expansion of business operations, the management stressed the importance of controlled use of resources and environment protection to gain social acceptance. We have already reaped benefits and established bonds with communities due to our past actions.

 Detailed disclosure about Nature key management activities, outputs, outcomes and other key performance indicators are made available in our website.

<http://mi.com.lk/images/qr/nature.pdf>

GRI STANDARDS CONTENT INDEX "IN ACCORDANCE COMPREHENSIVE"

GRI Standards General Disclosure

GRI | 102-55

Disclosure Number	Disclosure Title	Section to Refer/Related Disclosure	Page Reference	
			Book Page	Web Page
GRI 102: General Disclosure				
102-1	Organisational Profile: Name of the Organisation	☑ Mercantile Investments and Finance PLC		
102-2	Activities, brands, products, and services	☑ Business Overview ☑ Our Products	11 12 & 13	
102-3	Location of headquarters	☑ 236, Galle Road, Colombo 03, Sri Lanka.		
102-4	Location of Operations	☑ Brief about this Integrated Report	7	
102-5	Ownership and legal form	☑ Brief about this Integrated Report ☑ Corporate Information	8 290	
102-6	Markets served	☑ Business Overview ☑ Infrastructure ☑ Branch Network	10 291 to 293	3 to 4
102-7	Scale of the Organisation	☑ Financial Highlights ☑ Operational Highlights	16 & 17 18 & 19	
102-8	Information on employees and other workers			
	a. Total number of employees by employment contract and gender	☑ Staff on contract is immaterial.		3 to 6
	b. Total number of employees by employment contract, by region	☑ Human Strength		3 to 6
	c. Total number of employees by employment type, by gender	☑ Human Strength		3 to 6
	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		3 & 29
102-9	Supply Chain	☑ Alliances		8 & 9
102-10	Significant changes to the organization and its supply chain	☑ Brief About this Integrated Report ☑ Alliances	7	8 & 9
102-11	Precautionary principle or approach	☑ Nature		10
102-12	External Initiatives	☑ Brief about this Integrated Report	8	
102-13	Membership of Associations	☑ Corporate Governance Report	88 & 89	
	Strategy			
102-14	Statement from senior decision maker	☑ Managing Director's Review	24 to 29	
102-15	Key impacts, risks and opportunities	☑ Our Value Creation Journey - Strategy in Action	38 & 39	23 to 30

Disclosure Number	Disclosure Title	Section to Refer/Related Disclosure	Page Reference	
			Book Page	Web Page
102-16	Ethics and Integrity Values, principles, standards, and norms of behavior	Our Purpose, Vision, Mission, Principles and Values	14 & 15	
		Human Strength	60	
		Corporate Governance Report	95, 115	
102-17	Mechanisms for advice and concerns about ethics	Alliances		14
		Human Strength		25
		Corporate Governance Report	95, 121, 135	
102-18	Governance Governance structure	Corporate Governance Report	87, 91 to 94, 97 to 117	
		Corporate Governance Report	87, 88, 91 to 94, 95	
		Corporate Governance Report	88	
102-20	Executive-level responsibility for economic, environmental and social topics	Corporate Governance Report	88	
102-21	Consulting stakeholders on economic, environmental and social topics	Corporate Governance Report	88, 89 & 90	
102-22	Composition of highest governance body and its committees	Corporate Governance Report	76 to 79, 88, 89, 97 to 117, 124	
102-23	Chair of the highest governance body	Corporate Governance Report	88, 102	
102-24	Nominating and selecting the highest governance body	Corporate Governance Report	91 to 94, 105	
102-25	Conflicts of interest	Corporate Governance Report	122, 137	
102-26	Role of the highest governance body in setting purpose, value and strategy	Corporate Governance Report	88, 94 & 95, 118	
102-27	Collective knowledge of the highest governance body	Corporate Governance Report	95	
102-28	Evaluation of the highest governance body's performance	Corporate Governance Report	87, 88, 96	
102-29	Identifying and managing economic, environmental and social impacts	Corporate Governance Report	87, 88, 90	
		Risk Management Report	147	
102-30	Effectiveness of risk management process	Corporate Governance Report	88	
		Risk Management Report	145, 147	
102-31	Review of economic, environmental and social topics	Corporate Governance Report	88, 89	
		Risk Management Report	146, 147	
102-32	Highest governance body's role in sustainability reporting	Brief about this Integrated Report	9	
		Corporate Governance Report	88	
102-33	Communicating critical concerns	Corporate Governance Report	87, 88	
102-34	Nature and total number of critical concerns	Corporate Governance Report	87	
102-35	Remuneration Policies	Corporate Governance Report	96	
102-36	Process of determining remuneration	Corporate Governance Report	96	
102-37	Stakeholders involvement in remuneration	Corporate Governance Report	107	
102-38	Annual total compensation ratio	<i>*Omitted and not disclosed due to confidentiality</i>		
102-39	Percentage increase in annual total compensation ratio	<i>*Omitted and not disclosed due to confidentiality</i>		

GRI STANDARDS CONTENT INDEX

"IN ACCORDANCE COMPREHENSIVE"

Disclosure Number	Disclosure Title	Section to Refer/Related Disclosure	Page Reference	
			Book Page	Web Page
Stakeholder Engagement				
102-40	List of stakeholder groups	Our Value Creation Journey - Stakeholder Participation	42	
102-41	Collective bargaining agreements	Human Strength		25
102-42	Identifying and selecting stakeholders	Our Value Creation Journey -Stakeholder Participation	42	
102-43	Approach to stakeholder engagement	Our Value Creation Journey -Stakeholder Participation		35 & 36
102-44	Key topics and concerns raised	Our Value Creation Journey -Stakeholder Participation		35 & 36
Reporting Practice				
102-45	Entities included in the consolidated financial statements	Brief about this Integrated Report	7	
102-46	Defining report content and topic boundaries	Brief about this Integrated Report	7	
		Our Value Creation Journey - Material Concerns Management	43	37 to 45
102-47	List of material topics	Our Value Creation Journey - Material Concerns Management	43	37 to 45
102-48	Restatements of information	Brief about this Integrated Report	7	
102-49	Changes in reporting	Brief about this Integrated Report	7	
102-50	Reporting period	1st April 2019 to 31st March 2020		
102-51	Date of most recent report	31st March 2019		
102-52	Reporting cycle	Brief about this Integrated Report	7	
		In annual cycles		
102-53	Contact point for questions regarding the report	Brief about this Integrated Report	9	
102-54	Claims of reporting in accordance with the GRI standards	Brief about this Integrated Report	8	
102-55	GRI Content Index	GRI Standards Index	68 to 73	
102-56	External assurance	Brief about this Integrated Report	8	
		Independent Assurance Report on Sustainability	74	
GRI 103: Management Approach				
103-1	Explanation of the material topics and its boundary	Our Value Creation Journey - Material Concerns Management	43	37 to 45
103-2	The management approach and its components	Our Value Creation Journey -Material Concerns Management	43	37 to 45
		Financial Wealth	46	
		Alliances	55	
		Human Strength	60	25
		Intellect	62	
		Infrastructure	64	
		Nature	66	
		Impact Management		35

Disclosure Number	Disclosure Title	Section to Refer/Related Disclosure	Page Reference	
			Book Page	Web Page
103-3	Evaluation of the management approach	Our Value Creation Journey - Material Concerns Management	43	37 to 45
		Financial Wealth	46	
		Alliances	55	
		Human Strength	60	25
		Intellect	62	
		Infrastructure	64	
		Nature	66	
	Impact Management		35	

GRI Specific Disclosures

GRI Standards	Disclosure Number	Disclosure Title	Related Disclosure/ Disclosure Remarks	Page Reference	
				Book Page	Web Page
GRI 200: Economic Performance					
GRI 201: Economic performance	201-1	Direct economic value generated and distributed	Impact Management		7 to 13
	201-2	Financial implications and other risks and opportunities due to climate change	Nature		9
	201-3	Defined benefit plan obligations and other retirement plans	Financial Statements	247 to 249	
	201-4	Financial assistance received from government	Impact Management		7 to 13
GRI 202: Market Presence	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Human Strength		19
	202-2	Proportion of senior management hired from the local community	Human Strength		7 to 10
GRI 203: Indirect Economic Impacts	203-1	Infrastructure investments and services supported	Impact Management		15 & 16
	203-2	Significant indirect economic impacts	Impact Management		13 to 15
GRI 204: Procurement Practices	204-1	Proportion of spending on local suppliers	Alliances		8 & 9
GRI 205: Anti-corruption	205-1	Operations assessed for risks related corruption	Alliances		14
	205-2	Communication and training about anti-corruption policies and procedures	Alliances		14
	205-3	Confirmed incidents of corruption and actions taken	Alliances		14
GRI 300: Environmental Topics					
GRI 301: Material 2016	301-1	Materials used by weight or volume	Impact Management		28
	301-2	Recycled input materials used	Impact Management		28 & 29
	301-3	Reclaimed products and their packaging materials	Impact Management		28 & 29
GRI 302: Energy 2016	302-1	Energy consumption within the organization	Impact Management		29 to 30
	302-2	Energy consumption outside of the organization	Impact Management		29 to 30
	302-3	Energy intensity	Impact Management		29 to 30
	302-4	Reduction of energy consumption	Impact Management		29 to 30
	302-5	Reductions in energy requirements of products and services	Impact Management		29 to 30

GRI STANDARDS CONTENT INDEX

"IN ACCORDANCE COMPREHENSIVE"

GRI Standards	Disclosure Number	Disclosure Title	Related Disclosure/ Disclosure Remarks	Page Reference	
				Book Page	Web Page
GRI 303: Water 2016	303-1	Water withdrawal by source	☑ Impact Management		31
	303-2	Water sources significantly affected by withdrawal of water	☑ Impact Management		31
	303-3	Water recycled and reused	☑ Impact Management		31
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		5 to 8
	304-2	Significant impacts of activities, products, and services on biodiversity	☑ Nature		5 to 8
	304-3	Habitats protected or restored	☑ Nature		8 & 9
				☑ Impact Management	
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	☑ Nature		5 to 8
GRI 306: Effluents and Waste 2016	306-1	Water discharge by quality and destination	☑ Impact Management		31
	306-2	Waste by type and disposal method	☑ Impact Management		32
	306-3	Significant spills	☑ Impact Management		32
	306-4	Transport of hazardous waste	☑ Impact Management		32
	306-5	Water bodies affected by water discharges and/or runoff	☑ Impact Management		31
GRI 307: Environmental Compliance 2016	307-1	Non-compliance with environmental laws and regulations	☑ Nature		10
GRI 400: Social Topics					
GRI 401: Employment	401-1	New employee hires and employee turnover	☑ Human Strength		7 to 10, 22 to 24
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	☑ Human Strength		19
		Parental leave	☑ Human Strength		20 to 22
GRI 402: Labor/ Management Relations	402-1	Minimum notice periods regarding operational changes	☑ Human Strength		25
GRI 403: Occupational Health and Safety	403-1	Workers representation in formal joint management-worker health and safety committees	☑ Human Strength		20 to 22
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	☑ Human Strength		20 to 22
	403-3	Workers with high incidence or high risk of diseases related to their occupation	☑ Human Strength		20 to 22
	403-4	Health and safety topics covered in formal agreements with trade unions	☑ Human Strength		20 to 22, 25

GRI Standards	Disclosure Number	Disclosure Title	Related Disclosure/ Disclosure Remarks	Page Reference	
				Book Page	Web Page
GRI 404: Training and Education	404-1	Average hours of training per year per employee	✔ Human Strength		11 to 17
	404-2	Programs for upgrading employee skills and transition assistance programs	✔ Human Strength		11 to 17
	404-3	Percentage of employees receiving regular performance and career development reviews	✔ Human Strength		18
GRI 405: Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	✔ Human Strength ✔ Corporate Governance Report	88	3 to 6
	405-2	Ratio of basic salary and remuneration of women to men	✔ Human Strength		19
GRI 406: Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	✔ Human Strength		26
GRI 410: Security Practices	410-1	Security personnel trained in human rights policies or procedures	✔ Human Strength		26
GRI 412: Human Rights Assessment	412-1	Operations that have been subject to human rights reviews or impact assessments	✔ Human Strength		25 & 26
	412-2	Employee training on human rights policies or procedures	✔ Human Strength		25 & 26
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	✔ Human Strength		25 & 26
GRI 413: Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	✔ Alliances ✔ Impact Management		12 & 13 17 to 25
	413-2	Operations with significant actual and potential negative impacts on local communities	✔ Alliances ✔ Impact Management		12 & 13 17 to 25
GRI 417: Marketing and Labelling	417-1	Requirements for product and service information and labeling	✔ Alliances		5 & 6
	417-2	Incidents of non-compliance concerning product and service information and labeling	✔ Alliances		5 & 6
	417-3	Incidents of non-compliance concerning marketing communications	✔ Alliances		5 & 6
GRI 418: Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	✔ Alliances		5 & 6
GRI 419: Socio Economic Compliance	419-1	Non-compliance with laws and regulations in the social and economic area	✔ Alliances		5 & 6

INDEPENDENT ASSURANCE REPORT ON SUSTAINABILITY



Ernst & Young
Chartered Accountants
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Independent Assurance Report to Mercantile Investments and Finance PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2019/20

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- 2019/20 ("the Report").

- Reasonable assurance on the information on financial performance as specified on Impact Management web content page 07 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.

Basis of our work and level of assurance

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

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' - Comprehensive 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. This report is made solely to the Company in accordance with our engagement letter dated 04 May 2020. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

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

- Interviewing relevant the Company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.

- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 March 2020.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' - Comprehensive.

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 Impact Management web content page 07 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2020.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' - Comprehensive.

Ernst & Young
Chartered Accountants

26th June 2020
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P Y K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Roberu FCMA FCCA

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BUILDING A COLLECTIVE MINDSET

As custodians of public funds in the dynamic finance industry, our leadership continually upholds effective governance and directs business in a prudent manner, consistently adopting best risk management practices. Our good governance approach and risk dynamics are explained concisely in this section.

STEWARDSHIP

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Corporate Governance Report	84 to 144
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BOARD OF DIRECTORS

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
1. Singappuli Mudiyanseleage Susantha Sanjaya Bandara Chairman [Independent Non-Executive]	9th February 2012	29th June 2018	8 years	FCA [SL], FAAT [SL], MBA [Col.], BSc. [Sri J.]	<input checked="" type="checkbox"/> Audit Committee <input checked="" type="checkbox"/> Nomination Committee <input checked="" type="checkbox"/> Related Party Transactions Review Committee <input checked="" type="checkbox"/> Remuneration Committee
2. Gerard George Ondaatjie Managing Director [Executive]	2nd December 1993		27 years	B.Sc. [Accountancy] [Arizona State University – USA]	<input checked="" type="checkbox"/> Nomination Committee <input checked="" type="checkbox"/> Integrated Risk Management Committee <input checked="" type="checkbox"/> Credit Committee
3. Pathirana Mahes Amarasekera Deputy Managing Director [Executive]	18th December 1995	20th October 2017	25 years		<input checked="" type="checkbox"/> Integrated Risk Management Committee <input checked="" type="checkbox"/> Credit Committee
4. Shermal Hemaka Jayasuriya Finance Director [Executive]	5th January 2001	29th July 2019	19 years	FCA, FCMA [UK], CGMA, FCMA [SL], MBA [Sri.J.]	<input checked="" type="checkbox"/> Integrated Risk Management Committee <input checked="" type="checkbox"/> Credit Committee <input checked="" type="checkbox"/> Related Party Transaction Review Committee
5. Angeline Myrese Ondaatjie Director [Executive]	20th January 1992	20th October 2017	28 years	MBA [University of Texas in Austin] USA, BSc [Massachusetts Institute of Technology USA]	



Competencies			Present Directorship/ positions held with other Companies/ Positions	Number of Shares held in MI as at 31st March 2020
Expertise	Sector	Qualities		
<ul style="list-style-type: none"> ✔ Strategic Management ✔ Finance ✔ Accounting and Taxation ✔ Governance 	<ul style="list-style-type: none"> ✔ Auditing ✔ Financial services ✔ Education 	<ul style="list-style-type: none"> ✔ Strategic thinker ✔ Analytical ✔ Able to deal with ambiguity 	Partner of B. R De Silva & Co.	Nil
<ul style="list-style-type: none"> ✔ Strategic Management ✔ Human Resource Management ✔ Financial ✔ Public Relations ✔ Governance ✔ Risk Management 	<ul style="list-style-type: none"> ✔ Tourism and Hotels ✔ Automobile ✔ Financial Services ✔ Trading Sector 	<ul style="list-style-type: none"> ✔ Strategic thinker ✔ Visionary ✔ Analytical ✔ Idea generator ✔ Able to deal with ambiguity ✔ Networking 	<ul style="list-style-type: none"> ✔ Chairman of Mercantile Fortunes [pvt] Limited, Nilaveli Beach Hotels [Pvt] Limited, Security Ceylon [Pvt] Limited, Mercantile Orient [Pvt] Limited, Fair View Hotel [Pvt] Limited, Global Films Limited, International Fortunes [Pvt] Limited, Nilaveli Hotels [Pvt] Limited & Mercantile Fortunes Insurance Brokers [Pvt] Ltd ✔ Deputy Chairman of The Nuwara Eliya Hotels Co. PLC ✔ Director of Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC, Tangerine Tours [Pvt] Limited and Tangerine Vacations [Pvt] Ltd. 	477,213
<ul style="list-style-type: none"> ✔ Strategic Management ✔ Legal ✔ Recoveries ✔ Public Relations 	<ul style="list-style-type: none"> ✔ Legal Enforcement ✔ Small Businesses ✔ Automobile ✔ Financial Services 	<ul style="list-style-type: none"> ✔ Visionary ✔ Analytical ✔ Idea generator ✔ Networking 	<ul style="list-style-type: none"> ✔ Director of Security Ceylon [Pvt] Limited, Fair View Hotel [Pvt] Limited and Mercantile Fortunes Insurance Brokers [Pvt] Ltd 	Nil
<ul style="list-style-type: none"> ✔ Strategic Management ✔ Recoveries ✔ Human Resource Management ✔ Financial ✔ Fundraising ✔ Public Relations ✔ Governance ✔ Risk Management 	<ul style="list-style-type: none"> ✔ Financial Services ✔ Insurance ✔ Manufacturing ✔ Small Businesses ✔ Trading sector ✔ Automobile 	<ul style="list-style-type: none"> ✔ Strategic thinker ✔ Visionary ✔ Analytical ✔ Idea generator ✔ Able to deal with ambiguity ✔ Networking 	<ul style="list-style-type: none"> ✔ Director of Mercantile Fortunes [Pvt] Limited, Security Ceylon [Pvt] Limited, Mercantile Fortunes Insurance Brokers [Pvt] Ltd 	Nil
<ul style="list-style-type: none"> ✔ Strategic Management ✔ Human Resource Management ✔ Financial ✔ Public Relations 	<ul style="list-style-type: none"> ✔ Tourism and Hotels ✔ Financial Services ✔ Manufacturing 	<ul style="list-style-type: none"> ✔ Strategic thinker ✔ Visionary ✔ Analytical ✔ Idea generator ✔ Able to deal with ambiguity ✔ Networking 	<ul style="list-style-type: none"> ✔ Chairperson & Managing Director of Tangerine Tours [Pvt] Limited, Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC & Tangerine Vacations [Pvt] Ltd ✔ 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 Hotel [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

BOARD OF DIRECTORS



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
6. Travice John Ondaatjie <i>Director [Executive]</i>	13th July 1995	20th October 2017	25 Years	BSc. [Arizona State University – USA]	
7. Punyakanthi Tikiri Kumari Navaratne <i>Director [Independent Non-Executive]</i>	17th January 2012	29th June 2018	8 Years	LLB [Col.], Attorney at Law	<ul style="list-style-type: none"> ☑ Remuneration Committee ☑ Nomination Committee
8. Nawagamuwage Hasantha Viraj Perera <i>Director [Non-Executive]</i>	9th February 2012	29th June 2018	8 Years	Diploma in Business Management, Organizational Behavior and HR Management	<ul style="list-style-type: none"> ☑ Audit Committee ☑ Remuneration Committee ☑ Integrated Risk Management Committee ☑ Nomination Committee ☑ Related Party Transactions Review Committee
9. Pathmanathan Cumarasamy Guhashanka <i>Director [Independent Non-Executive]</i>	28th June 2013	29th July 2019	6 Years	MBA [USA]	
10. Pandithasundara Dinuka Dilhan Perera <i>Director [Independent Non-Executive]</i>	21st February 2020			MBA [PIM, Sri J'pura], ACA, FCMA [SL], ACMA [UK], CGMA	<ul style="list-style-type: none"> ☑ Audit Committee ☑ Related Party Transaction Review Committee



Competencies			Present Directorship/ positions held with other Companies/ Positions	Number of Shares held in MI as at 31st March 2020
Expertise	Sector	Qualities		
<ul style="list-style-type: none"> ✔ Strategic Management ✔ Human Resource Management ✔ Financial ✔ Public Relations ✔ Risk Management 	<ul style="list-style-type: none"> ✔ Tourism and Hotels ✔ Automobile ✔ Financial Services 	<ul style="list-style-type: none"> ✔ Strategic Thinker ✔ Visionary ✔ Analytical ✔ Idea Generator ✔ Networking 	<ul style="list-style-type: none"> ✔ 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
<ul style="list-style-type: none"> ✔ Legal ✔ Human Resource Management ✔ Public Relations ✔ Risk Management 	<ul style="list-style-type: none"> ✔ Corporate ✔ Legal Enforcement and advisory ✔ Information technology 	<ul style="list-style-type: none"> ✔ Strategic Thinker ✔ Visionary ✔ Idea Generator ✔ Networking 	<ul style="list-style-type: none"> ✔ Vice President-Legal Affairs at WSO2 Lanka (Pvt) Limited 	Nil
<ul style="list-style-type: none"> ✔ Legal ✔ Recoveries ✔ Human Resource Management ✔ Public Relations ✔ Governance ✔ Risk Management 	<ul style="list-style-type: none"> ✔ Financial services ✔ Legal Enforcement and advisory ✔ Tourism and Hotels ✔ Corporate 	<ul style="list-style-type: none"> ✔ Analytical ✔ Able to deal with ambiguity 	<ul style="list-style-type: none"> ✔ 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
<ul style="list-style-type: none"> ✔ Strategic Management ✔ Fundraising ✔ Public Relations ✔ Governance 	<ul style="list-style-type: none"> ✔ Automobile ✔ Corporate ✔ Construction ✔ Financial services 	<ul style="list-style-type: none"> ✔ Strategic Thinker ✔ Visionary ✔ Analytical ✔ Idea Generator ✔ Able to deal with ambiguity ✔ Networking 	<ul style="list-style-type: none"> ✔ Group Director of Micro Holdings (Pvt) Limited ✔ CEO of Micro Constructions (Pvt) Limited ✔ CEO of Micro Cars Limited ✔ Director of Transmec International (Pvt) Limited, Euro Sports Auto Lanka (Pvt) Ltd, Fujitec Lanka (Pvt) Limited, Superlative Properties (Pvt) Ltd 	Nil
<ul style="list-style-type: none"> ✔ Strategic Management ✔ Financial Management ✔ Governance ✔ Treasury ✔ Auditing 	<ul style="list-style-type: none"> ✔ Information Technology ✔ Construction ✔ Financial services ✔ Trading 	<ul style="list-style-type: none"> ✔ Strategic Thinker ✔ Visionary ✔ Analytical ✔ Idea Generator ✔ Able to deal with ambiguity ✔ Networking 	<ul style="list-style-type: none"> ✔ CFO of Millennium IT ESP (Pvt) Ltd ✔ Non-Executive Director of Infoseek (Pvt) Ltd 	Nil

CORPORATE MANAGEMENT TEAM



Dhanushka Fonseka

*Chief Operating Officer / Director
(Non-Board)*



Deva Anthony

*Chief Finance Officer / Senior
General Manager*



Sonali Pethiyagoda

Company Secretary



Ravi Ekanayake

General Manager – Motor Division



Hirantha Pandithasekera

*General Manager – Operations &
Process Reengineering*



Dharshana Senarath

*General Manager – Credit &
Marketing*



Priyantha Athukorala

Deputy General Manager – HR



Lahiru Dayananda

*Assistant General Manager – Sales
& Marketing*



Prasad Indika

Assistant General Manager – IT



Jayanka Kahawevithana

Assistant General Manager – Legal



Roshini Induruwage

*Assistant General Manager –
Deposits & Marketing*



Shehan Cooray

*Assistant General Manager –
Recoveries*



Tharanga Deepal Peiris

*Assistant General Manager -
Microfinance*



Indunil Jayawardena

*Assistant General Manager - Credit
Risk*



Hirantha Bandara Tennakoon

*Assistant General Manager -
Recoveries*



Prasad Wickramasinghe

*Senior Manager - Payments & Cost
Control*



Chandana Nanayakkara

Senior Manager - Finance



Avindra Wijesundara

Senior Manager - Credit Operations



Chaminda Paranayapa

Senior Manager - Insurance



Wasantha Petikiri

Senior Manager - Legal



Dinesh Perera

Regional Manager - Leasing



Pubudu Dayaratne

Regional Manager



Nilusha Perera

Regional Manager



U. M. M. K. Bandara

Regional Manager

CORPORATE MANAGEMENT TEAM



Dinesh Prabhath

Head of Internal Audit



Ramidu Costa

Head of Compliance & Risk Management



Rohitha Rupesinghe

Senior Manager - Recoveries



Anjula Ganegoda

Senior Manager - Recoveries



Indika Galahitiyawa

Senior Manager - Corporate Leasing



Eranda Withana

Senior Manager - Legal & Recoveries

DHANUSHKA FONSEKA

MCIM, MBA (Wales) - UK
CHIEF OPERATING OFFICER/
DIRECTOR (NON-BOARD)

Areas of expertise and contribution:

22 years of experience in the Financial Services sector

Directorships and memberships:

Director of Fair View Hotels
Director of Mercantile Fortunes Insurance Brokers (Pvt) Ltd
Member of Credit Committee

DEVA ANTHONY

FCA, FCMA (UK), CGMA, FCMA (SL), ACIM
CHIEF FINANCE OFFICER / SENIOR GENERAL MANAGER

Areas of expertise and contribution:

18 years of experience in the Financial Services sector
6 years experience in audit and accounting

Directorships and memberships:

Director of Mercantile Fortunes Insurance Brokers (Pvt) Ltd

SONALI PETHIYAGODA

ACIS (UK), ACCS
COMPANY SECRETARY

Areas of expertise and contribution:

29 years of experience in the Financial Services and tourism sector

RAVI EKANAYAKE

Dipl. Engineering (UK)
GENERAL MANAGER - MOTOR DIVISION

Areas of expertise and contribution:

38 years of experience in the automobile industry (in UK and Sri Lanka)

Directorships and memberships:

Director of Mercantile Fortunes (Pvt) Ltd

HIRANTHA PANDITHASEKERA

GENERAL MANAGER - OPERATIONS & PROCESS REENGINEERING

Areas of expertise and contribution:

18 years of experience in the Financial Services sector
2 years experience in the insurance field

DHARSHANA SENARATH

GENERAL MANAGER - CREDIT & MARKETING

Areas of expertise and contribution:

22 years of experience in the Financial Services sector

PRIYANTHA ATHUKORALA

MBA (Wales) - UK
ICF Certified Coach, NPL Business Practitioner
DEPUTY GENERAL MANAGER - HR

Areas of expertise and contribution:

24 years of experience in the Banking and Financial Services sector

LAHIRU DAYANANDA

MBA - Anglia Ruskin University (UK)
ASSISTANT GENERAL MANAGER - SALES & MARKETING

Areas of expertise and contribution:

20 years of experience in the Financial Services sector

PRASAD INDIKA

FBCS, Dip. (NIBM)
ASSISTANT GENERAL MANAGER - IT

Areas of expertise and contribution:

17 years of experience in the Financial Services sector

JAYANKA KAHAWEVITHANA

LLM [KDU], LLB [Hons.],
Attorney-at-law, Notary Public,
Commissioner for Oaths
ASSISTANT GENERAL MANAGER
- LEGAL

Areas of expertise and contribution:

10 years of experience in the
Financial Services sector

ROSHINI INDURUWAGE

MBA - Edith Cowan University
[Australia]
ASSISTANT GENERAL MANAGER -
DEPOSITS & MARKETING

Areas of expertise and contribution:

22 years of experience in the
Banking and Financial Services
sector

SHEHAN COORAY

ASSISTANT GENERAL MANAGER -
RECOVERIES

Areas of expertise and contribution:

22 years of experience in the
Financial Services sector
Over one and half years
experience in inbound sector

THARANGA DEEPAL PEIRIS

Dipl. Micro Finance [IBSL]
ASSISTANT GENERAL MANAGER -
MICROFINANCE

Areas of expertise and contribution:

19 years of experience in the
Financial Services sector

INDUNIL JAYAWARDENA

MBA - Sp [Finance] - Manipal
University India
ASSISTANT GENERAL MANAGER -
CREDIT RISK

Areas of expertise & contributions:

20 years of experience in
Commercial & Development
Banking
6 years experience in Leasing

HIRANTHA BANDARA TENNAKOON

MBA [UK]
ASSISTANT GENERAL MANAGER -
RECOVERIES

Areas of expertise & contributions:

20 years of experience in the
Banking and Financial Services
Sector
3 years of experience in the
Pharmaceutical Industry

PRASAD WICKRAMASINGHE

Diploma in taxation [CA Sri Lanka]
SENIOR MANAGER - PAYMENTS &
COST CONTROL

Areas of expertise and contribution:

32 years of experience in the
Financial Services sector

CHANDANA NANAYAKKARA

ACA, ACMA [SL], CTA, MBus
[Finance], MFE
SENIOR MANAGER - FINANCE

Areas of expertise and contribution:

15 years of experience in the
Financial Services sector
6 years of experience in audit and
assurance sector

AVINDRA WIJESUNDARA

SENIOR MANAGER - CREDIT
OPERATIONS

Areas of expertise and contribution:

22 years of experience in the
Financial Services sector

CHAMINDA PARANAYAPA

SENIOR MANAGER - INSURANCE

Areas of expertise and contribution:

30 years of experience in the
Insurance Field

WASANTHA PETIKIRI

LLB [Hons.], Attorney-at-Law,
Notary Public and Commissioner
for Oaths
SENIOR MANAGER - LEGAL

Areas of expertise and contribution:

16 years of experience in the
Financial Services Sector

DINESH PERERA

MBA -Australian Institute of
Business - Adelaide University
[Australia], Member of MABE [UK]
REGIONAL MANAGER - LEASING

Areas of expertise and contribution:

22 years of experience in the
Financial Services sector

PUBUDU DAYARATNE

REGIONAL MANAGER

Areas of expertise and contribution:

17 years of experience in the
Financial Services sector

NILUSHA PERERA

MBA [UK]
REGIONAL MANAGER

Areas of expertise and contribution:

14 years of experience in the
Financial Services sector

U M M K BANDARA

Fellow member of SLICM, PGD.
in Business Management
[Colombo], BA [Colombo]
REGIONAL MANAGER

Areas of expertise and contribution:

22 years of experience in the
Financial Services sector

DINESH PRABHATH

ACA, ACMA [UK], CGMA, B.Sc.[Acc.
Sp] Sri Jayawardenepura
HEAD OF INTERNAL AUDIT

Areas of expertise and contribution:

8 years of experience in the
Financial Services sector
3 years of experience in audit and
assurance sector

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
8 years experience in the
Accounting and Financial Services
Sector

Directorships and memberships:

Vice Chairperson -Sub Committee
for Compliance of The Finance
Houses Association of Sri Lanka

ROHITHA RUPESINGHE

SENIOR MANAGER - RECOVERIES

Areas of expertise & contributions:

31 years experience in Financial
Services Sector

ANJULA GANEGODA

CMA Passed Finalist
SENIOR MANAGER - RECOVERIES

Areas of expertise & contributions:

18 years experience in Financial
Services Sector

INDIKA GALAHITIYAWA

SENIOR MANAGER - CORPORATE
LEASING

Areas of expertise & contributions

14 Years experience in the
Financial Services sector

ERANDA WITHANA

SENIOR MANAGER - LEGAL &
RECOVERIES

Areas of expertise & contributions:

16 years experience in Financial
Services Sector

CORPORATE GOVERNANCE

Chairman's Statement

At Mercantile Investments and Finance PLC (MI), we believe that good governance is crucial to the soundness and long-term sustainability of our business. Driven by this belief, we continue to work towards building a robust and meaningful corporate governance framework that would spearhead progress across all aspects of our business. Finance companies should ensure a strong governance framework within the organization in order to secure the interests of all its stakeholders.

Strengthening of governance practices of the NBF1 sector by the regulator through controls on oversight, caliber of the Board, management and other best practices, have further stabilized and solidified the LFC sector. Finance companies are now more resilient to external shocks and have a more prudent governance system compared to the past.

How We Govern Our Business

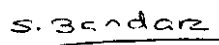
MI's Board comprises professional and qualified individuals who challenge, motivate and guide the business aligned to the Company's vision. Through active participation and guidance, the Board was able to steer the Company towards envisaged results despite the challenges and unexpected business conditions that the Company had to face, in the aftermath of the Easter events.

The Board is collectively responsible to all stakeholders for the sustainable achievement of MI's strategic objectives. In this context, the Board remains committed to maintain the highest standards of corporate governance and most importantly, to embed these standards consistently, at all levels of the business. Board Sub Committees assisted the Board in discharging its duties, with roles and responsibilities for all Sub Committees clearly defined and a Chairperson of each Sub Committee assigned with the duty of providing feedback to the Board. The Board and Sub Committees convened regularly to discuss matters of relevance, including MI's performance, credit quality, asset and liability management, risk management, strategy and compliance. The Board of Directors believes that corporate governance is a critical component of sound strategic business management and therefore plays a vital role in providing the appropriate governance framework, mandates and setting the strategy. The corporate culture at MI is open enough to freely communicate, both within the Board and between the Board and the Corporate Management and staff.

Future Governance

Whilst economic conditions gradually improve and overcome security concerns, political volatility and global health concerns, we will need to effectively govern all corporate functions to face the rapidly changing external factors, such as the economy, technology and regulatory environment. Understanding the need for sound corporate governance practices, we will strive to safeguard the high standard we have formed within the corporate culture, in order to combat the external variables while keeping our focus on strategic objectives. In a rapidly evolving industry, we hope to nurture staff to face complexities, to manage risk and at the same time, reap the potential. We will strive to utilize our resources very effectively in order to maximize returns for our stakeholders.

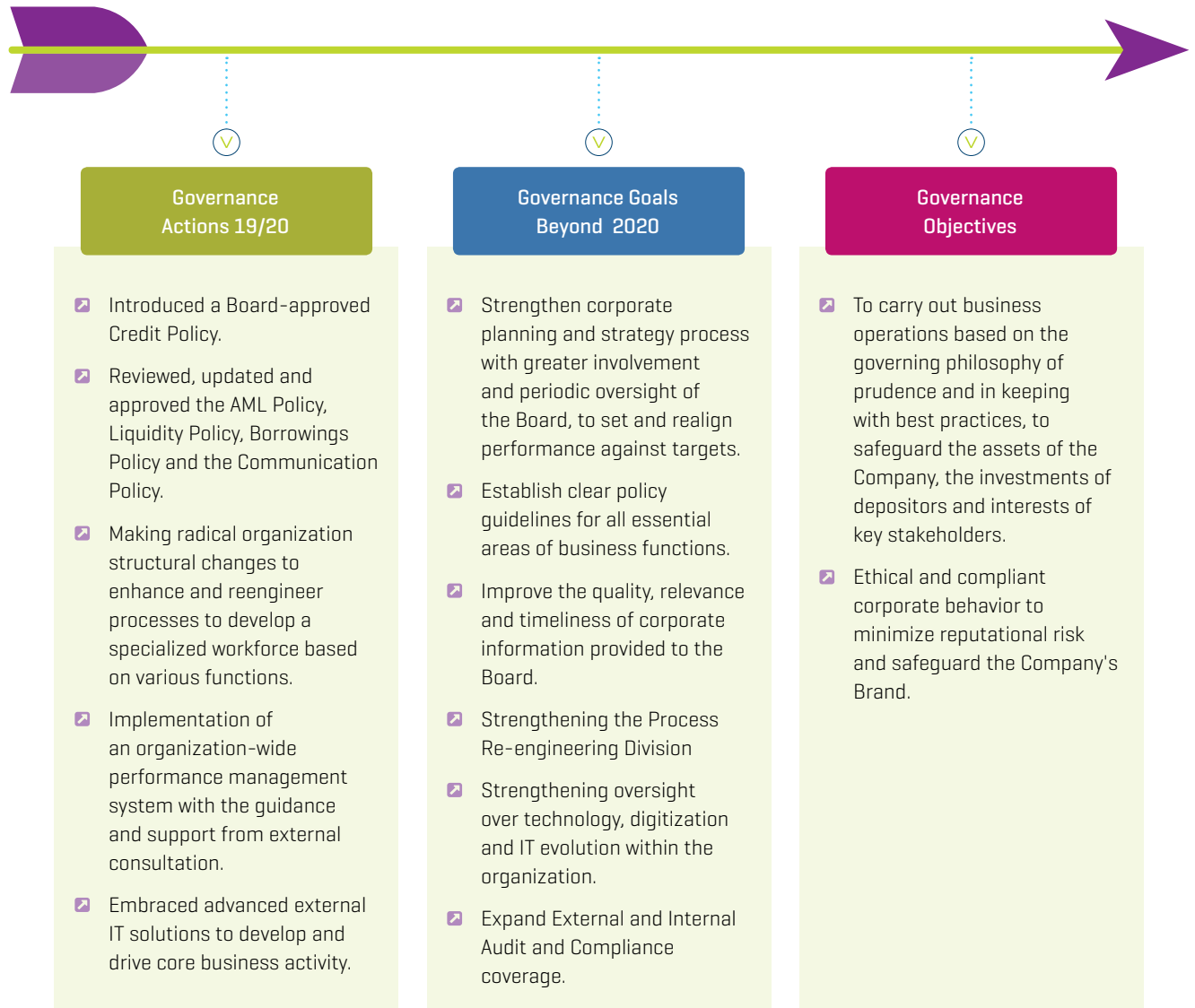
I would like to take this opportunity to thank Mr. S. H. J. Weerasuriya, former Chairman, who relinquished his duties as a Board Member in keeping with regulatory requirements and to thank him for his enormous contribution to the Board and success of the Company. I wish him good luck in his future endeavours. I'm delighted to welcome Mr. P. D. D. Perera, who joined the Board during the current year. He brings significant expertise on the IT industry and financial and accounting experience to the Board, while complementing our existing Board membership. As the Chairman, I re-affirm the commitment of the Board of Directors and all Company personnel in complying with the applicable regulatory and statutory requirements.



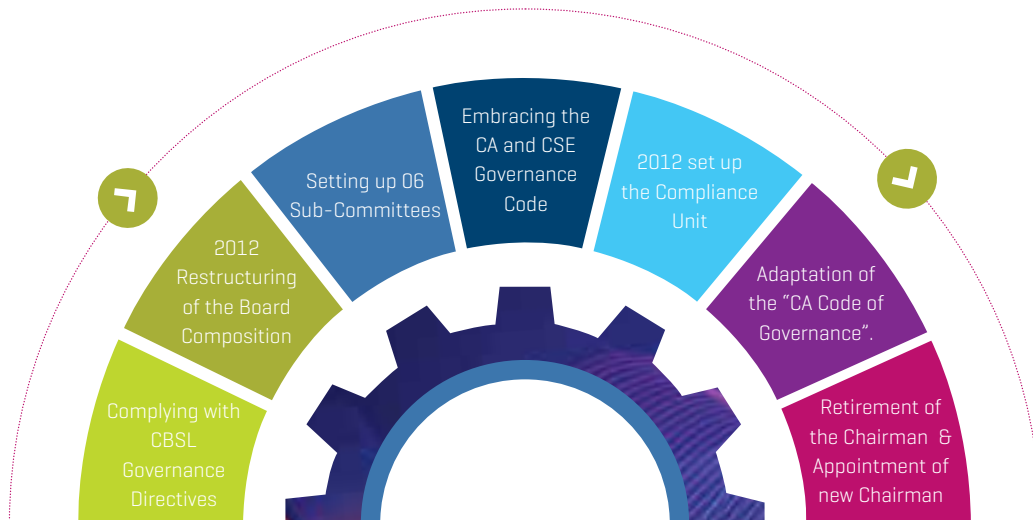
S. M. S. S. Bandara
Chairman

26th June 2020

Our Governance Journey



Corporate Governance in the Past Decade

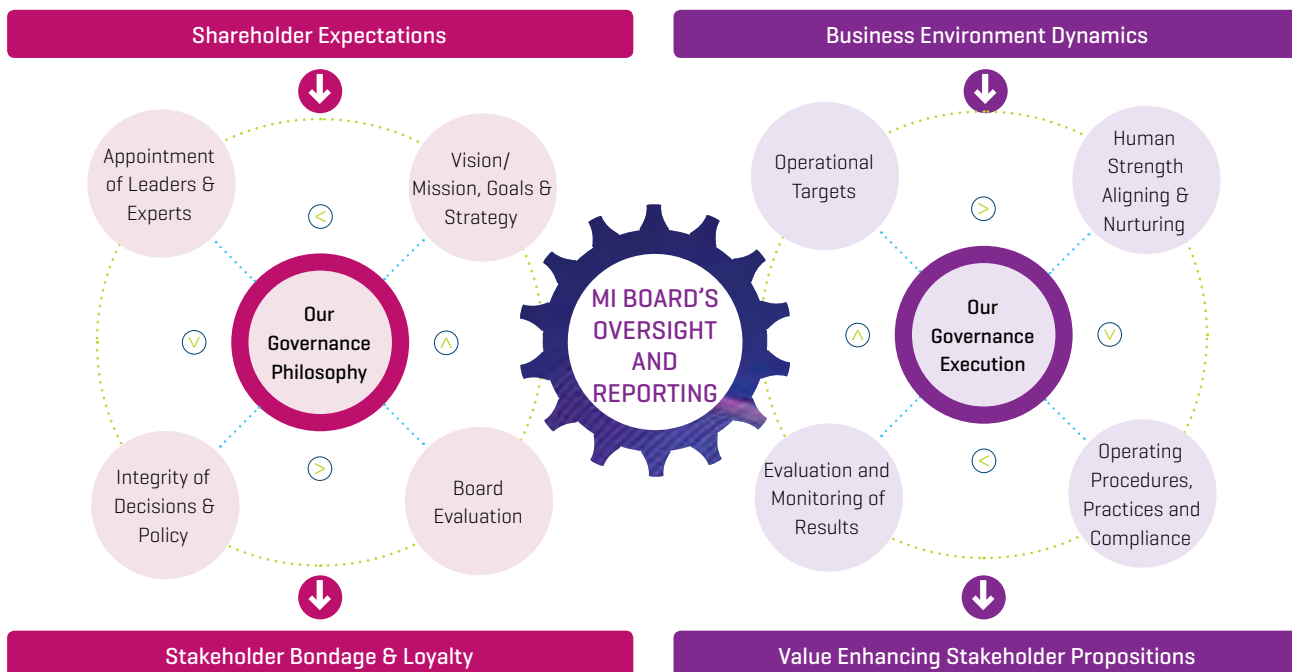


CORPORATE GOVERNANCE

Governance Framework

Our Corporate Governance approach and structure have evolved to the day as a robust, effective framework, and has been established based on recommended best practices and industry standards. The framework was further strengthened in the recent decade to adopt additional requirements of the regulator and best practices recommended for corporates by the Institute of Chartered Accountants of Sri Lanka [CA Sri Lanka]. This structure contains our unique corporate values and culture, and encompasses effective corporate policies and control procedures to direct Company affairs prudently, in keeping to regulatory requirements. As a receptive organization we are ready and willing always to adopt new developments in the economy, sector, technology and regulatory environment, into our framework, so that it will enhance the quality of services provided to stakeholders and external communications.

How our Governance Framework operates



- ✔ **Vision/ Mission, Goals and Strategy:** The Board sets and refines strategies and future targets for the short, medium and long term. [Refer pages 14 and 34]
- ✔ **Appointment of Leaders and Experts:** The Nomination Committee decides on the skill composition of the Board required to achieve the Company's goals and objectives and recommends members for the Board [Refer page 166]. The Board then appoints sub-committees through which the Board exercises its oversight over the Company's affairs. [Refer pages 91 to 93]
- ✔ **Integrity of Decisions and Policy:** The Board meetings and Sub Committee meetings are held regularly, allowing open and transparent dialogue. As a result, a number of policies were developed, or revised, during the year and many effective decisions were made [Refer page 96]. These policies and decisions were directed towards MI's strategic objectives and provided the foundation of our internal control mechanism.
- ✔ **Board Evaluation:** The sufficiency and effectiveness of the Board's decision and policy making in achieving strategic objectives is evaluated by the Remuneration Committee. [Refer page 165]
- ✔ **MI Board's Oversight and Reporting:** The Corporate Management team headed by the Managing Director/CEO set the link between governance philosophy and governance execution. The Board exercises oversight over the governance execution and is being reported to, on the performance of Company operations. [Refer page 87]
- ✔ **Operational Targets:** Vision/ mission, strategic goals and objectives are now cascaded down into operational targets set at the branch, department and staff levels. [Refer pages 34 to 35]
- ✔ **Human Strength Aligning and Nurturing:** Sufficient and effective training is provided to staff and the right corporate culture is in place to facilitate staff to utilize company resources in a sustainable manner towards achieving operational targets. [Refer pages 60 to 61]
- ✔ **Operating Procedures, Practices and Compliance:** Operations are governed effectively by the implementation of clear board approved operating procedures, that direct staff to adhere to internal controls and external regulations. [Refer page 87]
- ✔ **Evaluation and Monitoring of Results:** The performance of Company operations is measured regularly and the Board sub-Committees and the Board will be given constant feedback. This will be taken as input information for future amendments in policies and to update the strategy. [Refer pages 34 to 35]

Governance Structure

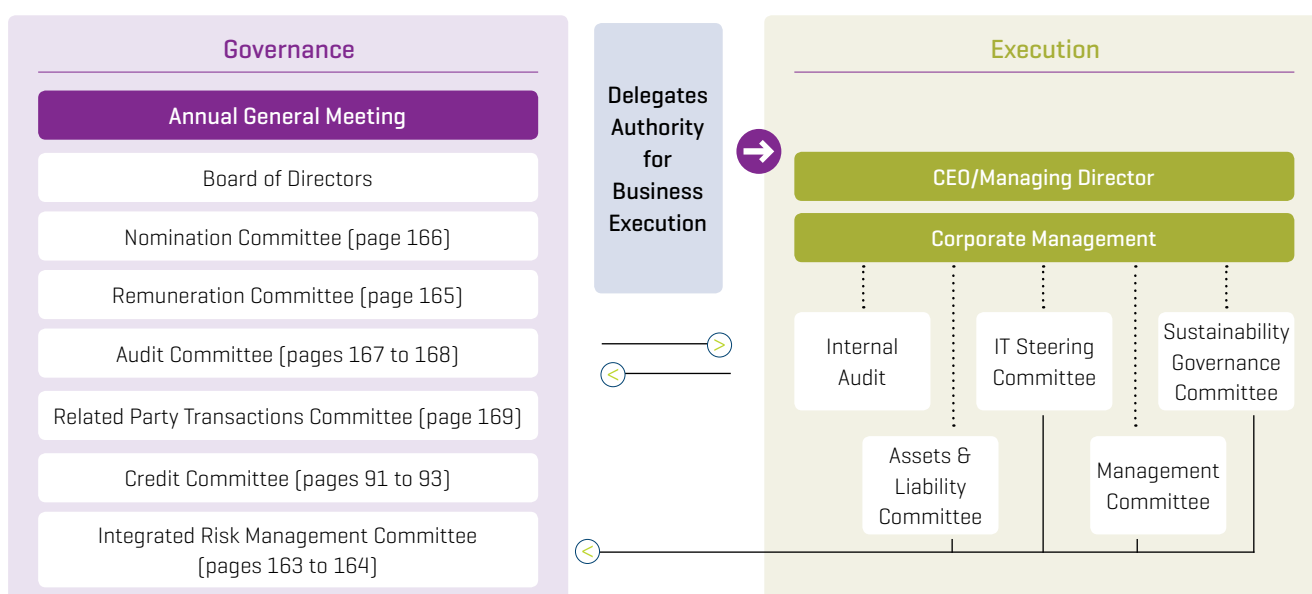
🔍 GRI | 102-18, 102-28, 102-29, 102-33 and 102-34

The most essential relationship among the Board, the sub-committees, management, shareholders and stakeholders, are guided by the governance structure, which provides a clear scope and hierarchy of authority. The Board of Directors holds the highest authority and delegates powers of execution to the Corporate Management Team, and the Board keeps overseeing the decisions made by them.

The Board of Directors is well-informed of the Company's present position, as the management team is required to report periodically to the Board through the IRMC and Audit Committee. Apart from this, information flows frequently from the management team to the Board of Directors on critical matters.

MI's governance structure upholds transparent information communication, authority and reporting.

🔍 GRI | 102-18 and 102-19



A Robust Oversight Function

Internal Audit Function

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

Risk Management Function

The Company's Risk Management unit which comes under the Integrated Risk Management Committee (IRMC) made recommendations for evolving risks and to strengthen contingency planning to increase corporate readiness against unexpected business interruptions. [Refer the Risk Management Report from pages 145 to 162 for a comprehensive overview of MI's Risk Management process.]

The Compliance Function

The regulatory environment applicable for LFC sector rapidly evolved during the recent years in response to the trends in customer protection, anti-money laundering and in order to safeguard stakeholder interests. The Head of Risk and Compliance Management is also the Compliance Officer of the Company who reviewed the level of compliance with various regulatory and statutory directives. The compliance unit through the IRMC provided periodic feedback to the Board on the Company's compliance with key regulations.

CORPORATE GOVERNANCE

The Board's Role in Governance

GRI | 102-21, 102-26, 102-28, 102-29, 102-30, 102-31, 102-32 and 102-33

- The decisions of the Board has business impacts and also economic, social and environmental impacts; hence, the Board vigilantly evaluates information submitted by sub-committees to arrive at decisions. The sub-committees report to the Board based on their investigations and analysis of information provided by different business functions, which also includes customer feedback and information inputs from other stakeholders, such as regulators.
- The Board reviews and approves the strategic plan once in every three years, which includes strategic milestones of the Company. All the policies which have been implemented are approved by the Board and any amendments to policies are also approved by the Board thereafter. MI's strategic plan for the next three years was approved by the Board in 2019 and there were also key policies, which were reviewed and updated in order to reflect the changes in our business environment.
- The Board set a clear policy over management of risks, ensuring robust risk management prevails in every business segment. The Board assessed the risk management process through the Integrated Risk Management Committee [IRMC]. Apart from the quarterly updates, important concerns were brought to the Board's attention whenever necessary.
- By appointing Board sub-committees and an effective audit function, the Board was able to obtain timely feedback and advice on effective decision making.
- The Board self-evaluated its performance on an annual basis by completing an evaluation checklist for each Director. The evaluation process of the Board considered the aspects of economic, social and environmental substance incorporated in decision making.

The Board's Role in Managing Environmental and Social Impacts

GRI | 102-19, 102-20 and 102-31

- The Board ensures sustainable business practices are executed which in turn creates stakeholder interest. The Board is focused on sustainable business and encouraged both the Corporate Management Team and the Sustainability Governance Committee [SGC] to create value in economic, social and environmental aspects. The Board is responsible for the reporting of sustainability goals and actions and sanctioning the sustainability report each financial year.

Chairman's Role

GRI | 102-23

The Chairman heads the Board in guiding the Company to create and deliver sustainable value to our stakeholders. The Chairman is an Independent Non-Executive Director who continues to independently direct the affairs of the Board. [Refer to the Chairman's role, duties and responsibilities stated on page 102 in this report].

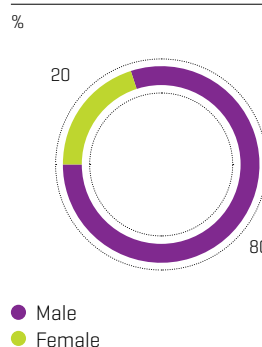
Our Board Dynamics

Diversity, Skills and Composition

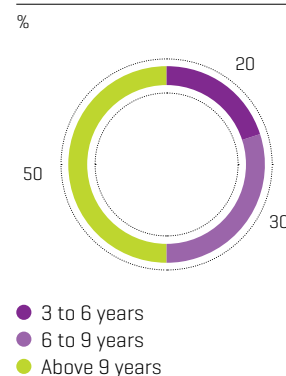
GRI | 102-13, 102-22, 102-32 and 405-1

Our Board comprises 10 Directors possessing the right mix of skills and experience who are collectively responsible for overseeing delivery of the Company's strategy.

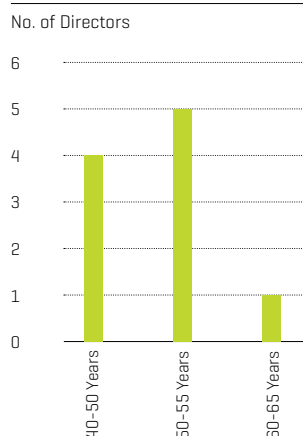
Gender Composition



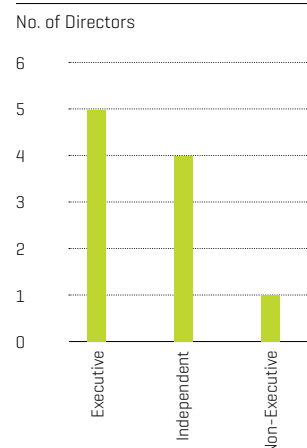
Length of Service



Age Composition



Category



Professional Background and Experience

Accounting & Auditing	3 out of 10
Financial Services	9 out of 10
Business Administration	10 out of 10
Trading	3 out of 10
Tourism	3 out of 10
Recoveries	2 out of 10
Insurance	1 out of 10
Manufacturing	2 out of 10
Legal Affairs	3 out of 10
Human Resource	6 out of 10
Engineering and Project Management	2 out of 10

Memberships in Associations & Councils

GRI | 102-13

- ✔ 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 and 102-31

Scheduling

- ✔ The Board meetings were scheduled monthly to allow key matters to be addressed in a timely manner.

Agenda

- ✔ The Company Secretary prepared the agenda for Board meetings with the guidance and supervision of the Chairman.

Papers Compiled and Distributed

- ✔ Board members were provided with the agenda and other relevant documents at least seven days prior to the Board meeting, allowing sufficient time for preparation.
- ✔ The agenda of the Board meeting, relevant circulars and information packs, including monthly management accounts, key statistics and trends of the Company's performance were distributed among the Board members.
- ✔ The Directors were allowed to include significant matters in the agenda. The Directors were able to obtain external consultancies 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.

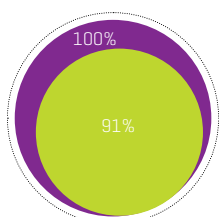
Board Meeting

- ✔ The Managing Director/CEO were 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 were presented to the Board.
- ✔ Board papers submitted by the divisional heads were discussed and approved by the Board.
- ✔ The precise combination of skills enabled the Board to contribute towards a meaningful discussion and appropriate resolutions.

After the Meeting

- ✔ Minutes and matters arising from the meeting are produced and circulated to the Directors for review.

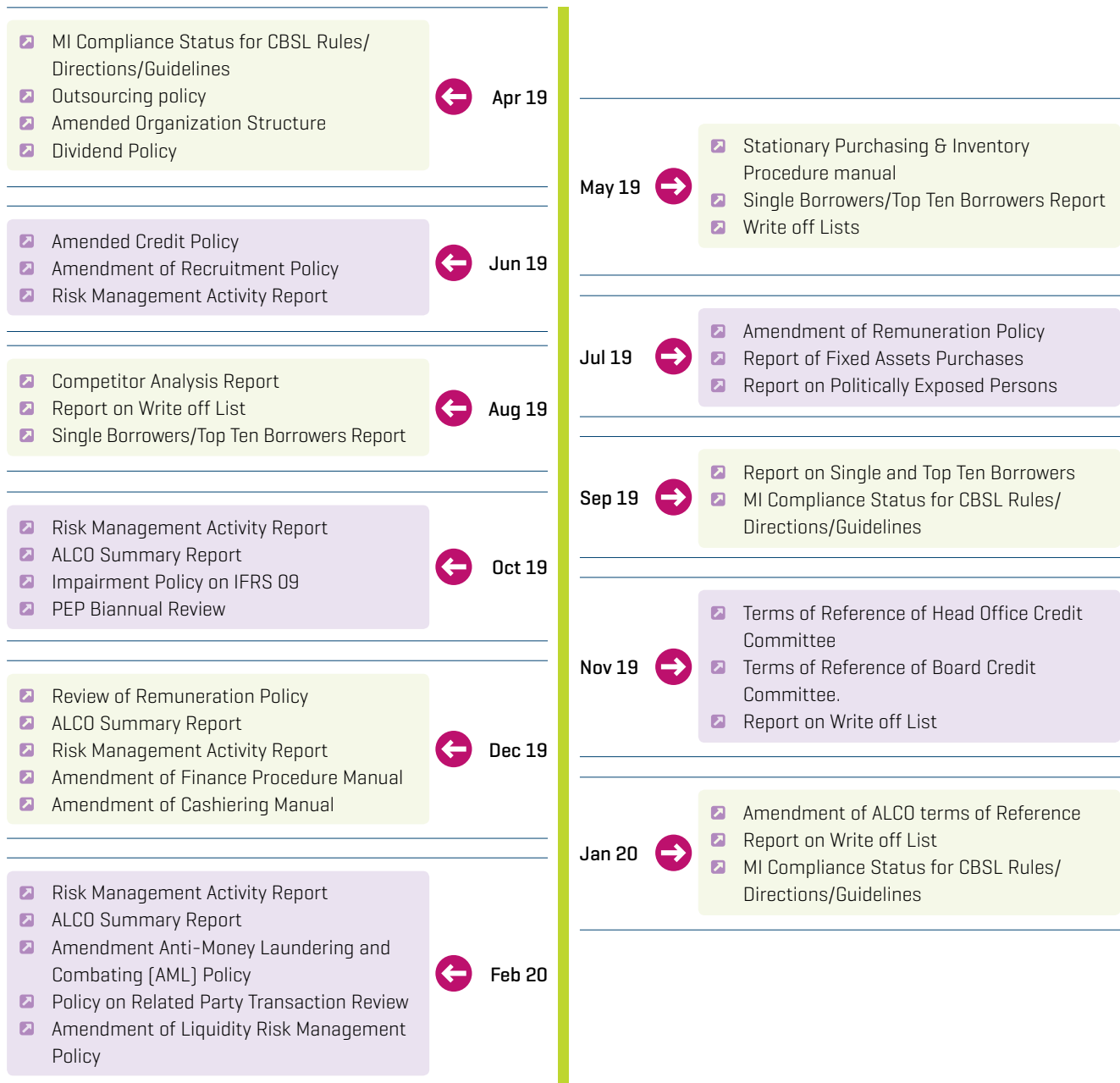
Total Number of Papers Approved in FY 2019/20



- The Number of Board Papers Submitted - 88
- The Number of Board Papers Approved - 80

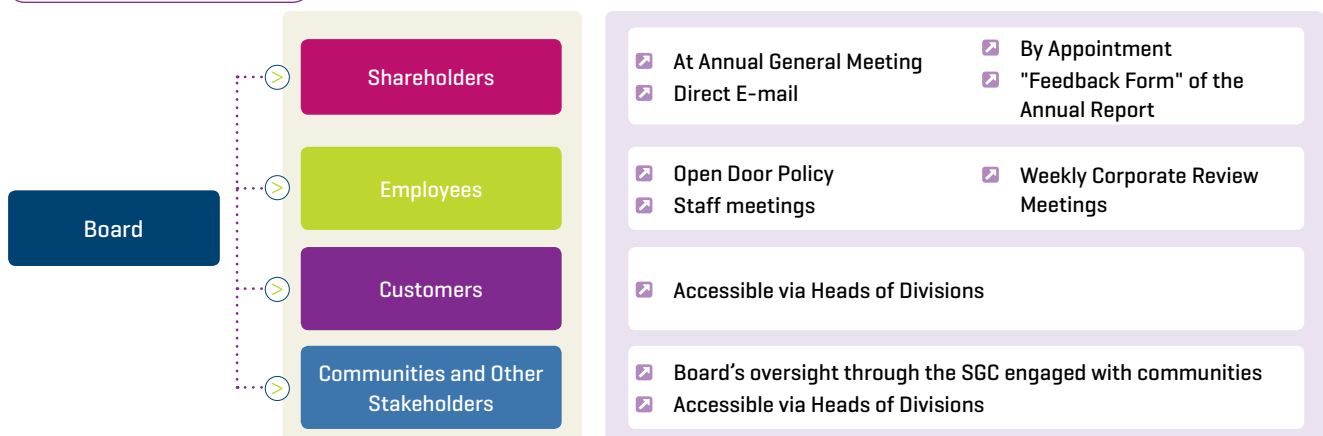
CORPORATE GOVERNANCE

Highlights of the Board's Annual Work Cycle 2019/20



Board's Interaction with Stakeholders

GRI | 102-21 and 102-29



Independent Selection of Board Members

GRI | 102-18, 102-19 and 102-24

The best combination of individuals from diverse backgrounds, actively contribute to the success of the Company by being part of the Board. The knowledge, skills and experiences they shared, have positively impacted the value creation process of the Company. The Board's skills, capabilities and experience were evaluated to assess the Board's capacity in meeting demanding market conditions.

The Nomination Committee recommends new members to the Board based on a thorough evaluation of their profile, professional qualifications and expertise. Information pertaining to the Nomination Committee is given on page 166.







The Chairman of the Board is an Independent Non-Executive Director who performs his duties and responsibilities independently and impartially. During the year under review, the Chairman, Mr. S. H. J. Weerasuriya retired and Mr. S. M. S. S. Bandara was appointed as Chairman and an Independent Non-executive Director. Mr. P. D. D. Perera was also appointed to the Board based on the recommendation of the Board Nomination Committee.

Responsibilities of the Board Sub-Committees

The sub-committee structure defines the terms, responsibilities, reporting and escalation mechanisms. In order to strengthen the Board's oversight over the core business functions, an interactive group of individuals have been appointed to sub-committees. 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 Transaction Review Committee	 Credit Committee
Members and 2019/20 Meeting Attendance					
● S. M. S. S. Bandara 6/6	● S. M. S. S. Bandara [w.e.f. 27th February 2020]	● N. H. V. Perera 4/4	● S. M. S. S. Bandara 1/1 [w.e.f. 27th February 2020]	● S. M. S. S. Bandara 4/4	● G. G. Ondaatjie 5/5
● N. H. V. Perera 6/6	● P. T. K. Navaratne	● G. G. Ondaatjie 4/4	● N. H. V. Perera 1/1	● N. H. V. Perera 4/4	● P. M. Amarasekara 5/5
● P. D. D. Perera [w.e.f. 27th February 2020]	● N.H.V. Perera	● S. H. Jayasuriya 4/4	● G.G. Ondaatjie 1/1	● S. H. Jayasuriya 4/4	● S.H. Jayasuriya 5/5
● S. H. J. Weerasuriya 3/6*	● S. H. J. Weerasuriya*	● P. M. Amarasekara 4/4	● P. T. K. Navaratne 1/1 [w.e.f. 27th February 2020]	● P. D. D. Perera [w.e.f. 27th February 2020]	
			● S. H. J. Weerasuriya *	● S. H. J. Weerasuriya* 2/4	
● S. Pethiyagoda	● S. Pethiyagoda	● M.R.S.K. Costa	● S. Pethiyagoda	● S. Pethiyagoda	● D. Fonseka
* Mr. S.H.J. Weerasuriya retired w.e.f. 26th January 2020 completing his 9 years of Directorship as an Independent Non-Executive.					
● Independent Directors ● Non-Executive Directors ● Executive Directors ● Secretary					

CORPORATE GOVERNANCE

Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Nomination Committee	Related Party Transaction Review Committee	Credit Committee
Key Responsibilities					
Ensure the Company's compliance with accounting standards and regulations imposed by various regulators including the CBSL.	Decide on the remuneration levels of the Executive Directors and the Non-Executive fees.	Oversee the Company's risk management function, identify risk and recommend risk mitigation strategies.	Nominate member to MI's Board with right mix of knowledge, skills and expertise.	Evaluation of significant acquisitions, disposals, investments, credit arrangements and related party transactions.	Oversee the implementation of the Credit Policy.
Ensure the Company's compliance with disclosure requirements of accounting standards and regulations imposed by various regulators including the CBSL.	Formulation and timely update of the remuneration strategy and policies.	Report key risk concerns to the Board.	Prepare evaluation forms for members of the Board and Subcommittees at least annually.	Assist the Board in reviewing material related party transactions and to provide feedback.	Maintenance of sound credit review, disbursement and recovery process 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.	Determine the appropriate risk appetite limits in addition to limits imposed by regulations.	Recommend ways in which the Board could improve its performance.	Adopting Related Party Transaction policies to uphold good governance for the best interest of the company and its stakeholders.	
Overseeing the matters related to external auditors and the nomination of External Auditors.	Monitoring the implementation and effectiveness of such policies.	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.	Identify suitable individuals for future succession.	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.					

Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Nomination Committee	Related Party Transaction Review Committee	Credit Committee
Key Actions during 2019/20					
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.	Human Resource Remuneration Policies were revisited and required changes were made.	Revised the Liquidity Risk Management Policy, and ALCO terms of Reference.	The committee having considered the skills, knowledge, expertise and experience, made the recommendations to the Board to appoint an Independent Non-Executive Director.	Reviewed and monitored related party transactions of MI.	The Committee reviewed the credit risk analysis process to ensure effective management of asset quality.
Followed up on the key matters highlighted by External Auditors during the last year Audit. Also followed up with the matters highlighted by the Internal Auditors. Internal Auditors presented their observations and recommendations on remedial actions to be taken by the Corporate Management.	Implementation of an organization wide performance management system with the guidance and support from external consultation. The Committee reviewed and obtained Board approval for the Board Remuneration Policy drawing due reference to industry best practices during the 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 while initiating the option of work from home.	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.	The Committee reviewed and approved Related Party Transaction Review Policy which comprehensively covers all the aspects of 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.	Recommended measures to the Board to manage the payroll during COVID-19 crisis by curtailing or deferring specific expenditure.	Advised and supported smooth flow of operations by overseeing the risks attached to operations and the workforce during the crisis period of Easter Sunday and COVID-19.	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.	Carried out review over the on going systemization of related party transactions reports through the Compliance Officer.	Approval of credit which requires the sanction of the Credit Committee as per the Board approved limits.
Submission Status of the Board Papers					
Papers Approved 5	Papers Approved 3	Papers Approved 22	Papers Approved 3	Papers Approved 5	Papers Approved 3

CORPORATE GOVERNANCE

Management Committee

				
Executive Committee	Assets & Liability Committee	Sustainability Governance Committee	IT Steering Committee	Head Office Credit Committee
Key Responsibilities				
<ul style="list-style-type: none"> ➤ Review management information on performance. ➤ Identify early warning signals. ➤ Assess gaps between targets and actual performance. ➤ Renew operational concerns to eliminate or manage risk. 	<ul style="list-style-type: none"> ➤ Evaluate and make recommendations to the Board on Asset and Liability concerns focusing on liquidity and Interest Rate Risks. 	<ul style="list-style-type: none"> ➤ Develop internal sustainability goals and measure progress. ➤ Initiate sustainability projects, with social and environmental focus. ➤ Assess prevailing sustainability concerns. 	<ul style="list-style-type: none"> ➤ Ensure information security and safety from cyber threats. ➤ Review the performance of IT systems and identify the gaps to develop/update the systems. ➤ Review the effectiveness of existing IT controls and recommend on new controls to improve system security. 	<ul style="list-style-type: none"> ➤ 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 2019/20				
<ul style="list-style-type: none"> ➤ Monthly meeting were held where financial and business information was reviewed. ➤ Monthly performance review with respective Regional Managers and other Key Officers. ➤ Reviewed on going key operational functional issues . 	<ul style="list-style-type: none"> ➤ Provided information to the Board on material risks related to liquidity levels. ➤ Monitored interest rate trends and advised the Treasury division on the impact on net interest income. ➤ Reviewed liquidity risk and interest rate sensitivity of the Company and made recommendations on maintaining the liquidity levels within risk appetite limits. 	<ul style="list-style-type: none"> ➤ Approved the list of CSR projects that are to be carried out during the 2019/20 financial year. ➤ Initiated and completed various CSR projects. ➤ Identified key sustainability focus areas. 	<ul style="list-style-type: none"> ➤ The committee acted proactively in safeguarding MI's IT systems and information. ➤ The committee regularly reviewed the IT systems and controls and ensured there were no material adverse impacts on business operations or customers caused by failure of systems. 	<ul style="list-style-type: none"> ➤ Streamlined the internal processes to improve a process driven system in credit department. ➤ Improved post disbursement follow up mechanism of the company. ➤ Identified skill gaps in terms of technical skills in credit analysis and initiate trainings.

Governance Beyond 2020

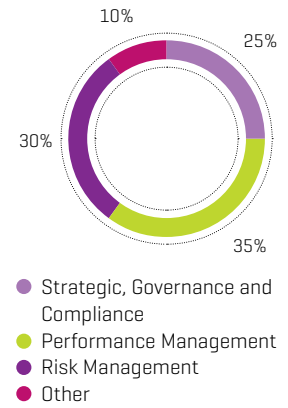
🔍 GRI | 102-26

Over the past, we have significantly transformed our business in the process of sustainable value creation. The next chapter of our strategy is included in the “Strategic Plan 2020-2022,” which describes our future responses to changing customer expectations, technology, competitive environment and regulations. The Strategic Plan approved by the Board during 2019 was a collaborative effort of the staff across the Company, the corporate management team and the Directors and the process of developing the Strategic Plan included thorough analysis of economic, social and environmental impacts. The Strategic Plan was developed aligned to MI's vision, mission and the value system. The key objectives were defined clearly, with sufficient attention given for sustainability goals as well.

Strategic Planning Process



Corporate Management Meeting Focus



Employee Training on Regulations and Enriching Institutional Knowledge

GRI | 102-16, 102-17 and 102-27

Employees at MI are facilitated with effective trainings in many aspects, including technical, regulatory and also ethics and integrity. In-house resource personnel and external experts carried out trainings. Further, the SGC members were well trained on sustainability management who were responsible for reporting the relevant matters to the Board through the IRMC [Refer Human Strength on pages 60 to 61 for more details].

Managing Director's Role

The Managing Director is the CEO of the Company with delegated authority by the Board, for detailed planning and development of the corporate plan. The Managing Director holds the responsibility for sound governance of routine activities of the Company, which include compliance with external regulations and internal policies and procedures, while effectively guiding the Company and the workforce towards strategic objectives.

The Corporate Management Committee's Role in Governance

GRI | 102-19

- The primary focus of the Corporate Management Committee is to enhance the value created for shareholders. From a broader perspective, the Committee works towards meeting and balancing the interests of all stakeholders.
- Effective people management is one of the key focus areas of the Corporate Management Committee. The authority of managing people of the Company is delegated to respective Executive Directors, GMs, DGMs, AGMs and Managers. In fulfilling these responsibilities, the Senior Management conducts performance appraisal of their staff against the key operational targets. Achievement of operational targets will eventually lead to improved financial performance of the Company.
- The Managing Director and other Executive Directors closely monitor the performance of each strategic unit through the Management Committee. The Corporate Management Committee is not limited to mere achievement of operational targets and performance, but also by going beyond the commercial boundaries it ensures that the operational performances are in line with sustainability value creation aspirations of the Company and stakeholders. For this the Corporate Management committee works closely with Sustainability Governance Committee [SGC].

CORPORATE GOVERNANCE

Performance Evaluation, Rewards and Recognition

GRI | 102-28,102-35 and 102-36

- Performance of Executive Board Members and the Managing Director is reviewed independently by the Remuneration Committee on an annual basis. The annual performance review consists of a wide range of Board responsibilities, which includes, economic, environmental and social impacts, apart from the shareholder value creation.
- The Remuneration Committee holds the authority to decide on the remuneration levels of the Executive Directors, based on the expertise, commitment and contribution made in performing on the Board's role.

Performance evaluation is formalized and accordingly staff performance is appraised against pre-determined performance targets, aligned to the three-year Strategic Plan. Thus, all staff, including the corporate management, eventually works towards reaching strategic goals. As a result of the performance appraisal process, employees are rewarded with revised remuneration packages annually and bonuses are decided bi-annually.

Compliance

For MI, compliance and business integrity plays a vital role in building public trust. Therefore, the Board established a strong Governance Framework for MI and thus a high level of governance is executed at all levels, ensuring conformity with external rules and regulations and internal policies and procedures. No material breaches were identified during the FY 2019/20 that requires separate disclosure.

Key Internal Policies and Controls	Policy Reviewed/ Newly Issued During FY 2019/20
Outsourcing policy	✓
Stationery Purchasing & Inventory Procedure manual	✓
Credit Policy	✓
Remuneration Policy	✓
Impairment Policy on IFRS 09	✓
Payment Procedure Manual	✓
Finance Procedure Manual	✓
Cashiering Procedure Manual	✓
ALCO Terms of Reference	✓
Policy on Related Party Transaction Review	✓
Anti-Money Laundering and Combating (AML) Policy	✓
Liquidity Risk management Policy	✓
Terms of Reference Head Office Credit Committee	✓
Terms of Reference Board Credit Committee	✓

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 the Institute of Chartered Accountants of Sri Lanka [CA Sri Lanka]	✓
Finance Companies (Corporate Governance) Directions issued by CBSL	✓
Listing Rules of the Colombo Stock Exchange (CSE)	✓
Companies Act No. 07 of 2007	✓
Sri Lanka Deposit Insurance Scheme Regulations and Circulars	✓
Financial Transaction Reporting Act No. 06 of 2006 (FIU)	✓
Know Your Customer (KYC) and Customer Due Diligence (CDD) Rules	✓
GRI Guidelines on Sustainability	✓

Compliance with Best Practices/Regulations on Corporate Governance

In order to reflect the extent of MI's compliance with regulations and best practices on corporate governance, three separate statements have been provided.

Part one provides disclosures 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 disclosures on the Company's level of compliance with the directions 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 disclosures 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 WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017, ISSUED BY CA SRI LANKA

GRI | 102-18 and 102-22

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption [2019/20 Update]																								
Section 1 The Company: A. Directors A.1. The Board	Principle A.1	Adopted	<p>MI is governed by an effective Board of Directors who involve themselves in directing, leading and controlling operations of the Company in a prudent manner. The Board of Directors provide the necessary leadership in moving towards its visionary thinking, setting the strategic direction for the Company, upholding a successful business model that couples effective strategic management with good governance and sound controls. The profile of the Board members with their qualification, competencies and experience is provided on pages 76 to 79.</p> <p>MI Board is headed by an Independent Non-Executive Chairman who is well supported by the Managing Director, Executive Directors and Non-Executive Directors, reflecting a sound balance of independence.</p>																								
Board meetings	Code A. 1.1	Adopted	<p>Eleven Board meetings were held during the financial year 2019/20. A Board meeting was not held in for the month of March 2020 due to the COVID-19 pandemic. The agreed practice is to hold regular Board meetings at monthly intervals. Company Secretary duly informs all Directors to attend meetings through a formal notice of meeting with agenda, which is sent out well in advance, providing adequate time for analysis, evaluation and preparation. There were no special Board meetings held during the FY 2019/20.</p> <p>Attendance at Board Meetings</p> <table border="1"> <caption>Attendance at Board Meetings</caption> <thead> <tr> <th>Board Member</th> <th>No. of Meetings</th> </tr> </thead> <tbody> <tr><td>Mr. S.H.J. Weerasuriya</td><td>8</td></tr> <tr><td>Mr. G.G. Ondaatje</td><td>10</td></tr> <tr><td>Mr. S.H. Jayasuriya</td><td>11</td></tr> <tr><td>Mr. P.M. Amarasekera</td><td>10</td></tr> <tr><td>Ms. A.M. Ondaatje</td><td>11</td></tr> <tr><td>Mr. T.J. Ondaatje</td><td>11</td></tr> <tr><td>Ms. P.T.K. Navaratne</td><td>9</td></tr> <tr><td>Mr. N.H.V. Perera</td><td>11</td></tr> <tr><td>Mr. S.M.S.S. Bandara</td><td>11</td></tr> <tr><td>Mr. P.C. Guhashanka</td><td>8</td></tr> <tr><td>MR. P.D.D. Perera</td><td>1</td></tr> </tbody> </table>	Board Member	No. of Meetings	Mr. S.H.J. Weerasuriya	8	Mr. G.G. Ondaatje	10	Mr. S.H. Jayasuriya	11	Mr. P.M. Amarasekera	10	Ms. A.M. Ondaatje	11	Mr. T.J. Ondaatje	11	Ms. P.T.K. Navaratne	9	Mr. N.H.V. Perera	11	Mr. S.M.S.S. Bandara	11	Mr. P.C. Guhashanka	8	MR. P.D.D. Perera	1
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Board responsibilities	Code A. 1.2	Adopted	<p>The Board takes responsibility for setting the overall strategy and risk appetite in governing affairs of the Company and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set. This ensures the efficient application of MI resources for the achievement of corporate objectives. The Board discharges these responsibilities through continuous meetings that cover regular reviews of financial performance, non-financial performance, critical business issues and the annual strategy review process.</p>																								

CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
<p>✔ Formulation and implementation of a sound business strategy</p>			<p>The Board approved medium term "Strategic Plan" developed in 2019 covering financial periods 2019/20 to 2021/22 was the guiding instrument in governing business activity this period as well. By devising the strategic plan, the Board puts into perspective MI's corporate vision and mission, setting overall business objectives, business strategies, policies and processes for divisions and employees, to move forward in the medium term.</p> <p>The Board ensured that the corporate objectives and goals, corporate values and strategies have been communicated to the corporate management and all key officers to implement the strategies. The Board reviewed the progress of the business strategy implementation and the compliance status, against annual targets at regular intervals.</p> <p>MI's actual financial performance highlights against targets for the financial year 2019/20 are provided in the Financial Highlights pages 16 and 17.</p>
<p>✔ Appointing the Chair and the Senior Independent Director if relevant</p>			<p>N/A</p>
<p>✔ The CEO and Management team possess the skills, experience and knowledge to implement the strategy</p>			<p>Implementation of the corporate strategy comes under the responsibility of the Managing Director and corporate management team who have the necessary skills, experience and knowledge to execute the plans to the expectations of the Board. Brief biographical particulars of each member of the corporate management team are provided on pages 80 to 83.</p>
<p>✔ Adoption of an effective CEO and Senior Management succession plan</p>			<p>At MI, succession to Key Managerial Positions [KMP] primarily focuses on developing and grooming people internally so as to have adequate options within the Company for replacement of KMPs in future. The Board approved succession plan as well as the organization structure of the Company facilitated this process. (Refer Organizational Structure in Corporate Governance section, MI website)</p> <div data-bbox="724 1397 858 1532" style="text-align: center;">  </div> <p>http://mi.com.lk/images/qr/corporate-governance.pdf</p>
<p>✔ Approving budgets and major capital expenditure</p>			<p>Key strategic financial decisions in relation to funding, pricing, liquidity and decisions on capital expenditure and reviewing annual budgets are overseen by the Board. With the finalization of the three-year plan 2019/20 to 2020/22, the budget, including capital expenditure, was approved by the Board for FY 2019/20.</p>
<p>✔ Determining the matters expressly reserved to the Board and those delegated to the Management including limits of authority and financial delegation</p>			<p>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 roles in the organization, are specified in their job descriptions.</p> <p>The Board has delegated its authority to the Corporate Management for each specific function, handed down to either the Executive Directors or Head of Division. The powers vested are governed by the corporate policy, procedures and other instructions issued by the Board from time to time.</p>

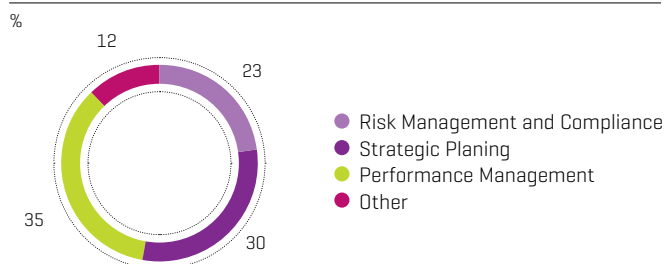
Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
<p>Effective systems to secure integrity of information, risk management and internal controls</p>			<p>Managing risks associated with a finance company business is a prime responsibility of the MI Board. For this purpose, the Integrated Risk Management Committee and an Audit Committee were established to have close oversight over key functions associated with risks and to obtain feedback on the effectiveness of risk management practices and internal control mechanisms regularly.</p> <p>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 ultimately aims to safeguard stakeholder interests and this importantly involves safeguarding shareholders' investments and the Company's assets and to ensure the reliability and integrity of the information handled and its privacy.</p> <p>The following reports provide a comprehensive overview in this regard;</p> <ul style="list-style-type: none"> ☑ Risk Management Report on pages 145 to 162 ☑ Board IRMC report on pages 163 to 164 ☑ Board Audit Committee Report pages 167 to 168 ☑ Directors' Statement on Internal Control pages 184 to 185 ☑ Auditor's Assurance Report on Adequacy of Internal control on Financial Reporting page 186 ☑ Integrity of management information and its privacy on page 119.
<p>Compliance with laws, regulations and ethical standards</p>			<p>To monitor MI's compliance with laws and regulations, the Board has established a sound compliance system through a dedicated Compliance Officer. Head of Risk Management and Compliance submits a monthly compliance update to the Board, highlighting any compliance issues. At the same time, the Board has hand-picked knowledgeable officers to head core divisions, individuals who are conversant with applicable regulations.</p>
<p>All stakeholder interests are considered in Corporate decisions</p>			<p>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 back, to ensure our corporate responsibilities to shareholders and other stakeholders are timely and appropriately discharged. 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.</p> <p>Refer: Stakeholder Engagement and Impact (pages 42 to 43) and Alliances (pages 55 to 59).</p>
<p>Sustainable business development in Corporate Strategy, decisions and activities and adopting 'Integrated Reporting'</p>			<p>In keeping to MI's fundamentals and business model, the business strategy followed is directed at creating long term sustainable growth and enhancing stakeholder value, as a constant exercise.</p> <p>Our integrated thinking and business model is articulated on pages 32 to 33 and goes on to highlight the sustainable value generated through the Company's business process. We adhere to IIRC's integrated reporting framework to provide effective disclosure on our value creation journey.</p>

CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption [2019/20 Update]
<p>☑ Ensuring the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations</p>			<p>MI's accounting policies are reviewed annually by the Board and Audit Committee to ensure inclusion of the changing business requirements, developing international and local accounting standards and industry best practices. MI placed significant emphasis on compliance with Finance Business Act, Anti-Money Laundering regulations, Listing Rules, and all other relevant regulations applicable to the LFC sector.</p> <p>This year we embraced the new accounting standards SLFRS 16 Leases when accounting for operating leases (Refer Financial Statement Note 2.3.1.1)</p> <p>Refer "Independent Auditors" Report on pages 187 to 190 , 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 184 to 185.</p>
<p>☑ Establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks</p>			<p>Managing Director/Executive Directors had regular meetings with the corporate management team and other key officers to monitor progress for the attainment of corporate objectives. As a routine practice, they instructed and guided corporate management to identify gaps and specified means of bridging them. Toward this endeavour, Executive Directors and other department/ functional heads reviewed financial budgets, departmental/functional plans, changes in risk aspects to ensure up to date evaluation of the progress while establishing clear communication lines among employees. (Refer MDA Financial Wealth pages 46 to 54)</p>
<p>☑ Process of Corporate reporting on annual and quarterly basis or more regularly</p>			<p>Company prepares financial reports on monthly basis and circulates to the Board to review the financial status of the Company and make timely decisions. In parallel, the Company published interim accounts on a bi-annual basis in timely manner in three languages, complying with State Language Policy and circulated its annual report to the investors and updated financial statements to the CSE website in keeping with regulations.</p>
<p>☑ Fulfilling other Board functions are vital given the scale, nature and complexity of the organisation</p>			<p>In a year filled with challenges mainly due to the Easter Sunday events and COVID-19 pandemic in the latter part of the year, the Board was committed throughout the year on fulfilling its stewardship obligations towards all stakeholders by accomplishing their role in line with good governance practices and laws and regulations implemented and directing the Company towards desired performance in a prudent way.</p> <p>All Key policy documents were updated and necessary Board sanction obtained.(Refer page 96)</p>

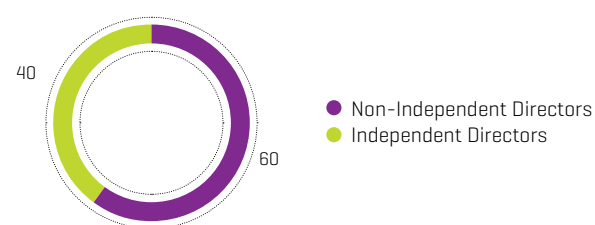
Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
Compliance with laws and access to independent professional advice	Code A. 1.3	Adopted	<p>The Board affirms collectively and also the Directors individually their duty to abide by the laws of this land for the running of the company. An affirmation to applicable laws and regulations is given in page 179 by the Directors.</p> <p>The Board approved the revised formal policy for Directors to obtain independent professional advice in FY 2019/20, in keeping with requirements of this section. Accordingly, Directors have full access to all relevant information and can take independent professional advice if necessary, at the Company's expense to enhance the quality of decision-making.</p>
Company Secretary	Code A. 1.4	Adopted	<p>All Directors have access to the Board Secretary, Mrs. Pethiyagoda, who is a qualified Chartered Secretary with over 20 years' experience in the related field. Her services were available to all Directors, particularly the Non-Executive Directors, who needed additional support to ensure they receive timely and accurate information. The Company secretary is mainly responsible for advising the Board on corporate governance issues, Board procedures, and compliance with applicable laws and regulations. Currently, the role prescribed under schedule G of the code for Company Secretaries is undertaken by Mrs. Pethiyagoda, in executing her routine functions.</p> <p>Refer page 101 for the profile of the Company Secretary.</p>
Independent judgment	Code A. 1.5	Adopted	<p>By having regular meetings of the Board, equal opportunity is available for Directors to express their views independently and bring independent judgment based on the expertise and knowledge. Majority of the Directors have been appointed to various Board Sub-Committees, enabling them to exercise effective control over strategic, performance management, resource allocation, risk management, compliance, and business conduct and governance issues.</p>
Dedication of adequate time and effort by the Board	Code A. 1.6	Adopted	<p>The Chairman and the Managing Director act impartially on proposals of all Directors, encouraging them to profess their own views on matters brought up at meetings. All Non-Executive Directors have attended majority of the meetings and have devoted their time adequately despite their undertaking in other institutions. Through prior circulation of pertinent information, the Directors were able to be prepared for meetings.</p> <p>Information pertaining to Directors' participation levels at Board meetings and Board Sub-Committee meetings are given on pages 91 to 93.</p>

Board Meeting Discussion Composition



CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
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 2019/20.
Training needs of Directors	Code A. 1.8	Adopted	A personalized approach to training and development of Directors was applied throughout this period. All Directors regularly updated themselves on evolving Non-Bank Finance Sector operations, sustainability management and regulatory aspects. Non-Executive Directors serving on key Committees updated themselves continuously on matters particularly related to the Committee.
A.2 Chairman and Chief Executive Officer	Principle A.2	Adopted	The position and role of the Chairman and Managing Director have been kept separated in line with corporate governance best practices. There is a clear division of responsibilities at the helm of the hierarchy, between running of the Board and executive responsibility for running MI's business.
Division of responsibility between the Chairperson and MD/CEO	Code A. 2.1	Adopted	The Managing Director (MD) is in charge of the company's chief executive role, managing day-to-day running of the Company. Based on the delegated authority given to him by the Board, Mr. Gerard Ondaatjie the MD, provides leadership to the corporate management on routine affairs of the Company. As part of his role, the MD appraises the Board on status of Company performance, proposes strategies and advises the Board on operational aspects on an ongoing basis and tables proposals recommendations, information for which Board approval is necessary.
A.3 Chairman's Role GRI 102-23	Principle A.3	Adopted	Mr. S.M.S.S Bandara who took over as the Chairman of the Board from February 2020, 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. He is also the Audit Committee Chairman, who is a Chartered Accountant and a Partner of B. R. De Silva, Chartered Accountants.
Chairperson's role in conducting Board proceedings	Code A. 3.1	Adopted	<p>Having a wealth of experience behind him and having being in the MI Board for 8 years, the Chairman was able to properly maintain high level of independency and impartiality in Board matters. He obtained advice from across the Board, given the well-blended knowledge and collective experience of MI Directors.</p> <p>Mr. Bandara was able to:</p> <ul style="list-style-type: none"> ✔ 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 ✔ Ensured adequate information was provided to the Directors ✔ Obtained advice from across the Board and ensured critical issues were addressed in a timely manner ✔ Prepared and circulated a formal agenda for the Board under his supervision ✔ Conducted the AGM within the specified regulatory time frame and ensured active communication with the Shareholders ✔ Ensured Director responsibilities and Board Sub- committee terms and reference were clearly set forth.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
A.4 Financial Acumen Availability of sufficient financial acumen and knowledge within the Board	Principle A.4	Adopted	The Board is equipped with qualified Directors in the field of Finance and accountancy and possesses the necessary financial wisdom to guide Board and Management towards corporate objectives. MI is fortunate to have a highly qualified Finance Director to advise the Board on matters of finance. Each Director at MI brings a particular range of diversified skills and expertise to the boardroom table, which ranges from accounting and auditing, financial services and insurance, business administration, engineering, recoveries, legal and human resources. Refer Directors profiles on pages 76 to 79.
A.5 Board Balance	Principle A.5	Adopted	As per Finance Companies Corporate Governance Direction No.03 of 2008 issued by CBSL, MI Board maintains the requirement, keeping proper checks and balance between Executive and Non-Executive Directors, so that no individual or small group of individuals can dominate the Board's decision-taking.
Presence of Non-Executive Directors	Code A. 5.1	Adopted	During the year under review, the ratio of 50% between Executive and Non-Executive Directors maintained throughout the period adheres to minimum requirement prescribed by the code and Board Chairman is also an independent Non-Executive Director.
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 %  40 60 ● Non-Independent Directors ● Independent Directors
Criteria for evaluating the independence of Non-Executive Directors	Code A. 5.3	Adopted	All four Independent Non-Executive Directors remained distant from management and free from any other business relationships that could impair independence in decision making. The Independent Non-Executive Directors complied with independency criteria stipulated by the SEC, CSE and CA Sri Lanka guidelines during financial year 2019/20.
Signed Independence declaration by the Non-Executive Directors	Code A. 5.4	Adopted	During the FY 2019/20, each Non-Executive Director of the Company has made written submissions as to their independence as per schedule K of the code.

CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
Determination of independence of Non-Executive Directors	Code A. 5.5	Adopted	Based on the written submissions made by the following Non-Executive Directors and taking into account the criteria specified in section 4.4 of the Corporate Governance Direction issued by CBSL, the Board deems the said Directors "Independent" as at 31st March 2020. 1. Mr. S. M. S. S. Bandara 2. Ms. P. T. K. Navaratne 3. Mr. P. C. Guhashanka 4. Mr. P. D. D. Perera
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 2019/20.
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	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 of the MI Board. As a practice, agenda together with high quality information was circulated seven days prior to the Board meeting to discharge the Board obligations effectively.
Information to the Board by Management	Code A. 6.1	Adopted	The 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. The Board receives regular reports and presentations on strategies and developments in relation to its business lines and geographical areas and overall plans and performance from senior management. Regular reports also provide the Board and Board Subcommittees information on risk appetite profile, emerging risks and analytics, credit exposures, asset and liability management including liquidity, compliance and other vital matters. This enabled the Board Directors to review situations and risks with enough time and prepare for discussions, and make inquiries for additional information from the Management when necessary.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
A.7. Appointments to the Board 	Principle – A.7	Adopted	MI has established a Nomination Committee since 2013 to streamline new Director appointments and re-election process of Directors. The Chairman of the Committee is Mr. S. M. S. S. Bandara who is also the Independent Non-Executive Chairman of the Company.
Nomination Committee	Code A. 7.1	Adopted	<p>All new appointments to the Board are considered and recommended by the Nominations Committee. Based on such recommendations, final decisions on appointment/ re-election are made by the Board in an objective and transparent manner. This financial year one new appointment was made to the board under the recommendation of the Committee.</p> <p>Refer Board Committee Overview on pages 91 to 93 for the Nomination Committee's composition, attendance at Committee meetings and the formal process that the Committee will adopt for future appointments. The Nomination Committee Report for the financial period 2019/20 is given on page 166.</p>
Assessment of Board Composition by the Nomination Committee	Code A. 7.2	Adopted	The Nominations Committee carried out an annual assessment of MI Board's composition to assess the level of skills, experience, qualifications, and knowledge of the Board members' to address the growing strategic needs of the Company. The complexities associated with the LFC sector in terms of business dynamics, regulatory changes and other relevant factors that took place during the financial period, were also reviewed by the committee.
Disclosure of new Director appointments to Shareholders	Code A. 7.3	Adopted	All new Board appointments as it happens are communicated to shareholders via the Colombo Stock Exchange and also informed to the regulator. There was one new Board appointments for the year 2019/20 communicated to CSE on 28th February 2020.
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	<p>As explained in Principle A.8 above, following Executive Directors retire by rotation in the financial year 2019/20 and are eligible for reappointment:</p> <ol style="list-style-type: none"> 1. Mr. P. M. Amarasekara 2. Ms. A. M. Ondaatjie 3. Mr. T. J. Ondaatjie
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 2019/20. However, upon completion of his 9 year tenure, one Independent Non-Executive Director retired during the financial year under review.

CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 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 2019/20, of its performance and its committees. The assessment mainly focused on the Board's contribution towards developing and monitoring strategy, Board's and Committees' mix of knowledge and skills, Board's commitment towards enhancing economic, social and environmental value; ensuring robust and effective risk management, quality of the relationships with the management, employees and shareholders; and ensuring proper functioning of Board Sub-Committees. A summary report of all the assessments 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 2019/20 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 Board meeting for future consideration.
Process to review the participation, contribution and engagement of individual Directors at time of re-election	Code A. 9.3	Adopted	In keeping to the section, the Nomination Committee reviewed the level of re-election, Directors' participation, contribution and engagement prior to the re-election of Directors to the Board, in an objective and transparent manner.
Disclosure of the method of Appraisal of Board and Board Sub Committee performance	Code A. 9.4	Adopted	The Chairman and the Company Secretary gave their fullest corporation and led the process of MI'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. 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 (2019/20 Update)																
Director information	Code A. 10.1	Adopted	The following information pertaining to Directors are provided in the Annual Report: <table border="1" data-bbox="726 421 1444 750"> <thead> <tr> <th>Information</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Brief Profile with Qualification, Experience and Expertise</td> <td>76 to 79</td> </tr> <tr> <td>Composition of the Board Sub-Committees</td> <td>91 to 93</td> </tr> <tr> <td>Directors' Interest in Transactions</td> <td>180 to 181</td> </tr> <tr> <td>Directors' Shareholdings</td> <td>282</td> </tr> <tr> <td>Directors' Remuneration</td> <td>214</td> </tr> <tr> <td>Directors' Attendance at Board Meetings</td> <td>97</td> </tr> <tr> <td>Directors' Attendance at Sub-committee Meetings</td> <td>91 to 93</td> </tr> </tbody> </table>	Information	Pages	Brief Profile with Qualification, Experience and Expertise	76 to 79	Composition of the Board Sub-Committees	91 to 93	Directors' Interest in Transactions	180 to 181	Directors' Shareholdings	282	Directors' Remuneration	214	Directors' Attendance at Board Meetings	97	Directors' Attendance at Sub-committee Meetings	91 to 93
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Directors' Remuneration	214																		
Directors' Attendance at Board Meetings	97																		
Directors' Attendance at Sub-committee Meetings	91 to 93																		
A. 11 Appraisal of the Chief Executive Officer	Principle A. 11	Adopted	Through a formal appraisal process, the Chairman and other Board members reviewed the performance of the Managing Director for FY 2019/20. The Remuneration Committee through a formal evaluation decided his remuneration package, and changes thereof.																
Targets for the Managing Director	Code A. 11.1	Adopted	The Managing Director being the apex chief executive of the Company is entrusted by the Board to conduct day-to-day operations effectively to attain broad strategic targets/goals after giving necessary consideration to market reality and changes in relevant variables. The Board, upon approving the Strategic Plan of the Company in 2019, specified its corporate objectives and annual forecasted targets and expects to attain these aspirations through the MD and corporate management team in FY 2019/20. Performance of the Managing Director is reviewed on an ongoing basis by the Board, evaluating the extent to which these organizational objectives have been achieved overall, from an overall perspective.																
Evaluation of MD's Performance	Code A. 11.2	Adopted	MD's performance assessment by the Board is an ongoing process. The performance of the MD is evaluated by the Board at the end of each financial year by taking into consideration the performance results of the Company, evaluating the actual against the financial and non-financial targets set at the beginning of the financial year.																
B. Directors' Remuneration GRI 102-37	Principle B.1	Adopted	MI has a well-established, formal, rational and transparent procedure in place to decide on remuneration of Executive Directors. No Director is involved in deciding his or her own remuneration package.																
B.1 Remuneration Procedure																			
Remuneration Committee	Code B. 1.1	Adopted	In keeping to specific terms of reference, the Board has established a Remuneration Committee authorized to evaluate, assess, decide and recommend, to the Board, the Executive Directors remuneration. Refer the Remuneration Committee Report, page 165.																
Remuneration Committee composition	Code B. 1.2	Adopted	The Remuneration Committee comprises the following three Non-Executive Directors: <ul style="list-style-type: none"> ☑ Mr. S. M. S. S. Bandara (Chairman) ☑ Ms. P. T. K. Navaratne ☑ Mr. N. H. V. Perera 																
	1.3		The report of the Remuneration Committee is given on page 165.																

CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
Remuneration of Non-Executive Directors	Code B. 1.4	Adopted	The Board as a whole decides the remuneration of the Non-Executive Directors, including the members of the Remuneration and Nomination Committee. The Non-Executive Directors receive a fee for attending meetings of the Board and Board Committees. Fees paid to the Non-Executive Directors are neither performance related nor pensionable.
Remuneration Committee's access to Managing Director and professional advice	Code B. 1.5	Adopted	Based on the Remuneration Committee's composition, the advice of the Chairman of the company is already available since he chairs the Committee as well. When deciding on remuneration of other Executive Directors, the Committee also obtains advice from the Managing Director as necessary. The Remuneration Committee was not required to seek external professional advice to expedite its duties for FY 2019/20.
B.2 The level and make up of remuneration structure	Principle B.2	Adopted	The Board together with the Remuneration Committee aims to attract retain and motivate high calibre individuals for top executive positions. As trust and relationships are vital in the business of a finance company, MI's broad policy is to identify those who are committed to either devoting their time towards the Board or making a lifelong career with the organization. The remuneration policy of the company has been devised to be commensurate with future retention requirements. In deciding Executive Director remuneration, the evaluation took into account the individuals performance level for a given year based on overall goals achieved by the organization that related to him or her.
Managing Director's Remuneration	Code B. 2.1	Adopted	The Remuneration Committee made its assessment on the sufficiency of remuneration of Executive Directors including the Managing Director to ensure current remuneration levels are competitive and that there is a strategy of retention. They evaluated prevailing market remuneration levels and made policy amendments on remuneration when deemed necessary. To ensure fair policy on remuneration, Executive Directors, and performance of the Managing Director was evaluated annually and suitable remuneration levels were decided by the Committee.
Executive Directors' remuneration should be designed to promote the long-term success of the Company	Code B 2.2	Adopted	Refer B.2.1 above.
Comparison of remuneration with other institutions	Code B. 2.3	Adopted	When positioning remuneration levels relative to other companies in the industry, Remuneration Committee reviews the information related to the Executive Directors' pay level against the industry players on par with MI's status. This mechanism ensures remuneration packages of the Directors are competitive against the industry/market while ensuring alignment with MI's strategic, objectives, performance goals and sustainable growth expectations.
Remuneration comparison with other Group companies	Code B. 2.4	Adopted	MI does not have subsidiary companies or a parent company under its structure to which it could draw reference to. However, pay levels of peer Directors within the Company are considered when deciding on Executive Director remunerations.
Executive Director's performance-related payments	Code B. 2.5	Adopted	Refer principle B.2 and Code – B. 2.1 above.
Executive share options	Code B. 2.6	Not Applicable	There were no executive share option schemes offered to any Director during the 2019/20 period.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
Deciding Executive Director remuneration	Code B. 2.7	Adopted	In deciding remuneration of Executive Directors, the Remuneration Committee referred provisions set out in Schedule E of the Code. [Refer comments given in Principle B.2 for details on Executive Director Remuneration]. There were no long-term incentive schemes or share option schemes proposed for Executive Directors during this period.
Early terminations clauses in service contract of Directors	Code B. 2.8	Adopted	The Remuneration Committee incorporated early termination compensation commitment clauses in service contracts of the Executive Directors from FY 2018/19.
Early terminations of Directors	Code B. 2.9	Not Applicable	There were no early terminations carried out during FY 2019/20.
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 2019/20.
B.3 Disclosure of Remuneration	Principle B.3	Adopted	The MI remuneration policy is fair, competitive and reflects the performance of the business. A statement on MI's Remuneration policy is provided on page 165 and the details related to the basis on which Executive and Non - Executive Directors' remuneration is decided has been given in the same statement. Details of remuneration of the Board as a whole are mentioned in Code B.3.1 below.
Names of members in the Remuneration Committee and remuneration paid to Directors	Code B. 3.1	Adopted	Page 165 provides composition details of the Remuneration Committee meetings held and participation status of members. The remuneration paid to Executive and Non-Executive Directors in aggregate is disclosed in the notes to the financial statements on page 214.
C. Relations with shareholders	Principle C.1	Adopted	By holding the Annual General Meeting, MI Board is able to facilitate effective communication with shareholders. Directors are expected to take a positive approach to views of all shareholders. The Board always encourages all shareholders to participate at the AGM and convey their views and make suggestions, in order to achieve this purpose, the notice of meeting is dispatched to the shareholders within the prescribed time periods. [Refer page 294 for further information with this regard]
C.1 Constructive use of AGM			
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.

CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
Separate resolutions for each separate issue	Code C. 1.2	Adopted	The Company proposes separate resolution for all substantially separate matters to provide shareholders an opportunity to deal with each material issue separately with the option of voting either for or against the resolution or to withhold their vote. A separate resolution is passed for the adoption of the "Report of the Directors" and "Statement of Accounts and the Report of the Auditors" contained in the Annual Report. Clear Proxy Instructions are attached to the Annual Report covering this section.
Level of proxies at AGMs	Code C. 1.3	Adopted	Proxy forms are made available in the Annual Report which allows adequate prior notice to all shareholders in accordance with the Companies Act. The Company has in place an effective mechanism through the Company Secretarial Division to record all proxy votes logged on each resolution and number of votes for or against or withhold for each resolution.
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, and Credit Committee, were present at the AGM held the previous year 2018/19 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 2019/20 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	MI Board has identified the importance of having two-way communication with its stakeholders. Extensive financial and non-financial information of the Company's activities are provided to shareholders and other stakeholders through the Annual Report and the Interim Reports published on a quarterly basis or through various corporate communication methods. Page 42 provides additional disclosure on the shareholder communication process with the Company.
Channel to reach all shareholders of the Company	Code C. 2.1	Adopted	There is concise dialogue with shareholders on matters relating to their shareholdings and on business matters, which are dealt with promptly. As per the Board approved communication policy, financial information such as Annual Reports, Interim reports are made available to shareholders via CSE website or mail. All shareholders are encouraged to attend the Annual General Meeting and extra ordinary meeting of shareholders.
Policy and methodology for communication with shareholders	Code C. 2.2 & C. 2.3	Adopted	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	As per the general practice of the company, main point of contact for the shareholders for their concerns and clarification is the Company Secretary who acts as the intermediary between shareholders and the Board.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
Process to make aware of major issues and concerns of shareholders	Code C. 2.5	Adopted	As per the Communication Policy, all major issues and concerns impacting shareholders are communicated by the Company via meetings with shareholders. All shareholders are encouraged to attend the Annual General Meeting and other meetings of shareholders to discuss MI's progress and concerns. The Company Secretary maintains a record of all enquiries sent by shareholders and directs those enquires to relevant Director or the Board as per the materiality of the issue. In addition, a stakeholder feedback form is given at the end of the Annual Report which can be used as a medium of communication by shareholders.
Person to contact in relation to shareholder matters	Code C. 2.6	Adopted	Apart from the main contact being the Company Secretary, MI's open-door policy extends to our stakeholders and therefore our shareholders are welcome to contact any Executive Director or members of the corporate management to obtain clarifications on any matter.
The process in responding to shareholder matters	Code C. 2.7	Adopted	Refer comment on Principle C.2.5 above
C.3 Major transactions	Principle C.3	Adopted	The MI Board has established a process to capture and disclose any material transactions proposed that would alter or vary the net asset position of Company either through its audited financial statements or in interim publication or by making an announcement to the Colombo Stock Exchange. MI's Board has established a Related Party Transaction Review Committee, to further consolidate this critical area to capture and disclose vital market information through formal channels.
Disclosure of material facts on major transactions	Code C. 3.1	Adopted	MI had not engaged in or committed to any material related party transactions or corporate transactions involving acquisitions, mergers or disposal, which materially affect MI net assets position for the concluded period.
Disclosures requirements and shareholder approval by special resolution as required by SEC and CSE	Code C. 3.2	Adopted	As per comment provided in above C.3 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.
D. Accountability and Audit D.1 Financial reporting and Annual Reporting	Principle D.1	Adopted	MI has published a comprehensive Annual Report which incorporates the audited Financial Statements together with comprehensive disclosures on the performance, business model, risk management, governance, internal controls and future outlook to ensure disclosure of a balanced, complete and understandable assessment of MI's financial position, performance, risk management mechanisms and stewardship and prospects to its stakeholders.
Financial reporting according to relevant laws and regulations	Code D. 1.1	Adopted	MI complied with all financial reporting regulations which include the Sri Lanka Accounting Standards [LKAS] and other regulations specified in the Finance Business Act, Colombo Stock Exchange Listing Rules and the Companies Act No. 07 of 2007. During the FY 2019/20, the interim accounts and annual financial statements were published on a timely basis and regulatory reports were filed by the due dates. Information disclosed to the CSE was also done on a timely basis during this period.
Balanced and understandable assessment of the Company	Code D. 1.2	Adopted	The Annual Report of the Board of Directors on the Affairs of the Company is given on pages 173 to 179 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.

CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
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 accordance with appropriate accounting standards and also the effectiveness of the risk management and internal control mechanism of the Company for the financial year under review is given on page 183.
Directors' Report	Code D. 1.4	Adopted	The Annual Report of the Board of Directors on the Affairs of MI is given on pages 173 to 179 covering all areas of this section.
Directors' and Auditors' Responsibility Statement	Code D. 1.5	Adopted	The Directors' Responsibility for Financial Reporting given on page 182 sets out the responsibilities of the Board for the preparation and presentation of the Financial Statements. The Auditors' Report provided on pages 187 to 190 specifies reporting responsibilities of both the Management and the Auditors. The Statement on Internal Controls issued by the Board provided on pages 184 to 185 complies with schedule L of the code.
Management Discussions and Analysis	Code D. 1.6	Adopted	<p>The 'Management Discussion and Analysis' given on pages 30 to 74 covers all the requirements of this section by providing a comprehensive commentary of the Company's performance according to the International Integrated Reporting framework and GRI guidelines.</p> <p>Framework covered MI's business model, industry risks and opportunities, PESTLE analysis strategy and futuristic predictions.</p>
Calling of an EGM when net assets fall below 50% of shareholders' funds	Code D. 1.7	Adopted	Not applicable as the net assets were well above the 50% shareholders fund threshold at over Rs. 8.8 billion. If such a situation was to arise an EGM will be called for and shareholders will be notified.
Adequacy and accuracy of related third party transaction disclosures	Code D. 1.8	Adopted	<p>MI has a Related Party Transactions (RPT) Policy in place, whereby categories of persons considered "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. Additionally, a Related Party Transactions Policy was developed covering 360 degree view of the related party transactions and approved by the Board in February 2020.</p> <p>[Refer Related Party Transactions Review Committee Report, given on page 169 for the detailed committee information and the Financial Statements, given on pages 252 to 253 for details on related party transactions during the FY 2019/20]</p>
D.2 Risk management and maintaining a sound system of internal controls	Principle D.2	Adopted	The Board has established an effective risk management and internal control system to safeguard the assets of the company in pursuit of its corporate strategic objectives. The systems of internal controls in place have been designed to counter various risks that could either arise from dealing in financial transactions or from other events and changes in environment and business conditions. The next three-year strategic plan accordingly has proposed broad risk control measures for future strategic risks.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
Reviewing effectiveness of risk management and internal control system	Code D. 2.1	Adopted	<p>Internal Auditors have been entrusted to periodically review the adequacy and effectiveness of internal controls of the Company, feedback of which is given to the Board Audit Committee. The Audit Committee comprises Non- Executive Directors who make an independent assessment on adequacy and application of internal controls and provide their own feedback to the Board on matters they deem are material, with remedial measures. The Statement on Internal Controls provided on pages 184 to 185 complies with content of Annexure L of the Code. The Board during 2019/20 was able duly assess of the adequacy and effectiveness of the Company's internal control system through its established governance mechanism and obtained clarifications from corporate management and the Audit Committee, as deemed necessary.</p> <p>Also, the Integrated Risk Management Committee worked independently maintaining strong oversight together with the Audit Committee to assist the Board in reviewing all associated critical risk factors and monitored the effectiveness of risk mitigating mechanisms in place.</p> <p>The Integrated Risk Management Committee Report on pages 163 to 164 provides further information in this regard.</p>
Robust assessment of the principal risks faced by the Company	Code D. 2.2	Adopted	The risk management report given on pages 145 to 162 provides a clear assessment of Company risks and the process of risk identification, measurement and control.
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 133 on audit coverage.
Audit Committee to review process and effectiveness of risk management and internal controls and to report to the Board	Code D. 2.4	Adopted	<p>The Company continued to enhance its risk management framework including use of the risk and controls assessment process that provides business areas and functions with a forward looking view of key risks and an assessment of the effectiveness of controls, and a tracking mechanisms for action plans to proactively manage risks within acceptable levels. Systems and procedures are in place to identify, control and report on the major risks facing MI including credit risk, market risk, liquidity risk and other risks such as reputational risk.</p> <p>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 Board with recommendations.</p>

CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
Statement of Internal Control	Code D. 2.5	Adopted	<p>The Board Statement on Internal Controls given on pages 184 to 185 complies with the contents in Annexure L of the Code.</p> <p>Some of the salient aspects highlighted therein are:</p> <ul style="list-style-type: none"> ☑ External Auditors' review of the contents of the 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	<p>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 were thoroughly reviewed under the guidance of the Audit Committee.</p> <p>Adequate guidance was given on SLFRS-16 leasing transactions reporting.</p>
Audit Committee composition	Code D. 3.1	Adopted	<p>The Audit Committee comprise three Directors, all of whom are Non-Executive. Two Directors of the Committee were Independent Non-Executive Directors. The names of members forming the Audit Committee, their participation level, secretary and invitees of the Committee are disclosed on pages 91 to 93 and 167 to 168.</p>
Terms of reference of the Audit Committee	Code D. 3.2	Adopted	<p>The Board approved terms of reference of the Audit Committee governs 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.</p> <p>Refer Audit Committee Report, pages 167 to 168.</p>
Disclosures of the Audit Committee	Code D. 3.3	Adopted	<p>To obtain information regarding the composition, objectives and duties of the Audit Committee, refer section 8.2 [a] to 8.2 [q] in part 2 of this supplement pages 130 to 135.</p> <p>The names of Directors forming the Audit Committee and their participation level at meetings are disclosed on pages 91 to 93.</p> <p>Report of the Audit Committee is given on pages 167 to 168. In keeping to this section, the Report specifies the determination made by the Committee in relation to External Auditors' independence.</p>
D.4 Related Party Transactions Committee	D.4	Adopted	<p>The Related Party Transactions Review Committee was established in 2015 to review all the material related party transactions of the Company on a quarterly basis. In 2020, the related party transaction policy was developed to further streamline the related party transaction reporting processes.</p>

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
Definitions of Related Party and Related Party Transaction	D.4.1	Adopted	<p>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;</p> <ul style="list-style-type: none"> ☑ Related parties including KMPs (Key Management Personnel) refer pages 119 and 252 to 253. ☑ Directors' interests in contracts refer pages 180 to 181. <p>As per LKASs 24, CBSL and CSE regulations.</p>
Composition of Related Party Transaction Review Committee	D.4.2	Adopted	Refer Related Party Transactions Review Committee Report, given on page 169 for detailed Committee information including the Committee composition.
Terms of reference of Related Party Transactions Review Committee	D.4.3	Adopted	The Related Party Transactions Committee operated under clear terms of reference for 2019/20 and developed a Board approved Related Party Transactions Policy. The new Related Party Transactions Policy was approved by the Board on 27th February 2020 governing all future activities of the Committee covering corporate best practices which include recommendations of the CA Sri Lanka Corporate Governance Code.
D.5 Code of Business Conduct and Ethics	Principle D.5	Adopted	High standards in business conduct and ethics is an integral part of MI's culture. In keeping to MI's practiced value system, an organization wide human resource policy document is in place which defines clear HR policies and procedures to employees. The policy document upholds ethical procedures and expects employees to adhere to good conduct requirements.
Compliance with requirements on business conduct and ethics 	Code D. 5.1	Adopted	<p>The Company has in place a comprehensive HR Policy on Business Conduct and Ethics applicable to all Directors and employees. It outlines rules on conduct and values for staff to adhere to and has already been circulated to all Directors and employees.</p> <p>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," for 2019/20 in the Annual Report of the Board of Directors (Director's Report) on pages 173 to 179.</p> <p>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.</p>
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 111.
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	Refer the "Chairman's Statement on Corporate Governance" on page 84.

CORPORATE GOVERNANCE

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
D.6 Corporate Governance Disclosure	Principle D.6	Adopted	MI Board of Directors uphold 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 2019/20 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 the Colombo Stock Exchange, Diri Savi Board in 2011.
Constructive dialogue between shareholders and the Company	Code E. 1.1	Adopted	MI has a history of active involvement of shareholders at general meetings. Shareholders have the liberty to express their views at AGMs, and to convey any matters even outside such meetings. Under the supervision of the Chairman, Company Secretary's division minutes discussions and views of all that is presented at AGM's. Shareholders views and other matters are taken up at Board and Sub Committee depending on materiality and urgency of the matter at hand.
E.2 Evaluation of Governance Disclosure	Principle E.2	Adopted	Corporate governance related matters along with the adequate disclosures are communicated to all shareholders via the Annual Report and at the AGM.
F. Other Investors			
F.1 Individual shareholders	Principle F.1	Adopted	Individual shareholders are encouraged to carry out their own analysis or seek independent advice on investing or divesting decisions. MI's annual report contains sufficient information for prospective investors to carryout extensive analysis. Further, MI publishes quarterly accounts in the CSE website so that retail investors could make judgments of the performance of the Company on an ongoing basis.
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	Recent cyber-attack on global banks and cyber risk emerging after the emerging of COVID-19 globally have emphasised the necessity of financial institution's to enhance the vigilance and remain agile to face the evolving cyber security risk. MI has identified significance of the cybersecurity as emerging risk category and therefore has considered its requirements as a core component of overall operational risk profile. The IT department has dedicated 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 17 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, well-informed to all the relevant officers in charge.

Corporate Governance Principles	Reference to CA Code	Adoption Status	MI's Extent of Adoption (2019/20 Update)
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 2019/20. 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 2019/20. 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 145 to 162.
H. Environment, Society, and Governance (ESG)	Principle H.1	Adopted	MI, as a responsible corporate, that believes in fulfilling its responsibilities towards all its stakeholders, namely, shareholders, clients, employees, suppliers and the community, 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. Refer governance structure and reporting on pages 84 to 144.
H.1 ESG Reporting			
Relevance of ESG factors to Company's business model	Code H. 1.1	Adopted	Refer MI Business Model on pages 32 to 33.
H 1.2 Environmental Factors	Code H. 1.2.1	Adopted	Refer Nature, pages 66 to 67.
H 1.3 Social Factors	Code H. 1.3.1	Adopted	Refer Business Overview and Stakeholder Engagement, page 42, Alliances pages 58 to 59, Human Strength, pages 60 to 61.
H 1.4 Governance	Code H. 1.4.1	Adopted	Refer Business model, pages 32 to 33, Overview, Stakeholder Engagement and material topics and its reference to approach and monitoring page 42 and Corporate Governance Report pages 84 to 144.
H 1.5 Board's role on ESG factors	Code G. 1.5.1	Adopted	Refer Management Discussion and Analysis pages 30 to 74 and Business Overview pages 10 to 11.

CORPORATE GOVERNANCE


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
The Responsibilities of the Board of Directors  <p>a) Approving, overseeing and communicating the finance company's strategic objectives and corporate values.</p>	Complied	<p>As part of the strategic planning process and taking charge of the affairs of the Company, the MI Board approved strategic objectives for the next three years and continued to oversee the performance of the Company against set corporate objectives.</p> <p>Refer strategy on pages 34 to 35 for the corporate objectives and values on pages 14 to 15.</p> <p>The strategic objectives and corporate values have been delegated and communicated to the divisional heads based on which each division sets their divisional operational targets.</p> <p>The performance of strategic plan applicable to each division was monitored by the Board through direct review with Executive Directors feedback and in parallel through Board sub-committees and management committees.</p>
<p>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.</p>	Complied	<p>The applicable strategic plan which covered the current financial year was approved by the Board on 26th March 2019. With COVID-19 crisis emerging, we envisage to reassess the overall economic and industry landscape, to come up with revised prudent and applicable strategies in the next financial year accordingly.</p> <p>The Company's overall Risk Management Strategy supports the business strategy by safeguarding and balancing the interests of all the stakeholders. Based on a structured risk framework which incorporates risk policy, procedures and mechanisms, the MI Board is able to counter potential risks and work towards corporate goals. On 27th February 2020, the updated risk policy was approved by the Board.</p> <p>[Refer Risk Management Report pages 145 to 162]</p>
<p>c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.</p>	Complied	<p>On behalf of the Board, the Integrated Risk Management Committee [IRMC] oversees the effective implementation of procedures and mechanisms for risk management and reports to the Board on a quarterly basis. The committee reviews the management of all risk types applicable to the Company and advises on deviations from tolerable risk levels based on the information provided by the Risk Unit and the corporate management. [The process for risks identification and measurement established to manage risks prudentially is explained on pages 145 to 162]</p>
<p>d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.</p>	Complied	<p>MI's policy of communication with key shareholders is clearly laid down in the Board approved communication policy. The policy identifies different stakeholders that the Company needs to maintain communication with, including shareholders, customers, depositors, creditors, suppliers, borrowers, society and environment and specifies the communication approach, methods and channels to be adopted in communications.</p>


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<p>e) Reviewing the adequacy and the integrity of the finance company's internal control system.</p> <p>Reviewing the adequacy and the integrity of the finance company's management information systems.</p>	Complied	<p>MI has a well-established system of internal controls across its total business operations to manage risks faced by the business. The Board exercises its authority over internal controls by delegating the oversight and exercising controls over the Audit Committee. On behalf of the Board, the Audit Committee monitors the effectiveness of the internal control systems on a continuous basis and reports to the Board. The Board approves procedures implemented under the internal control mechanism which are then applied in the business operations. External and internal audits are carried out periodically, testing the effectiveness and compliance of internal controls. Such audit findings are reported to the Board for which the management is given the opportunity to respond and take action to resolve concerns.</p> <p>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 2019/20 PricewaterhouseCoopers [Private] Ltd. conducted a comprehensive IT general control audit in February 2020. With the introduction of SLIPS for credit transactions, Ernst & Young's IT systems review unit separately carried out a walk through test and made recommendations in December 2019.</p>
<p>f) Identifying and designating Key Management Personnel, who are in a position to:</p> <ul style="list-style-type: none"> I. significantly influence policy; II. direct activities; III. exercise control over business activities, operations and risk management. 	Complied	<p>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.</p>
<p>g) Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.</p>	Complied	<p>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. All job descriptions of the Corporate Management and their subordinates were transferred to an e-based platform MINTHRM with the introduction of the new performance management system introduced strategy from FY 2019/20.</p>

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<p>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.</p>	Complied	<p>The Board has delegated the authority of implementing the decisions of the Board to the Managing Director and the accountability for the same. The Managing Director also manages the performance and affairs of the Company in accordance with his delegated limits of authority. Management of the key operational functions are then delegated to the senior heads at corporate management level who will manage and oversee their respective operations effectively. The Directors, either directly or through the Board subcommittees, initiate periodic meetings with the corporate management to maintain oversight over key areas of business apart from the periodic Executive Committee meetings, bi-monthly performance review meetings are conducted with the Corporate Management. Department specific meetings are also held and include credit, marketing and recoveries meetings that enable the corporate management to keep a close watch on the operations, on an ongoing basis.</p>
<p>i) Periodically assessing the effectiveness of its governance practices, including:</p> <ul style="list-style-type: none"> I. the selection, nomination and election of Directors and appointment of Key Management Personnel; II. the management of conflict of interests; and III. the determination of weaknesses and implementation of changes where necessary. 	Complied	<p>The Company has established an effective corporate governance framework which is assessed by the Board periodically.</p> <p>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.</p> <p>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.</p> <p>During the financial year, the Chairman, Mr. Saroja Weerasuriya retired and Mr. Sanjaya Bandara was appointed as Chairman.</p> <p>The management of conflicts of interest falls under the purview of the Related Party Transactions Review Committee [Refer page 169]. The Board carried out a self-evaluation on the effectiveness of governance practices and the feedback was discussed at the Board meeting.</p>
<p>j) Ensuring that the finance company has an appropriate succession plan for Key Management Personnel.</p>	Complied	<p>Adequate Board approved succession planning is in place for identified key management personnel of various divisions, having set forth a clear career path within the Company.</p>
<p>k) Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards the corporate objectives.</p>	Complied	<p>In addition to the Board Meetings, the Directors have direct communication with each other on an ongoing basis. Executive Directors meet corporate managers and key officers on a frequent basis, at least weekly, to measure the Company's performance of each business area against pre set Key Performance Indicators [KPIs] and Key Risk Indicators [KRIs]. The purpose of such Management Committee meetings also includes benchmarking MI's performance against industry and monitoring and evaluation of the Assets and Liability Management actions and risk implications. Matters arising from performance review meetings and Executive Committee meetings are duly minuted for follow up.</p>


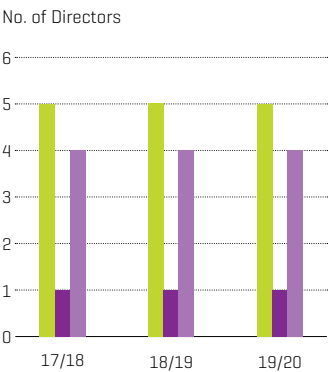
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<p>l) Understanding the regulatory environment.</p>	Complied	<p>All new developments and changes in the regulatory environment are informed to the Board at Board meetings by fellow Board members and also via circulars, reports and presentations made by the Compliance Unit, legal division and corporate management. Key regulatory matters and changes are considered in designing MI's various training programs, which are provided for Directors, corporate management and other key officers.</p> <p>The Company's adherence to CBSL directions, rules and other regulations are closely monitored by the Compliance Officer - Head of Risk and Compliance Management, who reports to the Board through the IRMC.</p> <p>The advice of the Legal Division is sought by divisions as and when required and also when new regulations are imposed or when changes to existing regulations occur. Divisions maintain close coordination and rapport with the respective regulatory bodies in seeking clarification and ensuring due compliance with the respective regulatory bodies in seeking clarification and ensuring due compliance.</p>
<p>m) Exercising due diligence in the hiring and oversight of External Auditors.</p>	Complied	<p>On behalf of the Board, the Audit Committee manages hiring and oversight of External Auditors. For the third consecutive financial year, Ernst and Young, Chartered Accountants were appointed by the Audit Committee as the External Auditor of the Company for the financial year 2019/20. The appointment was made in accordance with the CBSL regulations on selecting External Auditors for the sector.</p> <p>The work performed by External Auditors, with regards to the level of independence and quality was evaluated by the Audit Committee. External auditors Management letter for the FY 2018/19 other opinions and reports were reviewed and recommendations adopted as appropriate.</p>
<p>2.1 Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.</p>	Complied	<p>The functions and the responsibilities of the Non-Executive Chairman and the Chief Executive Officer are defined and approved by the Board. The Managing Director leads the Executive Management team of the Company who performs the role of Chief Executive Officer overseeing the effective management of day to day operations.</p> <p>The Board is led by the Non-Executive Chairman ensuring the Board discharges its responsibilities effectively.</p> <p>Chairman Mr. Saro Weerasuriya with the completion of nine years as a Non Executive Director retired with effect from 26th January 2020 and Non-Executive Director Mr. Sanjaya Bandara took over the chairmanship from 20th February 2020. Executive Director Mr. Gerard Ondaatjie performed as the MD of the Company.</p>
<p>2.2 Availability of a procedure determined by the Board to enable Directors to seek independent professional advice at the Company's expense.</p> <p> GRI 102-17</p>	Complied	<p>The Board of Directors has the right to obtain external independent professional advice at the expense of the Company in discharging its duties. A Board-approved formal procedure in seeking independent professional advice is in place since 2013 and was updated and approved on 26th March 2019. The procedure has been communicated to all the Directors.</p>

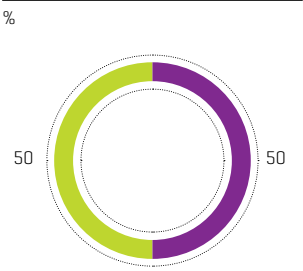
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<p>2.3 Avoidance of conflicts of interest.</p>	Complied	<p>The Board identified the importance of avoiding matters of conflict of interest, between obligations to the Company and the personal interests of the Directors of the Board. The Board took 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.</p> <p>In keeping to best practices on the identification of related party transactions, a separate 'Related Party Transactions Review Committee [RPTRC]' 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. Related parties are captured by the Company Secretary and informed to the Finance Department. The Compliance Officer will collect RPTR details and submit a detailed report to the Board's RPTR committee on a quarterly basis, reviewing the objectivity maintained in conducting such transactions.</p>
<p>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.</p> <p> GRI 102-25</p>	Complied	<p>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.</p>
<p>2.5 Disclosure of insolvency to the director of the Department of Supervision of Non-Bank Financial Institutions.</p>	Complied	<p>The Company ensures going concern as declared in the "Annual report of the Board of Directors" on pages 173 to 179. During the year, the Company successfully fulfilled its obligations to all its depositors and creditors and there were no instances of non compliance to this section, which required reporting to the regulator. The Company paid interest and made the requisite capital repayments as falling due to its depositors and also to the lenders of capital. The liquidity position of the Company is reported to the Director of the Department of Supervision of Non-Bank Financial Institutions on a weekly basis.</p>
<p>2.6 Inclusion of an annual Corporate Governance Report on compliance with the corporate governance directions in the Annual Report.</p>	Complied	<p>The Company's status of compliance to the corporate governance direction issued by CBSL is comprehensively disclosed in the Corporate Governance Report from pages 84 to 144.</p>
<p>2.7 The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.</p>	Complied	<p>Each Director completed a self-assessment evaluating their performance as well as the Board's performance collectively for the financial period 2019/20. Evaluation criteria was further enhanced to ensure the evaluation process provides more comprehensive findings. The summary of findings together with areas for further improvements, was due to be tabled at the March 2020 meeting which was not held due to COVID-19 epidemic. The summary of finding was subsequently tabled for the deliberation of the Directors.</p>

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption
3] Meetings of the Board	Complied	Eleven [11] Board Meetings were held for the financial period 2019/20. A Board meeting was not held in March 2020 due to the rise of COVID-19 pandemic.
3.1 The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions /papers shall be avoided as far as possible.		Refer section A.1.1 of the CA Sri Lanka code given on page 97 for full disclosure in this regard. Board papers are reviewed and approved at monthly Board meetings. However, urgent matters needing the Directors' review and approval between monthly Board meetings, are obtained via circulation by the Company secretary. [Only 23 Board papers were circulated and approval obtained for the period under review.]
3.2 The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied	Each Director is provided with equal, fair opportunity in providing proposals for the agenda with regard to the key areas of business headed by the Executive Directors, new business development and risk management. The agenda is prepared by the Company Secretary, incorporating all such proposals under the guidance of the Chairman which is informed in advance to the Board for their preparation.
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	A minimum notice of 7 days is provided to the Directors for the Board meetings. Board papers and other relevant information was circulated early, allowing Directors adequate time to review the circulated Board papers and take up concerns and raise other matters of importance at the 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 at least attending two-thirds of the meetings held for the financial year 2019/20. No Directors have been absent from three consecutive Board meetings during financial year 2019/20. 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 97.
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	The Company Secretary's responsibilities and services extended to the Board are given on page 101 of section A.1.4 of the CA Sri Lanka code.
3.6 If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such functions	Complied	As the Company Secretary Mrs. Sonali Pethiyagoda is delegated with the responsibility of preparing the agenda for Board meetings. The preparation of the agenda was done under the supervision of the Chairman. She plays a coordinating role in dealing with the Directors and Corporate Management in incorporating key matters to be taken up at the Board meeting. Prior to circulation, she obtains Chairman's approval for the notice of meeting and agenda.

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<p>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.</p>	Complied	<p>Mrs. S. Pethiyagoda has over 20 years of experience in the Company Secretarial position and keeps herself updated on all current regulations applicable to Board procedures, corporate governance requirements and other requirements related to the Company secretarial responsibilities.</p> <p>She attended all Board meetings during the financial year 2019/20 and was readily accessible to all Directors for them to obtain her advice and services.</p>																
<p>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.</p>	Complied	<p>Minutes are circulated by the Company Secretary upon approval of the Chairman. Minutes of all Board meetings were duly maintained and stored in safe custody by the Company Secretary. The Board of Directors have access to the minutes and can inspect Board minutes at any point in time.</p>																
<p>3.9 Minutes of Board meetings shall be recorded in sufficient detail.</p>	Complied	<p>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.</p>																
<p>4] Composition of the Board</p>	Complied	<p>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. Despite resignations and new appointments, the Board composition remained unchanged similar to the previous financial year.</p>																
<p>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.</p> <p> GRI 102-22</p>		<p>Composition of MI Board Last 3 Years</p>  <table border="1"> <caption>Composition of MI Board Last 3 Years</caption> <thead> <tr> <th>Year</th> <th>Executive Directors</th> <th>Non-Independent Non-Executive Directors</th> <th>Independent Non-Executive Directors</th> </tr> </thead> <tbody> <tr> <td>17/18</td> <td>5</td> <td>1</td> <td>4</td> </tr> <tr> <td>18/19</td> <td>5</td> <td>1</td> <td>4</td> </tr> <tr> <td>19/20</td> <td>5</td> <td>1</td> <td>4</td> </tr> </tbody> </table> <p>● Executive Directors ● Non-Independent Non-Executive Directors ● Independent Non-Executive Directors</p>	Year	Executive Directors	Non-Independent Non-Executive Directors	Independent Non-Executive Directors	17/18	5	1	4	18/19	5	1	4	19/20	5	1	4
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<p>4.2 Subject to the transitional provisions contained herein and subject to paragraph 5. [1] Of this Direction the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years.</p>	Complied	<p>In keeping with this section, all Non-Executive Directors' periods of service did not exceed nine years as given below:</p> <table border="1" data-bbox="746 421 1439 1003"> <thead> <tr> <th data-bbox="751 427 943 456">Name of Director</th> <th data-bbox="954 427 1193 456">Directorship Status</th> <th data-bbox="1204 427 1434 521">Number of years in position as at 31 March 2020</th> </tr> </thead> <tbody> <tr> <td data-bbox="751 533 943 595">Ms. P. T. K. Navaratne</td> <td data-bbox="954 533 1193 595">Independent Non-Executive Director</td> <td data-bbox="1204 533 1434 562">8 years completed</td> </tr> <tr> <td data-bbox="751 607 943 636">Mr. N. H. V. Perera</td> <td data-bbox="954 607 1193 636">Non-Executive Director</td> <td data-bbox="1204 607 1434 636">8 years completed</td> </tr> <tr> <td data-bbox="751 647 943 710">Mr. S. M. S. S. Bandara</td> <td data-bbox="954 647 1193 710">Independent Non-Executive Director</td> <td data-bbox="1204 647 1434 676">8 years completed</td> </tr> <tr> <td data-bbox="751 721 943 784">Mr. P. C. Guhashanka</td> <td data-bbox="954 721 1193 784">Independent Non-Executive Director</td> <td data-bbox="1204 721 1434 781">6 years and 9 months completed</td> </tr> <tr> <td data-bbox="751 795 943 857">Mr. Dinuka Perera</td> <td data-bbox="954 795 1193 857">Independent Non-Executive Director</td> <td data-bbox="1204 795 1434 880">1 month completed [Appointed on 21st February 2020]</td> </tr> <tr> <td data-bbox="751 902 943 965">Mr. S. H. J. Weerasuriya</td> <td data-bbox="954 902 1193 999">Chairman [Independent Non-Executive Director]</td> <td data-bbox="1204 902 1434 999">9 years completed [Retired on 26th January 2020]</td> </tr> </tbody> </table>	Name of Director	Directorship Status	Number of years in position as at 31 March 2020	Ms. P. T. K. Navaratne	Independent Non-Executive Director	8 years completed	Mr. N. H. V. Perera	Non-Executive Director	8 years completed	Mr. S. M. S. S. Bandara	Independent Non-Executive Director	8 years completed	Mr. P. C. Guhashanka	Independent Non-Executive Director	6 years and 9 months completed	Mr. Dinuka Perera	Independent Non-Executive Director	1 month completed [Appointed on 21st February 2020]	Mr. S. H. J. Weerasuriya	Chairman [Independent Non-Executive Director]	9 years completed [Retired on 26th January 2020]
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<p>4.3 Subject to the transitional provisions contained herein, an employee of a Finance Company may be appointed, elected or nominated as a director of the finance company [hereinafter referred to as an 'Executive Director'] provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company.</p>	Complied	<p>An equal 50% representation was maintained between Executive Directors [Five Directors] and Non-Executive Directors [Five Directors] and is within the provisions of this section.</p> <p>Since the Board is equally balanced between the Executives and Non Executives, the Managing Director carries out the duties of the Chief Executive Officer at MI.</p> <p>Executive Vs. Non-Executive Directors</p>  <p>50% Non-Executive Directors 50% Executive Directors</p>																					
<p>4.4 With effect from three years from the date of this Direction, the number of independent Non-Executive Directors of the Board shall be at least one-fourth of the total numbers of Directors.</p>	Complied	<p>The Board consists of 4 Independent Non-Executive Directors as against a total of 10 Directors [40%] and hence is within the requirement to have one-fourth [25%] of the total number of Directors as Independent Non-Executive Directors.</p> <p>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.</p> <p>[Refer page 104 of section A.5.5 of the CA Sri Lanka code on Independent Non-Executive Directors.]</p>																					

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<p>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.</p>	N/A	Not applicable since there were no Alternate Director appointments necessitated during this period.																																																
<p>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.</p>	Complied	<p>All Non-Executive Directors were selected objectively based on their qualification and experience in their respective fields.</p> <p>Pages 76 to 79 provide a brief on the profile of each Non-Executive Directors, outlining their qualifications and experience and the positions they hold in other institutions.</p> <p>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.</p>																																																
<p>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.</p>	Complied	<p>The number of Non-Executive Directors present In all Board meetings comprised more than a half of the number that constituted the quorum.</p> <p>Monthly Quorum Status of the Board Meetings</p> <table border="1"> <caption>Monthly Quorum Status of the Board Meetings</caption> <thead> <tr> <th>Month</th> <th>Executive Directors</th> <th>Non-Independent Non-Executive Directors</th> <th>Independent Non-Executive Directors</th> </tr> </thead> <tbody> <tr><td>Apr-19</td><td>4</td><td>1</td><td>2</td></tr> <tr><td>May-19</td><td>4</td><td>1</td><td>2</td></tr> <tr><td>Jun-19</td><td>5</td><td>1</td><td>2</td></tr> <tr><td>Jul-19</td><td>5</td><td>1</td><td>2</td></tr> <tr><td>Aug-19</td><td>5</td><td>1</td><td>2</td></tr> <tr><td>Sep-19</td><td>5</td><td>1</td><td>2</td></tr> <tr><td>Oct-19</td><td>5</td><td>1</td><td>2</td></tr> <tr><td>Nov-19</td><td>5</td><td>1</td><td>2</td></tr> <tr><td>Dec-19</td><td>5</td><td>1</td><td>2</td></tr> <tr><td>Jan-20</td><td>5</td><td>1</td><td>2</td></tr> <tr><td>Feb-20</td><td>5</td><td>1</td><td>2</td></tr> </tbody> </table> <p>Legend: ● Executive Directors ● Non-Independent Non-Executive Directors ● Independent Non-Executive Directors</p>	Month	Executive Directors	Non-Independent Non-Executive Directors	Independent Non-Executive Directors	Apr-19	4	1	2	May-19	4	1	2	Jun-19	5	1	2	Jul-19	5	1	2	Aug-19	5	1	2	Sep-19	5	1	2	Oct-19	5	1	2	Nov-19	5	1	2	Dec-19	5	1	2	Jan-20	5	1	2	Feb-20	5	1	2
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<p>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.</p>	Complied	<p>The Corporate Governance Report on pages 84 to 144 distinguishes the categories of Directors and discloses the names of Independent Non-Executive Directors outlining the profile of each Director.</p> <p>The following disclosures cover requirements of this section:</p> <ul style="list-style-type: none"> ✔ Composition of Board [Refer page 103] ✔ Category of Directors [Refer pages 76 to 79] ✔ Names of the four Independent Non-Executive Directors (page 104 of the Corporate Governance section.) <p>All communications with the CSE, publications and corporate communications that disclose the names of Directors expressly identify the Executive Directors in compliance with this section. Further, the Corporate Governance Report that is contained in this report discloses the details of Directors, the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors as also required by this section.</p>
<p>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.</p>	Complied	<p>All new appointments and re-elections to the Board have to be approved by the Nomination Committee. Refer page 105 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.</p> <p>The Board Nomination Committee Report is given on page 166.</p>
<p>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.</p>	N/A	<p>Mr. P. D. D. Perera who was appointed as an Independent Non-Executive Director on 21st February 2020 shall retire at the next Annual General Meeting and will be eligible for re-appointment.</p>
<p>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.</p>	Complied	<p>One Independent Non-Executive Directors retired during the financial year 2019/20 which was duly reported to the CBSL, Department of Supervision of Non-Bank Financial Institutions and to the Colombo Stock Exchange, by the Company Secretary in complying with this section and related provisions as per the Colombo Stock Exchange rules.</p>
<p>5] Criteria to assess the fitness and propriety of Directors;</p> <p>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.</p>	Complied	<p>There were no Board members who exceed the age of 70 years.</p> <p>Page 88 provides the age profile of the Board of Directors.</p>

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Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption
<p>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.</p>	Complied	<p>No Director of the Board holds office in over 20 companies contravening the provisions of this section.</p> <p>Detailed Directorships held by each Director of MI in Boards of other companies as at 31 March 2020, are disclosed on pages 76 to 79.</p>
<p>6] Delegation of functions</p>	Complied	
<p>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.</p>		<p>The Board has delegated some of its duties to the Board Sub Committees and Corporate Management, but maintains close overall oversight of Company affairs to ensure it's ability to govern and discharge its duties is not diluted. The Board evaluated the delegated authority limits, assessing particularly the credit authority limits and other limits applicable to the Board Sub-Committees this year.</p> <p>The Board has delegated its authority to Directors and specified authorized signatories to approve payments and sign key binding documents, whilst limiting delegation of certain key functions.</p>
<p>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.</p>	Complied	<p>The Board reviewed the delegated powers vested with Directors, Corporate Management and other employees to ensure relevance to the needs of the Company. Refer comments given on 6.[1].</p>
<p>7] The Chairman and the Chief Executive Officer</p>	Complied	
<p>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 1st January 2009.</p>		<p>An Independent Non-Executive Director was appointed by the Board to act as the Chairman of the Company, while there is a Managing Director (MD) in an Executive Director capacity and therefore, the two roles are segregated.</p> <p>Additional details pertaining to this is given on page 102 of section A.2 and A.3 of the CA Sri Lanka's governance code.</p>
<p>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.</p>	Complied	<p>Mr. Saro Weerasuriya, being an Independent Non-Executive Director, who was appointed as the Chairman to the Board in 20th January 2012, retired after completing 9 years of Directorship as a Non-Executive Director. Accordingly, Mr. Sanjaya Bandara who is an independent Non-Executive Director, took over the Chairman role from 20th February 2020.</p>

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption
<p>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.</p>	Complied	No material relationship including financial, business or family exists between the Chairman Mr. Sanjaya Bandara 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.
<p>7.4 The Chairman shall:</p> <ul style="list-style-type: none"> a) Provide leadership to the Board; b) Ensure that the Board works effectively and discharges its responsibilities; c) Ensure that all key issues are discussed by the Board in a timely manner. 	Complied	The Chairman of the Company provided leadership to the Board in addressing all significant matters and obtained the best cooperation from fellow Directors. The Chairman sought advice from the Company Secretary on Board procedures when deemed necessary. At monthly meetings, the Chairman ensured that focus and adequate attention was given for matters with strategic importance to the Company. Refer page 102 of section A.2 and A.3 of the CA Sri Lanka code for further details on the Chairman's role.
<p>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.</p>	Complied	The Chairman of the Company is responsible and provides supervision in the preparation of the formal agenda of Board meetings. The agenda captures all key matters to be discussed at the Board meetings and information on the performance of the Company to ensure adequate information is provided to Board Directors to maximize their contribution at the Board meetings. [Refer page 101 for Key areas focused at Board Meetings during 2019/20].
<p>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.</p>	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.
<p>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.</p>	Complied	The Chairman performs a leadership role in encouraging active Director participation in governing the affairs of the Company to ensure that the Board's actions are in the best interest of the Company.
<p>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</p>	Complied	All Non-Executive Directors including the Chairman contributed their knowledge and experience to the Board. All the Directors attended a majority of the Board meetings and contributed to the matters discussed individually as well as collectively. The meetings provided the Directors a platform to raise concerns, recommend suitable solutions and deliberate with each other to make effective decisions. The attendance, participation and interaction level of Non-Executive Directors and Executive Directors was effectively in place under the leadership of the Chairman. This process is further strengthened through the self-evaluations of the Board where views of all Directors are canvassed in respect of the overall Board activities and its effectiveness.

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Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption														
<p>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.</p>	Complied	The Chairman, being an Independent Non-Executive Director, does not directly supervise key management personnel nor handle executive duties. The duties of the Chairman are clearly defined and approved by the Board and do not include any executive duties.														
<p>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.</p>	Complied	<p>The views of shareholders were primarily obtained at the AGM dated 29th July 2019 where they had the opportunity of expressing their views, voicing their concerns and making recommendation for the betterment of the Company.</p> <p>Matters raised by shareholders at the AGM were 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.</p> <p>Shareholders were also able to meet with the members of the Board on a one-to-one basis, through formal appointments during the period under review.</p>														
<p>7.11 The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.</p>	Complied	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.														
<p>8. Board-appointed Committees</p> <p>8.1 Every finance company shall have at least the two Board committees set out in paragraphs 8. (2) and 8. (3) Hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the Annual General Meeting of the Company.</p>	Complied	<p>The MI Board has established six sub-committees for closer supervision of Company affairs. The Board-appointed sub-committees' level of compliance with this section is elaborated in the pages referred to below;</p> <table border="1" data-bbox="740 1368 1447 1682"> <thead> <tr> <th data-bbox="740 1368 1182 1435">Subcommittee</th> <th data-bbox="1192 1368 1447 1435">Page Reference Number</th> </tr> </thead> <tbody> <tr> <td data-bbox="740 1444 1182 1480">Audit Committee</td> <td data-bbox="1192 1444 1447 1480">167 to 168</td> </tr> <tr> <td data-bbox="740 1489 1182 1525">Integrated Risk Management Committee</td> <td data-bbox="1192 1489 1447 1525">163 to 164</td> </tr> <tr> <td data-bbox="740 1534 1182 1570">Remuneration Committee</td> <td data-bbox="1192 1534 1447 1570">165</td> </tr> <tr> <td data-bbox="740 1579 1182 1615">Nomination Committee</td> <td data-bbox="1192 1579 1447 1615">166</td> </tr> <tr> <td data-bbox="740 1624 1182 1659">Related Party Transaction Committee</td> <td data-bbox="1192 1624 1447 1659">169</td> </tr> <tr> <td data-bbox="740 1668 1182 1704">Credit Committee</td> <td data-bbox="1192 1668 1447 1704">91 to 93</td> </tr> </tbody> </table>	Subcommittee	Page Reference Number	Audit Committee	167 to 168	Integrated Risk Management Committee	163 to 164	Remuneration Committee	165	Nomination Committee	166	Related Party Transaction Committee	169	Credit Committee	91 to 93
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<p>8.2 Audit Committee</p> <p>The following shall apply in relation to the Audit Committee:</p> <p>8.2 a) The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.</p>	Complied	<p>Audit Committee</p> <p>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 wealth of experience in the field of Audit, and financial reporting being a partner of B. R. De Silva, Chartered Accountants. Therefore he is able to effectively oversee the Committee's functions.</p>														

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption
<p>8.2 (b) The Board members appointed to the committee shall be Non-Executive Directors.</p>	Complied	<p>The Audit Committee is comprised of three Non-Executive Directors out of which two are Independent. The Audit Committee operates in an independent and objective manner to ensure impartiality of the Committee.</p> <p>Refer page 114 of section D.3 of the CA Sri Lanka code for details on this subject.</p>
<p>8.2 (c) The committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> 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	<p>The Audit Committee made the following recommendations in relation to this section:</p> <ul style="list-style-type: none"> I] The Committee made recommendation for the re-appointment of External Auditors Ernst and Young, Chartered Accountants, for 2019/20 financial year. The Committee made this recommendation on the basis that this is the third 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. IV] The Audit Committee decided on the audit fee for the financial year 2019/20. The committee noted that no resignation or dismissal of the auditor took place during the financial year under review.
<p>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.</p>	Complied	<p>The Audit Committee reviewed and monitored the aspects of independence, objectivity and effectiveness and the Audit process's adherence to applicable regulatory requirements and professional best practices.</p> <p>The External Auditors, Ernst and Young, Chartered Accountants submitted a declaration of Independence in the Audit process to the Audit Committee for the FY 2019/20.</p>
<p>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.</p>	Complied	<p>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 the FY 2019/20 the following non-audit services were obtained from firms;</p> <p>Tax consultancy</p> <ul style="list-style-type: none"> ➤ Fixed Asset verification and tagging, current state assessment and fixed asset procedure ➤ Tax advisory services
<p>8.2 (f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.</p>	Complied	<p>The Audit Committee met the External Auditor, Ernst and Young, Chartered Accountants 3 times during the FY 2019/20. There were discussions between the Audit Committee and the External Auditors before the commencement of the Audit, during which the nature and scope of the Audit was discussed and finalized. These discussions included the areas requiring special attention and recommendations which were also included in the Audit Plan.</p>

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Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>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.</p>	Complied	<p>The Audit Committee monitored the integrity of the Annual Report, financial statements and other financial disclosures by reviewing the financial information of the Company periodically. In keeping to the instructions and recommendations of the Audit Committee, necessary updates were made thereafter by the Finance Department to the Financial Statements and other information contained in the Annual Report, before submitting to the Board for their approval. The Committee also reviewed the Company's quarterly financial statements in addition to the Annual Report before submitting them to the Board of Directors.</p>
<p>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.</p>	Complied	<p>During the financial year 2019/20, the Committee met the External Auditors 03 times, of which 02 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.</p>
<p>8.2 (i) The Committee shall review the External Auditors' Management Letter and the Management's response.</p>	Complied	<p>The Committee reviewed the management letter issued by the External Auditors for the financial year 2018/19. The review also covered management responses for material concerns requiring immediate attention of the Audit Committee. This review process took place in the presence of the Finance Director. The committee took up key concerns with management who undertook to resolve the matters and issues brought to their attention.</p>
<p>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;</p>	Complied	<p>The Audit Committee was submitted separate audit programmes by MI's outsourced Internal Auditors, PricewaterhouseCoopers (Private) Ltd. and the Internal Audit Division of the Company for the financial year 2019/20, which were affirmed by the Committee. According to the CBSL Direction issued "Outsourcing Business Operation" scope, functions and resources allocated to the Internal Audit Department were assessed and were allocated more resources to enhance the internal audit function.</p>
		<p>The Committee met 4 times and reviewed full audit/spot review reports in the presence of both audit teams. As and when required, Corporate Management were called when their related observations were discussed, to ensure corrective action was initiated.</p>

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption								
<p>ii.] Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</p>	Complied	<p>The Audit Committee reviewed the findings of the two internal audit teams for the financial year 2019/20 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 4 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) Ltd. and the Internal Audit Division of the Company for the financial year 2019/20, 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.</p> <p>Audit Coverage 2019/20.</p> <table border="1" data-bbox="743 772 1449 936"> <thead> <tr> <th data-bbox="754 779 1289 813">Type of Audit</th> <th data-bbox="1302 779 1437 813">Coverage %</th> </tr> </thead> <tbody> <tr> <td data-bbox="754 817 1289 851">Full Audits</td> <td data-bbox="1302 817 1437 851">80%</td> </tr> <tr> <td data-bbox="754 855 1289 889">Spot Audits</td> <td data-bbox="1302 855 1437 889">80%</td> </tr> <tr> <td data-bbox="754 893 1289 927">Special Audits</td> <td data-bbox="1302 893 1437 927">3 audits</td> </tr> </tbody> </table>	Type of Audit	Coverage %	Full Audits	80%	Spot Audits	80%	Special Audits	3 audits
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<p>iii.] Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</p>	Complied	<p>The Audit Committee conducted the bi-annual performance appraisals of the Head of the Internal Audit Department. Annual bonuses and increments of the Department are based on the formal performance management process which lays out the quality of audit findings and timeliness of finalizing audits, as key performance goals for the team. The performance of the PricewaterhouseCoopers (Private) Ltd. was also reviewed by the Audit Committee for the FY 2019/20.</p>								
<p>iv.] Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p>	Complied	<p>The services of PricewaterhouseCoopers (Private) Ltd continued to be obtained by the Audit Committee in parallel with the Company's own Audit team, to ensure adequate coverage of all locations at least once, annually. The level of resources allocated by PricewaterhouseCoopers (Private) Ltd was accepted by the Committee and no queries were raised.</p> <p>Considering the increased scope of the Company's own Internal Audit Department due to the change in the 'Outsourcing Business' Direction of CBSL, number of staff was increased to handle the increasing work coverage. Additionally, the Committee also considered providing more internal and external technical training for the Company's own Internal Audit staff, to improve the quality of the Internal Audit function.</p>								
<p>v.] Ensure that the committee is informed of resignations of senior staff members of the Internal Audit Department, including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</p>	Complied	<p>No senior staff members of the Internal Audit Department or senior officers from PricewaterhouseCoopers (Private) Ltd. handling the Company's Internal Audit function resigned during the year.</p>								

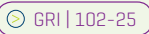
CORPORATE GOVERNANCE

Direction Requirement (With Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>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;</p>	Complied	<p>The Company's Internal Audit Function is positioned independently, not conflicting with the activities it audits. To strengthen the independency of the Internal Audit department, the Department submit their reports directly to the Audit Committee. PricewaterhouseCoopers (Private) Ltd is an independent institution handling internal audit services impartially with professionalism that reports directly to the Audit committee and have access to the Board in the event of any matters that need to be brought to the attention of the Board.</p>
<p>8.2 (k) The Committee shall consider the major findings of internal investigations and Management's responses thereto;</p>	Complied	<p>The audit findings of the Internal Audit department are reported to the Audit Committee which reviews and considers audit findings on internal investigations and the management's responses thereto. However, there were no material audit findings reported during the year 2019/20.</p>
<p>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.</p>	Complied	<p>The Finance Director and Chief Financial Officer attended Audit committee meetings on invitation, in addition to the Head of Internal Audit of PricewaterhouseCoopers (Private) Ltd as well as the Company's own Internal Audit Officers being present to discuss the Audit findings. The Committee also met the External Auditors 02 times this year without the presence of the Executive Directors in keeping to this section.</p>
<p>8.2 (m) The Committee shall have:</p> <ul style="list-style-type: none"> 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	<p>Terms of Reference of the Audit Committee</p> <p>The Board approved Terms of Reference of the Audit Committee, which was updated on 28th December 2017 mandates explicit authority to investigate any matter within its purview and take necessary action. Refer: Board Audit Committee Report, Pages 167 to 168 for a summary of Terms of Reference of the Board Audit Committee.</p>
<p>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.</p>	Complied	<p>The Board Audit Committee met 06 times during the financial year under review.</p> <p>The report of the Audit Committee given on pages 167 to 168 provides details on how the committee records its decisions.</p>
<p>8.2 (o) The Board shall, in the Annual Report, disclose in an informative way,</p> <ul style="list-style-type: none"> 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	<p>The activities of the Audit Committee and meetings held during this period with participation status have been disclosed on pages 91 to 93 in the Board committee table.</p> <p>Further information is disclosed in Section D.3 of the CA Sri Lanka Code on the Committee's scope of activities.</p> <p>The Audit Committee Report for financial year 2019/20 is given on pages 167 to 168.</p>

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption
<p>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.</p>	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.
<p>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.</p> <p> GRI 102-17</p>	Complied	<p>The Whistle-Blowing and Corporate Fraud Policy was revised and was approved by the Board on 27th March 2018. The Policy enables a formal mechanism for the Company's staff to report violations to laws, rules, regulations or unethical conduct routed through the whistle-blower channels, for necessary action. The Policy lays down the investigation process for such reported incidents ensuring that they are handled while protecting the confidentiality of those who are reporting and with no discriminatory action.</p> <p>During the financial year 2019/20, no material matters were reported formally to the Human Resource Division necessitating investigation by Audit or any other assigned party.</p>
<p>8.3 Integrated Risk Management Committee [IRMC] The following shall apply in relation to the Integrated Risk Management Committee:</p> <p>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.</p>	Complied	<p>The Integrated Risk Management Committee [IRMC] comprises a Non-Executive Director [1] acting as the Chairman, while three Executive Directors [3] including the Managing Director, Corporate Management including the CFO and Head of Risk were present on invitation comprise the full committee. The Committee's main duties are supervising broad risk categories such as credit, market, liquidity, operational and strategic risk.</p> <p>Refer the Board Committee Overview on pages 91 to 93. The Corporate Governance Report provides additional information pertaining to the IRMC on pages 163 to 164.</p> <p>The members of IRMC work closely with Key Management Personnel of the Company to assess risk situations which arise on a day-to-day business and make sound decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.</p>
<p>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.</p>	Complied	<p>The IRMC assesses all risks, i.e., credit, market, liquidity, operational and strategic risk, based on the information provided to the Committee by the Head of Risk and Compliance. He compiles all management information from different departments and prepares risk reports which evaluate the Company's risk levels evaluating risk indicators. The concerns/risks identified through such reports are addressed, to bring down the risks within tolerance levels.</p> <p>Refer section 8.3 (a) above on scope and tasks handled by the Committee.</p> <p>Refer the Board Committee Overview on pages 91 to 93 and the Risk Management Report on pages 145 to 162 with regard to disclosure on the Company's risk management approach and steps taken by the committee to manage risks.</p>

CORPORATE GOVERNANCE

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption
<p>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.</p>	Complied	<p>The IRMC reviewed the effectiveness of the Management Committee; studying management information presented at bi-monthly corporate review meeting forums and also reviewed the effectiveness of the Assets and Liabilities Management Committee and the Credit Committee.</p> <p>The Assets and Liability Committee [ALCO] of the Company reviews and monitors liquidity risk and market risk based on the risk tolerance levels [risk limits] established.</p> <p>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.</p> <p>Refer: IRMC Committee Report on pages 163 to 164 for the scope of the committee and its activities during the year 2019/20.</p> <p>Refer the Risk Management Report on pages 145 to 162 for a wider explanation on the Company's Risk Management Framework and approach.</p>
<p>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.</p>	Complied	<p>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. Each risk category of the Company has been reviewed against the risk tolerance levels by the Committee and recommendations have been made to the Board when specific risks exceeded risk appetite limits. Information was passed down to the management level through appropriate communication channels.</p> <p>Summary of variances between actual risk levels and risk appetite limits are disclosed on pages 145 to 162.</p>
<p>8.3 (e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</p>	Complied	<p>The Integrated Risk Management Committee met four times at quarterly intervals during FY 2019/20 on a quarterly basis.</p> <p>Pages 91 to 93 provides information on meetings held along with attendance records of the Directors.</p>
<p>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.</p>	N/A	<p>There were no material violations reported during the year under review, in relation to complying with internal controls and risk management procedures. There were no incidents where the staff/ management failed to take action to avoid material risks.</p>

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption
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	<p>The IRMC submitted risk reports to the Board within 7 days of having conducted their meetings, detailing a summary of key risks identified for the period and specifying risk mitigating actions proposed by the Committee for the Board's approval.</p> <p>Accordingly, four (4) activity reports have been submitted to the Board for the financial year under review.</p>
8.3 (h) The Committee shall establish a compliance function to assess the finance company's compliance with the laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the Compliance function and report to the committee periodically.	Complied	<p>The Company has established a compliance function to assess, monitor and report the Company's compliance with laws, regulations and regulatory guidelines. The compliance function is headed by a qualified Accountant in the senior managerial cadre who directly reports to the Integrated Risk Management Committee on the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and internal controls. A compliance status report was prepared and tabled monthly through the IRMC for the Board's information purposes, and a total of eleven (11) status reports were submitted during the financial year 2019/20 under review.</p>
9] Related Party Transactions 	Complied	<p>During FY 2019/20, no lending was extended to Directors of the Company contravening the above Direction. The Related Party Transactions Review Committee [RPTRC] 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 169 about RPTRC Committee].</p>
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 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	<p>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 RPTRC being a Board Sub-Committee. As another significant step the Company initiated systemizing the RPTR capturing process.</p> <p>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.</p> <p>Refer Related Party Transactions Review Committee Report, page 169.</p>

CORPORATE GOVERNANCE

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption
<p>9.3 The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> 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	<p>The Terms of Reference of Related Party Transactions Review Committee ensures that the procedures are established to identify related party transactions and to ensure that such transactions are carried out on an arm's length basis and not with "more favourable treatment". The Committee reviewed related party transactions carried out during this year to ensure they were at "an arm's length". As planned, the Committee carried out these reviews on a quarterly basis.</p> <p>Required disclosures on related party transactions have been disclosed in the Notes to the Financial Statements, while, pages 180 to 181 disclose information relating to Directors' Interests in Contracts.</p>
<p>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.</p>	Complied	<p>The Company has not facilitated any transactions that would grant the related party "more favourable treatment" compared to the transactions dealt with any unrelated party. Refer section 9.2 above that refers to the "Related Party transactions" and "Directors' Interests in Contracts" disclosures.</p>
<p>10. Disclosures</p> <p>10.1 The Board shall ensure that:</p> <ul style="list-style-type: none"> 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	<p>The Company complied with applicable LKAS/SLFRS and other regulatory formats prior to publishing its annual audited financial statements and interim financials.</p> <p>The Financial Statements are also aligned with other regulatory requirements including the Finance Business Act, the Companies Act and the rules specified by the Colombo Stock Exchange.</p> <p>The Board ensured that the annual audited financial statements and interim Financial Statements were prepared in accordance with all applicable regulatory requirements. Necessary corrective action were taken by MI on the internal audit findings on financial reporting and recommendations that were made during the year under review.</p> <p>Financial Statements of the Company for the year 2019/20 were prepared and published in accordance with the reporting requirements prescribed by the regulatory and supervisory authorities and applicable accounting standards.</p> <p>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.</p>

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption
<p>10.2 The Board shall ensure that at least the following disclosures are made in the Annual Report:</p> <p>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.</p>	Complied	The Statement on Directors' Responsibility given on page 182 provides an affirmation that the annual audited Financial Statements have been prepared in accordance with the applicable accounting standards and applicable regulatory requirements.
<p>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.</p>	Complied	<p>The Report by the Board on Internal Controls stating the effectiveness of the Company's internal controls mechanism over financial reporting, given on pages 184 to 185 in the Annual Report, provides the required disclosure to comply with this section.</p> <p>A separate auditor's assurance to this effect was taken on 26th June 2020.</p>
<p>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.</p>	Complied	<p>The External Auditors' of the Company certified that the internal control mechanism over financial reporting was effective and obtained certification on the same for the financial period 2019/20. No significant matters needing attention was highlighted as per the Report.</p> <p>The External Auditors' Assurance Report on the effectiveness of the internal controls over financial reporting has been disclosed on page 186 in the Annual Report.</p>
<p>10.2 (d) Details of Directors, including names, transactions, with the finance company</p>	Complied	Director information including their names and other details are provided on pages 76 to 79 while their transaction details are disclosed under the Directors' Interest In Contracts on pages 180 to 181 and in Related Party Disclosures in the Notes to the Financial Statements on pages 252 to 253.
<p>10.2 (e) Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after 1st January 2010.</p>	Complied	The remuneration paid to Directors on an aggregate basis is disclosed on page 214 in the Notes to the Financial Statements.

CORPORATE GOVERNANCE

Direction Requirement [With Section Number of the Direction]	Compliance Status	Extent of Adoption												
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.	Complied	<p>The net accommodation granted to each category of related party is given below as a percentage of the Company's capital funds:</p> <table border="1"> <thead> <tr> <th>Category of Related Party</th> <th>Amount Rs.</th> <th>% Against Company Capital Funds</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel</td> <td>29,177</td> <td>0.35</td> </tr> <tr> <td>Associates Companies</td> <td>-</td> <td>-</td> </tr> <tr> <td>Other</td> <td>67,867</td> <td>0.76</td> </tr> </tbody> </table> <p>There have not been related party transactions exceeding 10% of the equity during the financial year 2019/20.</p>	Category of Related Party	Amount Rs.	% Against Company Capital Funds	Key Management Personnel	29,177	0.35	Associates Companies	-	-	Other	67,867	0.76
Category of Related Party	Amount Rs.	% Against Company Capital Funds												
Key Management Personnel	29,177	0.35												
Associates Companies	-	-												
Other	67,867	0.76												
10.2 (g) The aggregate values of remuneration paid by the finance company to its Key Management Personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied	<p>The aggregate value of remuneration paid and transactions carried out by Key Management Personnel during financial year 2019/20 are disclosed below.</p> <table border="1"> <thead> <tr> <th></th> <th>KMP's including Executive Directors [Rs. 000]</th> </tr> </thead> <tbody> <tr> <td>Accommodations</td> <td>29,177</td> </tr> <tr> <td>Deposits</td> <td>793,597</td> </tr> <tr> <td>Remuneration</td> <td>226,291</td> </tr> </tbody> </table>		KMP's including Executive Directors [Rs. 000]	Accommodations	29,177	Deposits	793,597	Remuneration	226,291				
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Accommodations	29,177													
Deposits	793,597													
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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 173 to 179 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 182 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	No such requests 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 with CBSL Corporate Governance Directions. Accordingly, they have issued a factual finding report in this regard for the financial year 2019/20.												

MI COMPLIANCE STATUS WITH 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	173 to 179
7.6 (ii)	Principal activities of the Entity during the year and any changes therein	Significant Accounting Policies	Complied	196 to 208
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	281
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	281
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	173 to 179
7.6 (vi)	Information pertaining to material foreseeable risk factors	Risk Management	Complied	145 to 162
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Human Strength There were no reported violations of human rights against MI employees formally filed with the human resource division during the period	Complied	60 to 61
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	232 to 241
7.6 (ix)	Number of shares representing the Entity's stated capital	Notes to the Financial Statements Investor Relations	Complied	249
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	281
7.6 (xi)	Equity Ratios Market Value	Investor Relations Investor Relations	Complied	282 to 285
7.6 (xii)	Significant changes in the entity's fixed assets and the market value of land, if the value differs sustainability from the book value	Notes to the financial statements	Complied	196 to 208
7.6 (xiii)	Details of funds raised through Public issues, Rights issues and Private Placements during the year	Investor Relations	Complied	281 to 283
7.6 (xiv)	Information in respect of Employee Share Option Plan and Employee Share Ownership Plan	Notes to the financial statements	Complied	178
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	84 to 144
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	283

CORPORATE GOVERNANCE

Listing Rule No. 7.10 – Contents of the Annual Report at Glance

CSE Rule No.	Requirement	Compliance Status	Extent of adoption [FY 2019/20 update]
7.10	Overall compliance position in relation to section or SEC 7.10 [Corporate Governance]	Complied	<p>a) The Company is in compliance with the corporate governance rules specified by the CSE for all listed companies and also complies with section 7.10 requirements specified under this section.</p> <p>b) The Company has complied with CBSL Corporate Governance Direction. Compliance status is given on pages 118 to 140.</p>
7.10.1	Non-Executive Directors of a Listed Company	Complied	The Board of Directors of the Company comprised five (5) Non-Executive Directors out of ten (10) Directors. 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 2020 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 the 2019/20 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 104 of the Corporate Governance Section A5.5 of the CA 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 2019/20.
	(c) Disclosure of a brief resume of Directors in Annual Report		Refer: Corporate Governance, pages 76 to 79 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 itemized in paragraphs (a), (b) and (c) above.	Complied	All new appointments of Directors to the Board were duly informed with brief resumes of the Directors.
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.

CSE Rule No.	Requirement	Compliance Status	Extent of adoption [FY 2019/20 update]
7.10.5	Remuneration Committee A listed entity should have a Remuneration Committee.	Complied	Details of the Remuneration Committee are provided on page 165.
	(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 108 section B.2.1 of the CA Sri Lanka Code provides necessary information
	[c] Disclosure of the Remuneration Committee in the Annual Report		
	☑ Name of the Directors serving in the Committee		Names of Directors in the Remuneration Committee are provided on page 165.
	☑ Statement of Remuneration Policy		Refer page 165 for the Remuneration Committee Report.
7.10.6	Audit Committee A listed entity should have an Audit Committee.	Complied	
	(a) Composition of the Audit Committee		Particulars relating to MI's Audit Committee are provided on pages 167 to 168.
	☑ 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 2019/20, Finance Director and CFO attended Audit Committee meetings by invitation. Calling of Managing Director was not necessitated this period.
	☑ The Chairman or one member of the Committee should be a Member of a recognized professional accounting body.		The Chairman of the Audit Committee is a chartered accountant, with years of experience in the Financial and Auditing field.
	(b) Functions of the Audit Committee		Functions of the Audit Committee are disclosed in pages 167 to 168.
	(c) Disclosures in Annual Report		
	☑ The names of Directors of the Audit Committee		Composition of the Audit Committee is provided on pages 167 to 168.
	☑ The Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination		Refer page 168 section D.3.2 of the CA Sri Lanka Code for disclosure in this regard.
	☑ Annual Report shall contain a report by the Audit Committee, setting out the manner of compliance by the Entity in relation to the Section 7.10 of CSE Listing Rules		The Audit Committee report is disclosed on pages 167 to 168 in the Annual Report.

CORPORATE GOVERNANCE

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

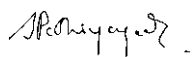
All required CBSL web returns were submitted by the Company, on or before the due dates for submission. The information table is uploaded on the web site of the Company under Corporate Governance section. [Refer QR code below]

Returns Submitted as Per Prevailing Regulations for the LFC Sector

The information table is uploaded on the MI website under Corporate Governance section. [Refer QR code below]

External Auditors' Certification

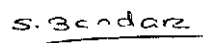
The services of the External Auditors were obtained to certify the contents stated in the Corporate Governance Report in relation to the Finance Companies [Corporate Governance] Direction No.03 of 2008 and related amendments. External Auditors confirmed that the disclosures given are in order, according to their report prepared upon on agreed procedures dated 26th June 2020.



S. Pethiyagoda
Company Secretary



Ramidu Costa
Head of Compliance and Risk Management



S. M. S. S. Bandara
Chairman

Colombo
26th June 2020



Detailed disclosure about Corporate Governance is made available on our website.



<http://mi.com.lk/images/qr/corporate-governance.pdf>

RISK MANAGEMENT REPORT

Risk Management Highlights for the Financial Year 2019/20

- Introduced risk registers for core departments.
- Introduced enhanced policies and procedures to control risks during Easter attack and on-going COVID crisis, emerging regulatory needs and best practices.
- Strengthened the Credit Risk Division with more resources to improve credit evaluation process.
- Evaluated overall money laundering risk of the Company.
- Introduced an internal rating scheme to manage customer risk profiles.
- Introduced a risk rating mechanism based on money laundering risk to reduce the money laundering risk of the Company.
- Recruitment and allocation of new staff to strengthen the risk management functions of the Company.

Risk Environment

Business organizations across the world are faced with a volatile, uncertain, complex and ambiguous (VUCA) business environment due to the dynamic and uncontrollable nature of external environmental factors. The sudden emergence of the pandemic outbreak of COVID-19 has already increased business risks dramatically and hurt the entire business community since the latter part of the financial year under review. The recent lockdowns imposed by local authorities to curb the pandemic, affected asset quality and market liquidity levels of the entire financial sector. On top of the ongoing crises, the other unprecedented events of the Easter Sunday attacks and political instabilities that happened at the early stage of this financial year, slowed down economic growth of the entire country as well.

In the meantime, global environment for risk management continues to change at a rapid pace, with key areas of reforms targeting cyber security, data protection and Anti-Money Laundering [AML]. This leads advancements in technology and Artificial Intelligence [AI].

In a nutshell, above challenges & widening risks encouraged the business community, including MI, to revisit risk management measures seriously.

MI's Unique Integrated Risk Management Framework

GRI | 102-30

Our integrated risk management looks well beyond the set of traditionally insurable risks, seeking to address all of MI's risks within an organized and coherent framework. In doing this, we integrated our Risk Management Framework with the evolving business environment and strategy and executed actions in keeping to our unique business model.

As a result of incorporating risk management in every aspect of our business, we are well-gearred to handle risks associated with our business to grab emerging opportunities whilst mitigating risks, 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.

When maintaining our sustainable corporate leadership over 50 years, we committed ourselves towards creating sustainable value and addressed the interests of our six business capitals in a more responsible manner through the effective identification, monitoring, managing and controlling of various risks faced by the Company.

MI's Integrated Risk Management Framework



MI's Board of Directors as well as the corporate management team continues to drive the importance of aligning risk management objectives of the Company in a manner that strikes an appropriate balance between risk and rewards.

Primary Objectives of Our Risk Framework

- Anticipating and mitigating risk events before they become a reality
- Ensuring earnings stability and consistency
- Safeguarding financial and non-financial capital value, protecting MI against possible losses in monetary and intangible terms
- Integrating risk management at all levels of decision-making, taking a proactive stance to tackle future developments/changes

In keeping to applicable regulatory requirements and international best practices, above goals have been passed down into the framework as policies, allocation of responsibilities, governance and reporting structures. The Head of Risk and Compliance, who is the Chief Risk Officer of the Company, is responsible for driving the framework across the entire organization. That enables MI to identify, analyze, evaluate and finally take actions [risk treatment] to avoid or mitigate the possible risks associated with the business.

RISK MANAGEMENT REPORT

Risk Strategy

GRI | 102-31

MI's finance business operations are vulnerable to numerous risky events as it operates in a highly dynamic finance sector. Hence, it is vital for us to closely monitor and report all types of risks identified and triggered as per our Risk Management Strategy, including those newly emerging & sophisticated. In order to support our Risk Strategy, the Company devoted significant resources, formed a number of committees to ensure effective governance, promoted a strong risk culture and also integrated the aspects of risk management into decision making and strategy setting.

While risk mitigation was the primary focus, we were mindful about its impacts on returns as well. Thus our Risk Strategy has been carefully developed, considering the inputs and feedback received from all business departments. This enabled us to design the most appropriate Risk Strategy and maintain a healthy balance between risks and returns without hindering any business opportunities.

Our core divisions are required to follow Board-approved policies and procedures in coordination with the Risk Unit as a part of the Corporate Strategy to manage envisaged risks. 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 & Setting Tolerance Limits

The main objective of understanding risk appetites the Company can bare or withstand is to ensure that our risks are proactively managed by placing Board-approved tolerance limits for each material risk category. Those risk appetites provide measurable targets and thresholds of risks that MI is willing to accept in the process of achieving the firm's business plans. The Company's risk appetite levels are set and 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 conjunction with the Corporate Planning Unit.

While allowing 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 fulfillment of responsibilities towards our stakeholders, economic, social and environmental sustainability.

Summary of Key Risks Appetite Statement

Risk Indicator	Appetite	Tolerance	Actual	Compliance
NPA	< 5%	8%	11.69%	☒
CAR [Total Capital Ratio]	> 12.5%	-	15.25%	☑
National Credit Rating	BBB - [Ika]	-	BBB - [Ika]	☑
Single Sector Maximum Credit Exposure	<50%	-	49%	☑

Risk Policies and Guidelines Enforced

Our comprehensive risk policy was further enhanced and strengthened during the year responding to new amendments in regulations and to capture high risky events that occurred in the external environment like the COVID-19 and Easter events. MI's Risk Policy addresses key risks faced by the Company and its compliance with all regulatory requirements, including the Finance Business Act No. 42 of 2011 and other respective laws applicable to our business. In addition, risk management objectives and outlined priorities, processes and roles of the Board and Management in managing risks and shaping the risk culture of MI are also defined by such policy.

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.

All Risk Policies and Guidelines at MI are regularly reviewed by the IRMC not only to fulfill regulatory requirements but also to respond to the changes in business needs.

Risk Governance Approach

As the governing team, the Board of Directors possess the ultimate responsibility for the management of risk of the Company, while the Board Audit Committee, under delegated Board power, reviews the entire risk management process in an independent perspective and reports to the Board its findings. The Integrated Risk Management Committee (IRMC) as a Board-appointed subcommittee, takes a leading supervisory role to review all risk areas, whilst continuing to provide invaluable advice and recommendation on risk management, which is then executed through management committees and heads of divisions.

MI's Risk Governance Framework

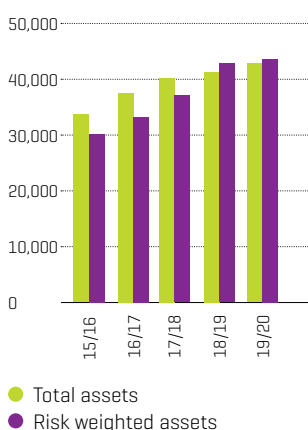


Capital Management

Since MI is in the financial services sector, it is important to manage its capital buffers so that it aligns with the strategic goals, risk appetite and regulatory requirements,

Total Assets Vs. Risk Weighted Assets

Rs. Million



● Total assets
● Risk weighted assets

even under plausible stress conditions. According to Finance Business Act and Finance Leasing Act, the Monetary Board of CBSL has defined minimum Capital Adequacy requirements. Management of the Company is responsible to maintain such requirements with the instructions of the Board. During the year, regulatory Capital Adequacy requirements were enhanced on a staggered basis for both the tier 1 and total risk weighted capital ratios as follows;

Components of capital	Regulatory Requirements as at:		MI's position as at:	
	31.03.2019	31.03.2020	31.03.2019	31.03.2020
Tier 1 Capital	6%	6.5%	14.98%	13.56%
Total Capital	10%	10.5%	16.69%	15.25%

The Board's Role in Governing an Effective Risk Management Framework

👁️ GRI | 102-29, 102-30, 102-31

The effectiveness of the Risk Management Framework is reviewed by the Board in order to ensure its agility towards the economic, social and environmental dynamism in the business environment. The Board in executing its responsibilities towards risk management, sets forth risk appetite limits and HOD's are required to keep the risk levels below these parameters and to bring to Board attention warning signals. The Board has established required Board Sub-Committees to which, part of its responsibilities were delegated.

Sub committees provide periodic feedback on MI's progress towards managing key risks deemed material and requiring Board attention. In monitoring and managing these risks, the Board is mainly advised and assisted by the Integrated Risk Management Committee (IRMC). As a result, the Board is able to keep close eye and vigilance over existing risks and emerging potential threats.

Role Played by the Committees in Risk Management

MI's Board Committees

IRMC

In order to assist the Board in performing its role in risk management, IRMC determines the risk appetite, monitors and manages key risks, and reviews MI's approach to risk management periodically. The Credit Committee, ALCO and Management Committee report their risk concerns to the IRMC through quarterly and ad hoc Committee meetings.

Audit Committee

While maintaining an independent position at MI's board, this Committee is responsible to review Company-wide risks and control environment against risks. Furthermore, it evaluates the adequacy of internal controls and their effectiveness and reviews the Management's compliance with internal and external regulations.

IRMC Sub Committees

Credit Committee

Reviews the transactions with high credit risk, monitors material overdue accounts and proposes recovery strategies. This Committee also reviews MI's credit policy to ensure that the core business function addresses the changes in the business and changing economic landscape.

ALCO

This Committee is responsible for sufficient liquidity at optimized cost efficiency levels, while overseeing MI's liquidity position and related risks, including interest rate risks. The ALCO also reviews pricing of products and expected margins and assesses the sensitivity of MI's profits to market variables.

Management Committee

The Committee measures the Company's progress in achieving strategic targets. In addition, the Committee actively evaluates and implements risk treatment actions to tackle the risks primarily impacting corporate profitability, core business operations, asset quality and core margins.

RISK MANAGEMENT REPORT

Risk Culture

A sound risk culture is a core element of MI's risk management framework and is deemed to be vital in building resilience for future sustainable growth and stability. Since the year under review was one of the most challenging years for our value creating business, we ensured that all our staff is engaged in managing risks at each level. As we believe MI's 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, financial crime and regular Executive Committee Meetings to manage the developing COVID-19 related issues on a day-to-day basis.

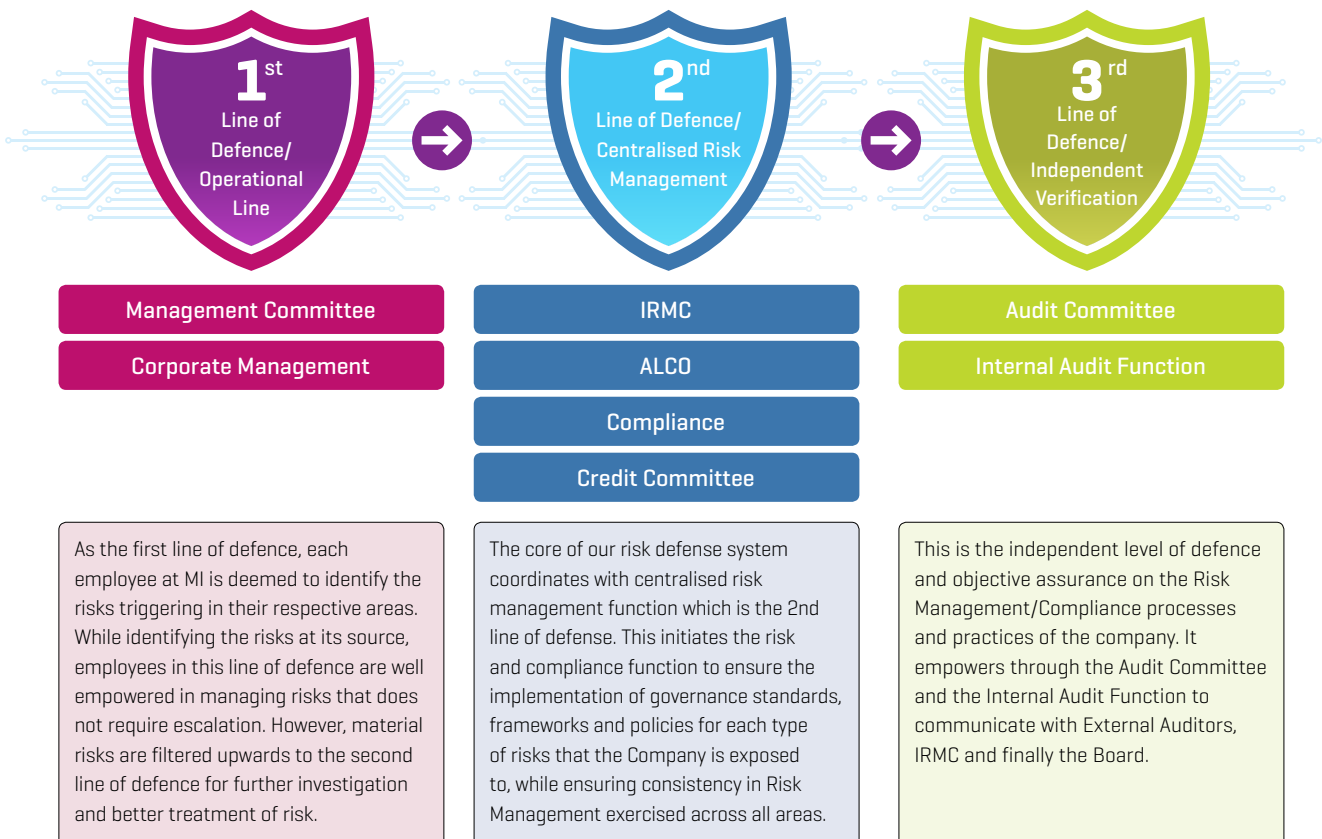
MI's Risk Culture



Three Lines of Risk Defense

The foundation of our comprehensive risk management framework is built through a three lines of defense approach. This acts as a safety mechanism against unexpected risks and losses, protecting the organization's assets and stakeholder interests. Under this approach, every employee becomes accountable for proactively managing the risks within their capacities, which in turn promotes a strong risk culture among the employees across different business functions.

Three Lines of Risk Defence



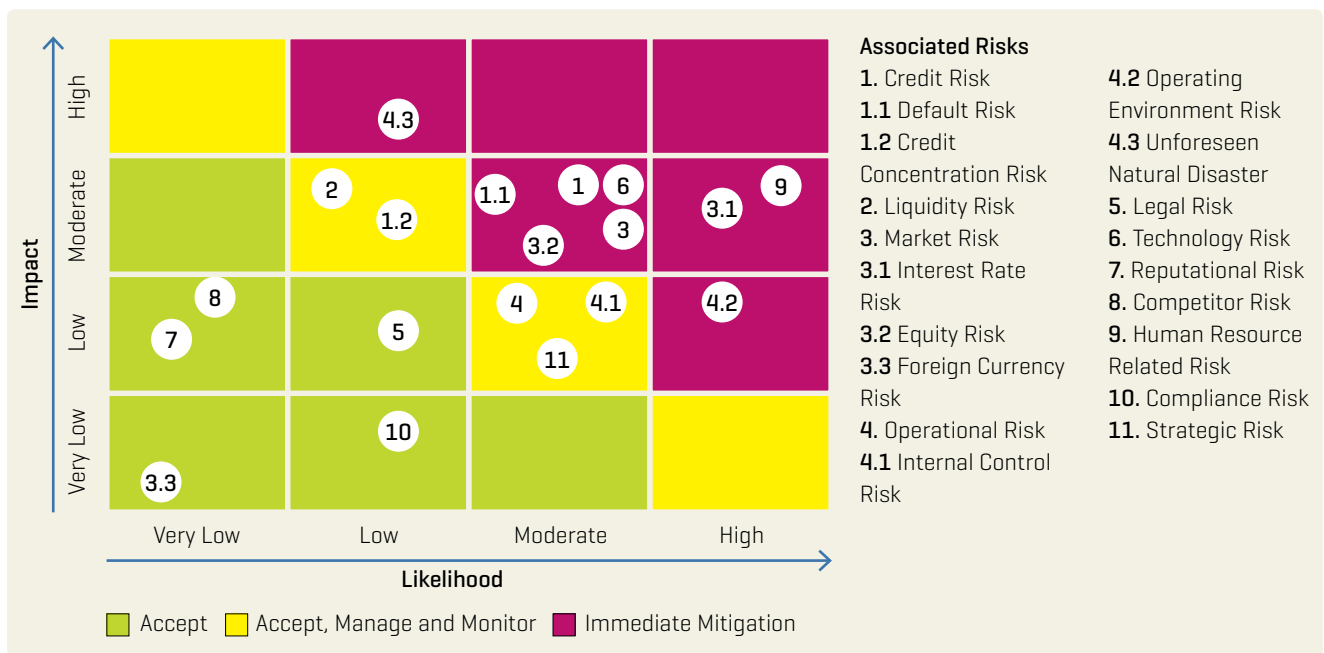
Risk Prioritization Process

The IRMC, with the assistance of the Head of Compliance and Risk Management, carried out risk assessments covering a broad range of financial and operational risks to prioritize risk treatment actions. In doing this, it is required to prioritize the risks that we have identified as material for our business in managing our resources effectively while not compromising on the effectiveness of our Risk Management Framework [Refer to 'Resource Allocation' pages 40 to 41]. Financial risks are assessed in every quarter and reported to IRMC. The Operational risk assessment exercise takes place annually and reviews conducted quarterly to ensure MI's risks are assessed closely and new emerging risks are captured early.

	Key Business Lines			
	Lending	Investments	Deposit Mobilisation	Other Ancillaries
Key Risk Areas	<ul style="list-style-type: none"> ☑ Credit risk ☑ Interest rate risk ☑ Operational risk 	<ul style="list-style-type: none"> ☑ Interest rate risk ☑ Liquidity risk ☑ Operational risk 	<ul style="list-style-type: none"> ☑ Operational risk ☑ Liquidity risk 	<ul style="list-style-type: none"> ☑ Operational risk
Resource Allocation	More resources were allocated to tackle these risks, prioritizing credit evaluation to manage credit risks	Resource allocation in this segment revolved around investments evaluation	Greater emphasis was placed on relationship management, branding and process enhancements	Focused on relationship management and process enhancements

When doing risk prioritization at MI, the Risk Heat Map below is applied as a tool to reflect the results of our risk assessment process for the current year and to evaluate various risks. Risks, of which the likelihood and impact are high, deemed material are analyzed for extensive management and monitoring [Red Zone]. Accordingly, as the impact and the likelihood of risks are at lower level, a strategy of continuous monitoring is pursued.

Risk Heat Map



RISK MANAGEMENT REPORT

Credit Risk Management

Credit risk remained the core risk's especially in the backdrop of the two unprecedented events. Credit risk arises due to failure of customer or counterparty to honor its financial or contractual obligations to the Company. It results in the loss of the principal amount and interest with adverse implications on profits due to the impairment provisions or write-offs of non-performing facilities.

Since we are in the business of lending, we are exposed to the credit risk vastly. Those lending products include leases, hire purchases, property mortgage loans, vehicle loans and other loan receivables. In order to mitigate such credit risks, our dedicated risk officers and AGM- credit risk play a key role in managing existing and emerging credit risks. Furthermore, a Board-approved Policy for Credit Risk Management is in place, and developed based on the Company's risk appetite. This policy enables MI to set a foundation for deriving key credit risk indicators as well.

Although we have placed stringent credit risk management measures, the year under review was one of the toughest as the Easter Bombings and COVID-19 global pandemic hit borrower's repayment ability quite unexpectedly, especially dragged down by the jolt to overall economic activity within the country and also due to global stoppages.

Credit Risk Highlights of the Year

- ✔ Credit Policy was revised during the year with improved controls for risk management.
- ✔ Introduced an internal rating scheme to manage customer risk profiles.
- ✔ Strengthened the Credit Risk Division with more resources to improve the credit evaluation process.

Key Credit Risk Indicators

Pre-defined credit risk appetite levels have been defined by MI to compare with actual results during the year.

Key Risk Indicators	Policy Range	Actual
Gross NPA %	< 5%	11.69%
Net NPA %	< 3%	3.22%
Provision Cover	> 45%	56.66%
Credit Concentration-Sector-wise		
✔ Agriculture	< 6%	6%
✔ Consumption	< 5%	4%
✔ Services	< 50%	49%
Single Borrower Limit [Individual]	15% of the Capital Funds of the Company	8.37%
Single Borrower Limit [Group]	20% of the Capital Funds of the Company	13.39%

MI's Credit Risk Types

MI's credit risk encompasses the broad categories of risks given below;

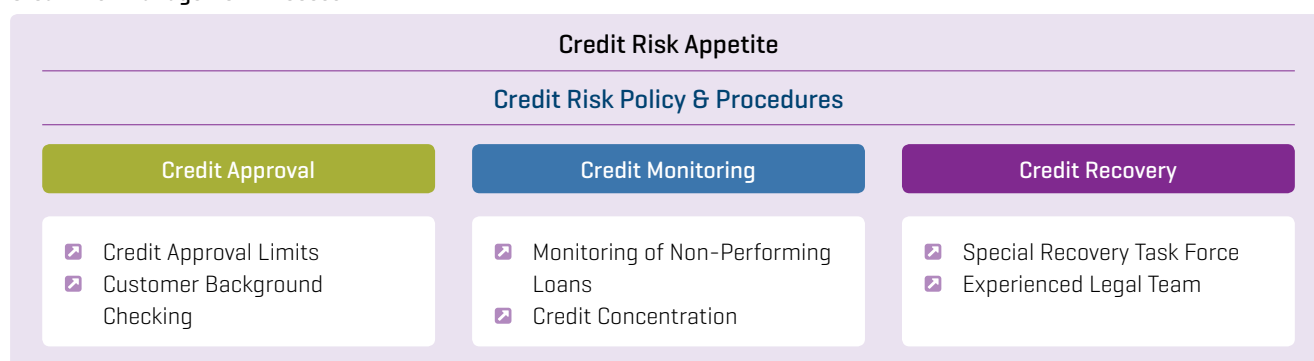
- ✔ Default Risk: Risk of failure of MI's customers to settle debt obligations
- ✔ Concentration Risk: Risk of unbalanced distribution of MI's advances among business sectors, geographical regions and counterparties
- ✔ Recovery Risk: Risk of MI's loan advances requiring a longer period to recover

Approach to Credit Risk Control

Our Internal Audit Department was responsible to conduct regular reviews to ensure that MI's Credit Policy and procedures were kept effective and the internal controls were sufficient to face risks and to comply with the industry regulations. While the Credit Policy strove to address the overall risks attached to the credit cycle, management implemented a well-structured mechanism documented in the Credit Risk Manual which encompasses stringent credit procedures and practices through which the Credit Policy was executed.

By considering the significance of managing credit risk during the year, the COO, GM - Credit and Marketing and respective Regional Managers - Credit made necessary actions to follow up on all significant concerns highlighted in audit reports, under the supervision of the Audit Committee. Furthermore, the Audit Committee and Risk Management Department appraised all material credit risk concerns and reported their findings to the Board for the Directors' attention, seeking direction for material and urgent matters.

Credit Risk Management Process



MI's Credit Approval Process

All lending services originate at Head Office or at branch level. Hence, we have implemented an effective credit approval process coupled with the Credit Risk Manual for relevant staff to adhere to at all times. This imposed adequate controls on all the stages of the credit cycle to optimize returns while addressing the associated risks. The methodology applies for assessing, approving and monitoring credit risk and the level of application varies by considering respective customer, product types and segments as risk levels tend to differ based on such factors.

Actions to Manage Risks

- ✦ 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.



Stage
1
Inquiry

- ✦ 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 (KYC) review and documentation.
- ✦ The Credit and Marketing Officer/Credit Manager together with the respective Regional Managers 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.



Stage
2
Application and
Assessment

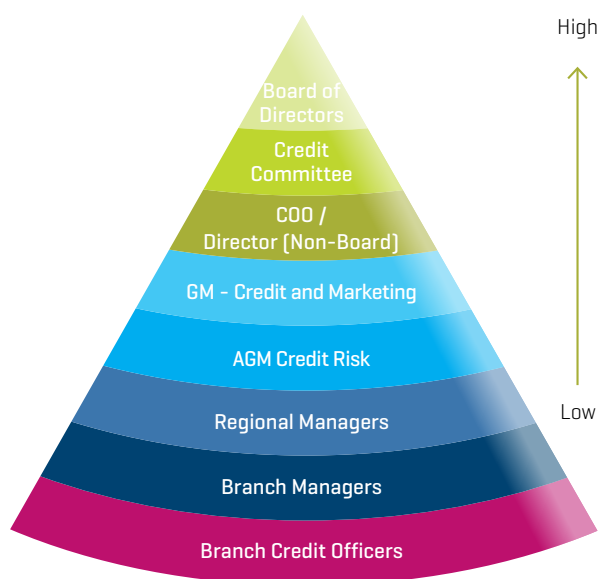
- ✦ Approval for credit is granted only after thorough assessment of the risks by the Credit Risk Management Unit.
- ✦ Credit facilities are approved at different authority levels based on the value of the credit facility.
- ✦ The Board of Directors is the highest authority to approve credit facilities, followed by the Credit Committee for higher value exposure.
- ✦ The Managing Director (MD), COO, GM - Credit and Marketing, AGM - Credit Risk, Regional Managers 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



Stage
3
Credit
Approval

RISK MANAGEMENT REPORT

Credit Approval Hierarchy



Credit Monitoring

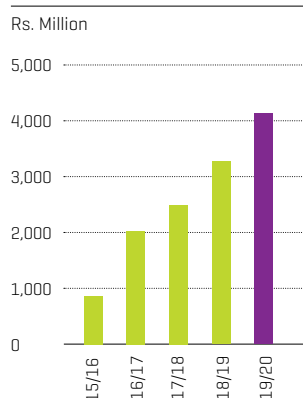
As a key mechanism established to monitor credit risk for over 60,000 customers at MI, IRMC assesses the credit portfolio performance against risk tolerance levels to maintain the credit risk indicators within the stipulated tolerance levels. Furthermore, Credit Department of MI measures the risk level of credit portfolio on a regular basis, enabling management to detect early warning signals and to minimize and manage possible deterioration of credit quality as well.

However, the year under review remained one of the most challenging periods not only for the NBFIs sector but also for our entire country, starting with the Easter Sunday events in April 2019 and thereafter the lockdowns due to COVID-19 pandemic in March 2020 brought about a huge negative impact to the Sri Lankan economy and effected almost all industries including the Non-Bank Financial Institutions.

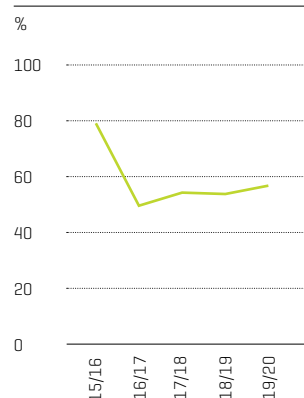
As a result, credit risk management of the Company was really challenged with lack of collections and continuous deterioration in asset quality especially during the 1st quarter and closing month of the financial year. In the aftermath of the tragic Easter Sunday events, tourism and related industries took the major brunt which had a cascading effect to vehicle financing and general appetite for credit, which resulted in marginal loan book growth year-on-year and again COVID-19 resulted in the decline in collections. Further, the moratorium introduced by the government to provide relief to Borrowers on their debt repayments will reduce the future cash inflows of the industry in the short term. This lead to rise in non-performing advances ration (NPA) to 11.69% and stood higher than last year with unexpected impairment charges for the Company.

Despite those challenges, we took cautious measures to high risk credit and were also selective in promoting specific lines such as property mortgage lending and moreover micro financing unlike in the past, the portfolios of which dipped by 19% and 24% respectively year-on-year. Regulatory measures brought about last financial year setting forth maximum interest rates on micro finance business coupled with weather disasters hindered progress made in developing micro-financing related revenue. Furthermore, strategic initiatives taken by the government to revive the economy and the regulatory concessions and flexibilities granted to safeguard the finance sector, is expected to stabilize market conditions and to improve in future once the economy gradually commences from most fronts.

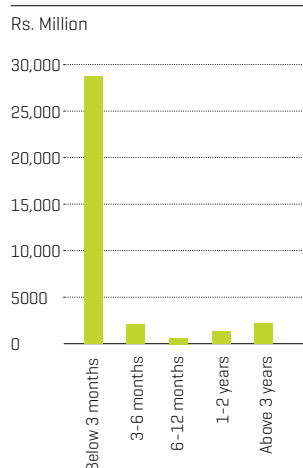
Non Performing Advances - Overall



MI's Provision Coverage Ratio



Credit Quality Age Analysis of Lending Portfolio



Further disclosure about Credit Risk Management is made available on our website.

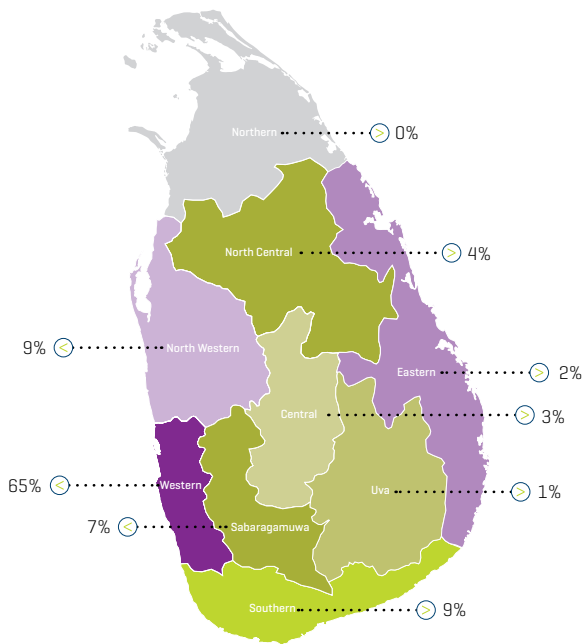


<http://mi.com.lk/images/qr/risk-management.pdf>

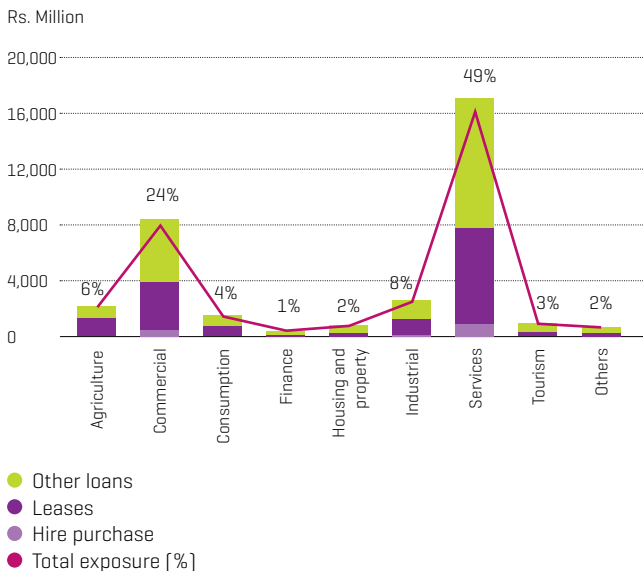
Credit Concentration

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.

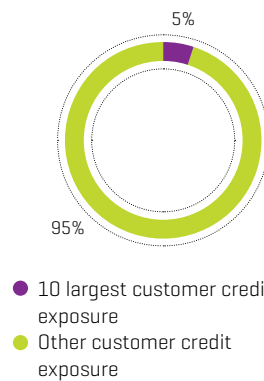
Geographical Concentration of Credit



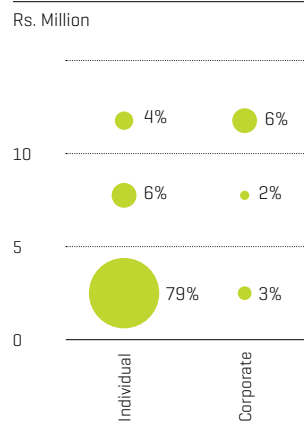
Concentration of Credit - Sector Wise



Exposure of 10 Largest Customers FY 2019/20



Credit Exposure by Counterparty FY 2019/20



lending portfolios exposed to those sectors are considered at a risk of credit deterioration in the short term.

Recovery and Collections

During the lockdown period due to COVID-19, like the industry, MI's credit recovery was hampered significantly. Aggressive credit recovery was further affected by the debt moratoriums introduced to existing performing and non-performing facilities especially the leasing facilities under the guidance of CBSL's refinancing facility.

Although the lockdown situation under COVID-19 has a severe negative implication on credit recoverability for the industry as a whole, the reduction of the liquid asset requirements by the regulator and possible liquidity relief, are bound to reduce near-term liquidity shocks stemming mainly from non-payment of loan rentals. This provides enough time for MI's recovery team to come up with innovative strategies to strengthen their business line. Furthermore, a special recovery task force was in place to speed up the recovery process for overdue accounts. In addition, legal actions were pursued in coordination with the Legal Department to ensure the recovery of problematic default accounts. [Refer page 53 in this regard].

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.

In the immediate aftermath of the Easter Sunday attacks, we were cautious not to increase exposure to tourism and high risk sectors. With the emergence of COVID-19, the entire economy has again faced a contraction in 2020 due to many sectors being at a standstill including tourism, retail and trade, apparel, financial, etc. Hence, MI's

RISK MANAGEMENT REPORT

Liquidity Risk

Liquidity risk is the potential risk arising from the inability to meet financial liabilities in a timely manner as and when they become due, mainly on account of mismatches between the maturities of the Company's assets and liabilities. As a financial institution, liquidity risk needs close attention, especially during challenging economic conditions such as terrorist attacks, political instabilities and virus pandemics when there is market volatility. Hence, during the year, MI took vigilant actions to manage its liquidity position, mitigating any possibilities of liquidity deficiencies.

We closely monitored our less-than-one-year assets and liabilities' maturity profile, deposit trends and customer behavior and promoted manageable ticket size transactions. Although economic shocks, especially the outbreak of COVID-19 affected people's savings across the country, our deposit mobilization was satisfactory during the year with the deposit base surpassing the Rs. 22 billion mark as of the balance sheet date. However, our predefined deposit targets were somewhat hindered due to stringent deposit mobilization regulations and increased competition especially from the banking sector. When considering borrowings, continuous decline in interest rates and lending rate caps introduced to banking sector positively contributed in lowering our cost of borrowings, enabling borrowings at competitive lower rates.

Liquidity Risk Highlights of the Year

- ✔ Liquidity Policy was revised with more effective tools to monitor and manage the liquidity risk.
- ✔ Treasury function was strengthened through the implementation of newly approved policies.
- ✔ MI expanded banking business partnerships with one of the major public banks in the country.

Key Liquidity Risk Indicators

During the year, we were able to maintain adequate liquidity levels not only to comply with regulatory requirements but also to ensure smooth flow of funding to required areas of business. Board approved key liquidity risk indicators and their respective compliances of MI have been illustrated below.

Key Risk Indicators	Policy Range	Actual
Net Advances to Deposit	< 140%	144%
Liquidity Gap (Cumulative);		
1-7 Days Bucket	750 Million	1,251
1 Month Bucket	(2,500 Million)	(1,507)
2-3 Month Bucket	(1,500 Million)	(3,742)
4-5 Month Bucket	(3,750 Million)	(6,263)
6-12 Month Bucket	(6,000 Million)	(6,831)
Deposits Renewal Ratio	> 75%	> 70%
Maximum Single Depositor Exposure	5%	< 4%

How We Managed Liquidity Risk

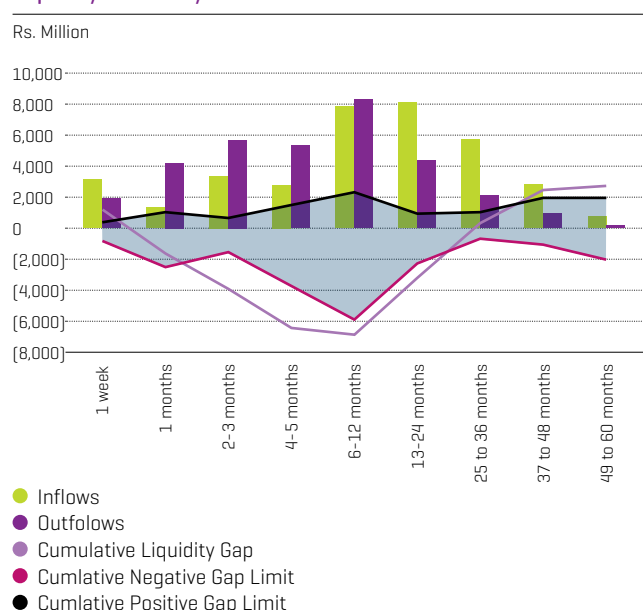
MI's Assets and Liabilities Committee (ALCO) was responsible for overseeing the overall liquidity position and managing liquidity, within Board-approved risk appetite levels. In addition, Board-approved liquidity and investment policies were enhanced and introduced to provide a framework for managing MI's overall liquidity risk effectively, under challenging situations.

The Liquidity Policy of MI encompass the controls listed below:

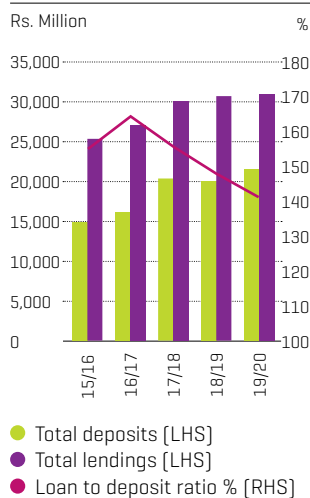
- ✔ Risk appetite limits
- ✔ Liquidity risk monitoring
- ✔ Liquidity risk reporting mechanism
- ✔ Clear duties for Treasury Division, Committees and Senior Managers
- ✔ Contingent funding lines

When managing the day-to-day liquidity position and carrying out related funding transactions, MI's Treasury Department performed a key role of balancing MI's short term and long term funding needs, though this year market liquidity remained constricted. Although this year was challenging, MI's treasury was able to secure bank and financial institutional funding on a regular basis, while risk triggering items were promptly identified, escalated and managed promptly.

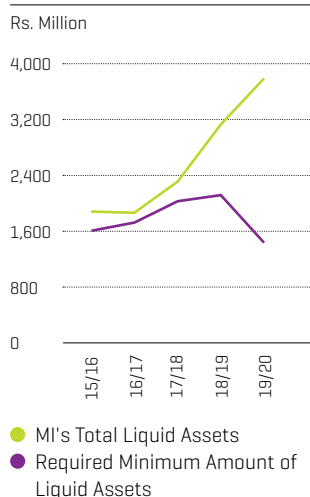
Liquidity GAP Analysis



Advances to Deposits



Statutory Liquid Assets



In order to facilitate NBFIs to overcome the outbreak of COVID-19, CBSL brought down the statutory liquid assets ratio to 6% from the previous 10% for deposits liabilities, enabling LFC's to prevent near-term liquidity shocks arising from decreased collections.

Liquidity Risk Monitoring

Different tools were used by MI's Treasury Division under the instructions and supervision of the Finance Director and the CFO to monitor MI's maturity profile, quality of the deposit base and funding portfolio. Among them, Maturity Gap Analysis was a key tool for monitoring liquidity risk which reflects contractual maturities of balance sheet assets and liabilities.

Maturities of customer deposits are reflected at contractual maturity in the Maturity Gap Analysis. From the depicted gap analysis MI closely monitored the behavioral aspect of deposit refunds which has been used in preparing cash flow forecasts and evaluating short-term liquidity positions. In practice, with over 70% deposit retention levels, the behavioral maturity profile of the customer deposits exhibited longer maturity than the contractual maturity.

The deposit base was also analyzed closely in order to minimize the liquidity risk arising from deposit concentration. Deposit promotional campaigns, social media and direct marketing strategies focused on attracting the youth and special segments like the professionals and product extensions that helped to reduce concentration risk while allowing the deposit base to expand in a healthy manner. Moreover, our Corporate Plan up to 2022 has set the direction for innovation and technological advancements that will bring down the level of concentration on any specific customer group or market segment.

Contingent Funding Lines

MI's contingency funding agreements with commercial banks were in place, ensuring availability of adequate liquidity to fund our existing asset base growth whilst maintaining sufficient liquidity buffers to operate smoothly under varying market conditions including any short-term, medium or long-term market disruptions.

When considering industry pressure and negative depositor sentiments that prevailed during the year, greater emphasis was placed on maintaining an adequate portfolio of unutilized borrowing facilities [Refer Financial Statement Note 49]. This ensured the availability of liquidity to meet our obligations and also acted as a buffer to support any temporary shortfalls in liquidity during said challenging events observed during the year under review.

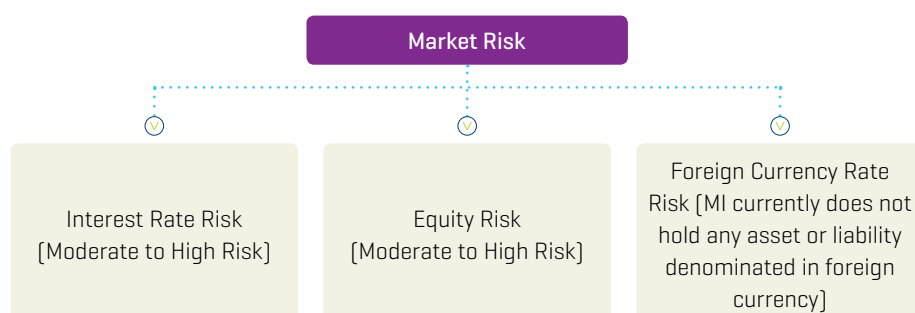
Market Risk

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. Furthermore, our equity investment portfolio is also exposed to changes in equity prices. During the year, fluctuations in market variables like interest rates, equity prices and bond prices impacted to above market product portfolio and impacted profitability.

Market Risk Highlights of the Year

- MI obtained Rs. 3.8 billion in fixed rate long-term loans to fund matching fixed rate lending, to mitigate the interest rate risk.
- Set up a Committee to review pricing of lending and deposit products
- Reviewed and revised the ALCO terms and references

Market Risk Classification



RISK MANAGEMENT REPORT

Interest Rate Risk

Interest rate risk is the risk of facing reduced earnings or declined value of assets resulting from the volatility in interest rates that impact rate sensitive financial assets and liabilities. Both trading and non-trading portfolios of MI are exposed to the changes in interest rates. MI's core business product portfolio comprises of various credit and funding portfolios with different interest rate characteristics resulting in varying degrees of sensitivity to changes in market interest rates. Mismatches in these characteristics lead to volatility in net interest income as interest rates vary. Volatility of the interest rates also impacts the interest yield and the fair value of MI's investments.

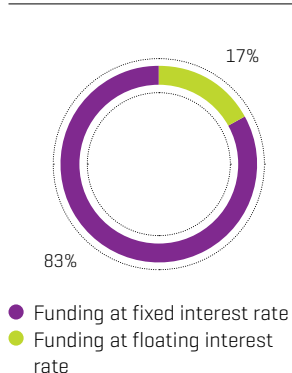
Key Risk Indicators	Policy Range	Actual
Interest Rate change by 1%, impact on profitability [Rs. Million]	<50	36.33
Net Interest Margin [%]	>8%	>9%

MI's Borrowing Cost of FY 2019/20



- Short-Term Borrowings [LHS]
- Long-Term Borrowings [LHS]
- Average AWPLR [%] [RHS]

Floating and Fixed Interest Rate Funding 2019/20



Monitoring of Interest Rate Risk

The Monetary Board of CBSL took vigilant actions to reduce policy interest rates several times responding to the Easter attacks and COVID-19 incidents during the year which saw the sector deposit rates being revised downward and also lending rates declined during the year. We carefully monitored our financing and investment positions effective yields and made timely policy decisions to protect required profitability.

When monitoring interest rate risks, the treasury division reviewed the interest rate risk from an operational perspective, measuring and analyzing the exposures as per the risk appetite set for treasury transactions while managing funding and optimizing pricing decisions. The Risk Management Unit, ALCO and IRMC were also responsible for monitoring and reporting prevailing interest rate risks to the Board and initiating

appropriate action plans to mitigate overall market risk exposure within the defined risk appetite.

Interest rate sensitivity was reviewed on a monthly basis and necessary actions were recommended and executed accordingly. When considering movements in interest rate indices such as the TB rate and AWPLR were being proactively monitored and respective observations were applied in deciding competitive lending and deposit rates.

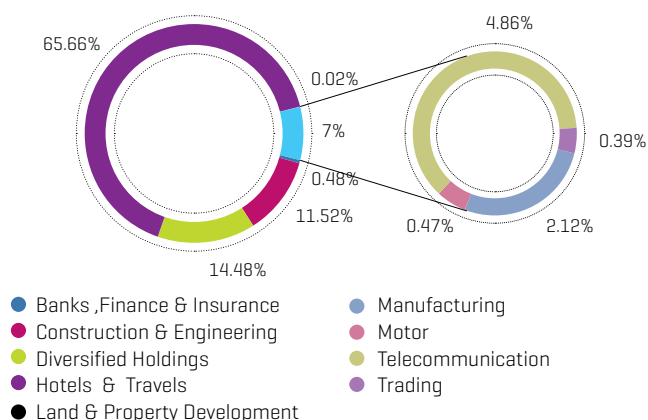
Equity Risk

Equity risk is the risk of decreasing fair value of the equity portfolio that may arise as a result of adverse movements in equity prices. During the year, the Colombo Stock Exchange [CSE] experienced a high degree of volatility with response to the slowdown of the SriLankan economy, weakened investor confidence and no operations in the stock market due to uncontrollable environmental incidents like the Easter bombings and COVID-19 pandemic. 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.

Mitigation of Equity Risk

Equity risk faced by MI is managed through the Company's investment policy which provides comprehensive guidelines for the management of equity risks. MI's Treasury Department is responsible for monitoring market behavior of equity transactions while maximizing their returns in spite of sudden fluctuations in share prices in the market. When monitoring equity risk effectively, we placed great emphasis on analyzing the fluctuations in counterparty exposures and sector wise exposures as well.

MI's Equity Portfolio 2019/20



Operational Risk

Operational Risk Highlights of the Year

- Establishment of the process reengineering Department to streamline the processes of the Company.
- Realigned and redesigned the operational processes of the Company removing non value added activities.
- Identified slack resources across the organization and reallocated resources in the most appropriate manner to improve efficiency.

Operational risk is the risk of losses resulting from failed internal processes, people, systems and external events which arises from day-to-day operations. The losses resulting from operational risk could be monetary or non-monetary and may affect every aspect of business including customers and MI's reputation.

Hence, we assessed different dimensions of operational risks such as human error, non-availability of technological services, fraud and theft, loss of customer data and natural and manmade disasters etc. Operational risk could also be arisen on failure to adopt the changes in regulatory environment. In concluding, all business segments at MI are vulnerable to operational risks and therefore careful attention is required.

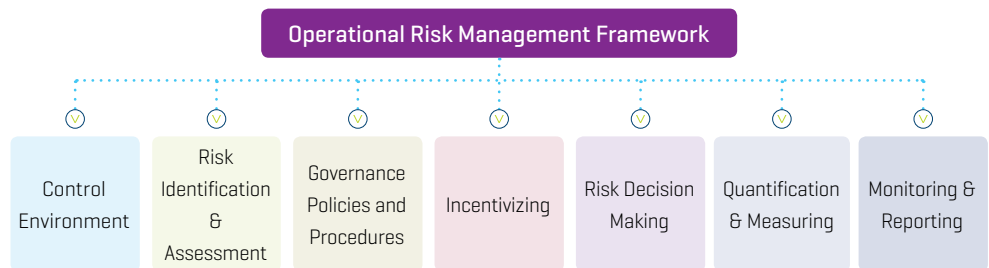
In the backdrop of the two unprecedented events, our attention to operational risks was strengthened, especially increasing focus on Business Process Reengineering through the newly appointed GM operations and BPR to enhance operational effectiveness, whilst mitigating possible related risks and adjusting to the "new normal", deploying health and safety protocols and work from home techniques as appropriate.

Key Risk Indicator	Policy Range	Current Position	Actions
Internal Fraud	Below 3 incidents	1	<ul style="list-style-type: none"> ➤ Strengthening the internal control policies and procedures ➤ Awareness programs on whistle blowing and fraud policy
External Fraud/Theft	Below 2 incidents	0	<ul style="list-style-type: none"> ➤ Installation of security cameras ➤ Security officers at head office and high-risk branches
Physical Asset Damages	Below 2 incidents	0	<ul style="list-style-type: none"> ➤ Comprehensive insurance covers for Head Office branches
Business disruptions due to system failures	Below 2 incidents	1	<ul style="list-style-type: none"> ➤ Redundant hardware and software for smooth functioning of the system

Managing of Operational Risk

Operational risks of MI were managed according to the Operational Risk Management process adopted, which revolved around clear policy, procedures and control checks and feedback mechanisms. As a result of having structured approaches to manage operational risk, we were able to deploy necessary controls to manage and mitigate possible losses and business interruptions arising due to legal and compliance risks, technology risks and human resource risks.

Operational Risk Management Framework



When 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. Inductions, training programmes and various other trainings targeted behavioral skill development. We also promoted a strong risk culture that we believed was the most vital ingredient in managing our operational risks.

Managing Operational Risks: Business Continuity Planning (BCP)

The key objective of MI's Business Continuity Plan is to coordinate recovery of critical business functions in managing and supporting business recovery in the event of a disruption or a disaster. In doing this, possible contingent events and related threats were identified upfront and a recovery mechanism was also prepared by prioritizing critical functions of Company's operations and listed down respective actions to be undertaken, with a defined committee to oversee those contingent situations. MI's ICT Contingency Plan is reviewed periodically and enhanced in line with evolving conditions. The unique challenging events of Easter Sunday and COVID-19 brought insights and fresh inputs to enhance some of these contingency plans.

RISK MANAGEMENT REPORT

Lifecycle of Business Continuity Plan at MI



Legal and Compliance Risk

Legal risk is the risk of possible losses in terms of penalties, fines, claims or outside parties filing law suits against the Company. Compliance risk arises where the Company fails to adopt and comply with changes in laws and regulations.

Our sound regulatory monitoring mechanism primarily functions through both the Compliance Division ably supported by the Legal Division and HOD's who constantly keep abreast of regulatory environment. These divisions/officers facilitate MI to manage and mitigate potential regulatory risks. Our corporate culture and Code of Conduct encourage all staff at MI to understand and abide by the prevailing laws and regulations applicable to their duties. Moreover, our staff are 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 assesses the Company's progress in eliminating, or mitigating compliance risk. Moreover, the Compliance Division monitors timely submission of reports to the Central Bank of Sri Lanka and other regulatory bodies, while the Internal Audit Division independently provides feedback on MI's regulatory compliance status to the Audit Committee and the Board.

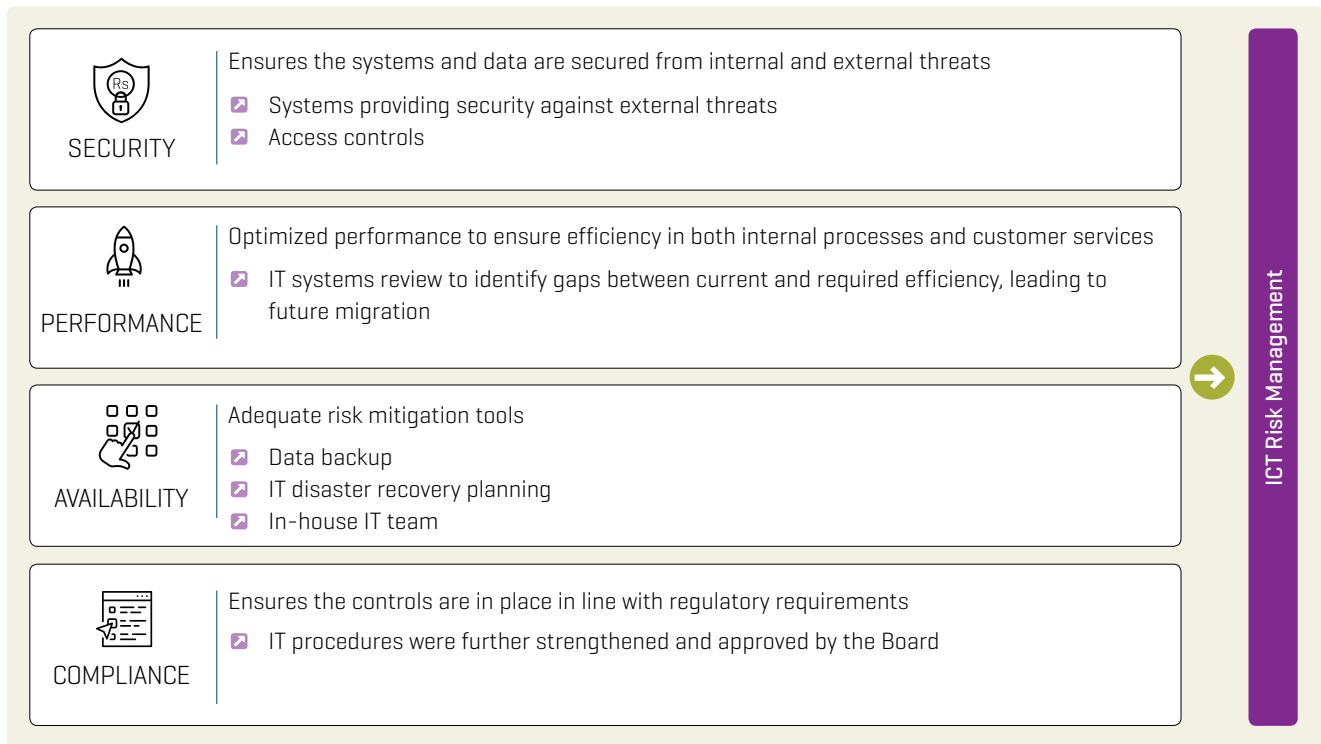
Technology Risk

Technology Risk Highlights of the Year

- Provided remote access to the Company's system to critical employees to ensure the continuation of operations even in the lockdown period of whole country.
- Acquired a secondary level firewall to increase the security of the server segment

System failures, use of obsolete systems and other faults in IT technology used by a Company adversely affect the services delivered to customers while disrupting the smooth operations of the Company. Hence, our dedicated in-house IT Department has implemented a comprehensive IT Disaster Recovery Plan to face contingent risks. As a result, we were able to ensure minimal system disruptions, with no significant impacts on our operations during the year. However, essential operating activities of MI were carried out online amid the COVID-19 outbreak especially by working from home, while enabling virtual access to our databases. We were also cautious about managing the risk of fraud through system manipulation, cyber-attacks, loss of data, data protection issues and usage of obsolete systems causing inefficiencies. Effective fire walls, virus guards, access control approaches helped to mitigate possible risks.

Main Components of MI's ICT Risk Management Framework



Human Resource Risk

Human Resource Risk Highlights of the Year

- Introduction of the online Performance Management system covering 100% of the executive staff.

Human resources risk is the Company's inability to meet its talent requirement on a timely manner. Lack of right talent or delay in meeting talent requirement may disrupt the operations, customer service and also restricts the growth of a Company.

Human resource risk could be considered one of the key operational risks faced by MI as it maintains over 1,000 staff working in 40 locations. When mitigating human resource risk, we emphasized three main areas that are fundamental in attracting and retaining the right pool of talent. Those are, managing recruitment, employee retention and succession planning.

MI'S HR Risk Management Process



RISK MANAGEMENT REPORT

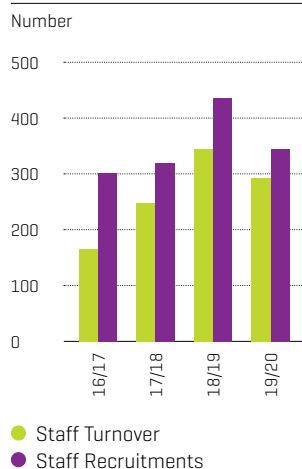
In order to ensure that MI retains the right talent, the Human Resource Department improved employee motivation through a fair and transparent performance management system, recognition of employee efforts with competitive remuneration packages, performance-linked pay and bonuses, etc. Furthermore, learning opportunities and the favorable work culture encouraged the retention level of MI's valuable staff.

Despite huge challenges during the year under review, MI's Management was keen to acquire and retain employees with good leadership and managerial capabilities. This enabled the Company to establish proper succession planning whilst in parallel drive suitable employees to gain enhancements in their respective careers as well. Staff turnover was also carefully analyzed

strategically, where reasons for attrition were considered as an input for further improving the effectiveness of the HR management process of the Company. A key highlight was the enhancement of the performance management system through an external consultancy firm, to align corporate objectives with employee performance and rewards, work focus and a performance driven culture.

Although the Easter attacks and COVID-19 incidents continued to damage our operational momentum, we managed to look after our workforce by ensuring timely payment of salaries and giving sufficient protection via mask and sanitizer supply. In the lockdown due to COVID-19, MI prioritized the protection of its workforce and encouraged a 'stay at home' concept by obeying respective rules and regulations of the government.

Staff Turnover Vs. Staff Recruitments



MI's Communication Policy, play a major role in managing reputational risk.

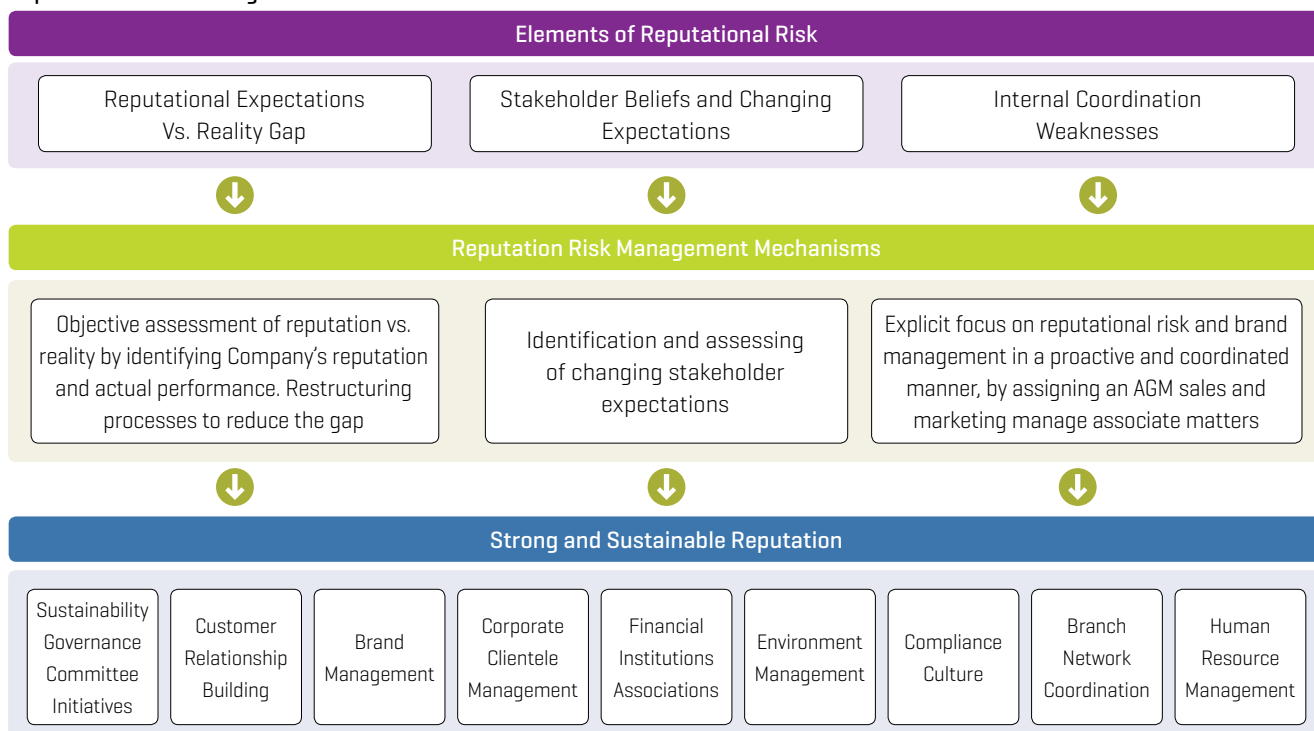
MI has established formal communication channels to receive customer and other stakeholder feedback and grievances and finally resolve them in timely manner. MI's Whistle-Blowing Policy also encourages employees to report any malpractices which might lead to incur reputational risk towards the Company.

As a result of continuous efforts of all staff at MI, we have built and sustained a strong reputation and brand image for many years. Considering the risk management strategies that we implemented for all types of risks throughout the year under review, we hope to forward to further strengthen our corporate visibility and reputation.

Reputational Risk

Simply, reputational risk arises when stakeholders lose the favorable perception of a company. This risk is highly dynamic, as stakeholders' expectations are not constant, and hence the Company is required to be continuously vigilant about the factors causing reputational risk. Hence, effective management of other risks, coupled with

Reputational Risk Management Framework



Strategic Risk

At any given time, strategic risk is considered as a material risk since it may hurt our entire value creation process. This risk occurs due to incorrect assumptions about external, or internal factors, inappropriate business plans, ineffective business strategy executions, failure to respond to changes in the regulatory, macroeconomic and competitive environments, product obsolescence and technology developments, etc.

In order to mitigate such strategic risks, our strategic planning process performs a key role. As a result of this, we have developed our Strategic Plan till 2022 in consultation with the heads of each department, who provides stakeholder insights relating to their respective areas, and also provides the direction for entire Company. We continued to adopt the Board-approved Strategic Plan approved in March 2019 through our Corporate Management team and respective divisional heads and respective achievement of strategic milestones and related risk concerns were also appraised. Considering the current COVID crisis, we hope to revisit and submit a revised plan once the economic environment and fundamentals are established shortly.

In addition to above, MI also has formal processes in place to ensure significant strategic actions, such as capital actions and strategic risk implications of new, expanded or modified businesses, products, or services and other strategic initiatives are continually reviewed by the Executive Directors/

Director [Non-Board] with due feedback to the Board.

Risk Measurement through Stress Testing

As MI is in the finance business sector, lot of uncertainties and vulnerabilities affect its ongoing business operation and needs monitoring with adequate supportive statistics. Hence, Stress Testing for us is considered a key tool since it provides insights relating to potential impacts of our risk profile on the balance sheet, earnings capacity and capital. In addition, it serves to manage MI's capital risk as well.

Key objectives of MI's Stress Testing Exercises

- Provide rigorous and forward-looking assessments of risk
- Facilitate the development of risk mitigation, or contingency plans across a range of stressed conditions
- Facilitate capital and liquidity planning process
- Link external environmental factors with the internal risk management framework

MI's Stress Testing Techniques

- Sensitivity analysis: Examines the short term impact of changes in some variables on the values of a portfolio/ financial position. This can be done for a single variable, or a number of variables, or can be combined for multifactor stress testing

- Scenario Analysis: Assesses the impact of extreme but plausible scenarios on a given portfolio/financial position of the Company using sophisticated modeling techniques, which typically incorporate macroeconomic variables

Based on above techniques, minor, moderate and major shocks are separately recognized and prioritized. MI performs stress testing regularly for all major risk categories, whilst portfolio-specific stress testing is conducted quarterly for highly sensitive portfolios such as loan book, interest sensitive asset/liabilities and liquidity, where for all other areas, stress tests are conducted as and when it is deemed necessary. The responsibility relating to development, approval and review of stress tests are with the IRMC and the Risk Unit.

RISK MANAGEMENT REPORT

During the year, we were able to analyze possible impacts steaming from credit, interest rates, liquidity and equity risk factors on capital, earnings and liquidity positions, by considering worst case statistical scenarios describing financial market conditions, in the backdrop of the market fundamentals changing negative due to Easter events and the COVID pandemic.

1. NPA Stress Test

Underlined stress scenario: When increasing the gross NPA, relative impact on MI's NPA ratio.

Stress scenario	Magnitude of shock	NPA %
i	5%	12.28%
ii	10%	12.86%
iii	15%	13.45%

Commentary:

Continuous monitoring of asset quality is recommended, though management is confident that the higher NPLs was primarily due to the two unprecedented events and the collateral backed few large accounts of past few years.

2. Impairment Stress Test

Underlined stress scenario: Impact to MI's Capital Adequacy Ratios [CAR] when increasing the impairment charge by given stressed situations.

Stress scenario	Magnitude of shock	Total CAR %
i	5%	15.18%
ii	10%	15.11%
iii	15%	15.05%

Commentary:

Under the given stress cases even, MI's CAR ratios are well above the prudential capital adequacy requirements.

3. Equity Price Stress Test

Underlined stress scenario: In a backdrop of stock market share price depletion with falling fair value of MI's equity investment portfolios, relative impact on company's CAR.

Stress scenario	Magnitude of shock	Total CAR %
i	5%	15.21%
ii	10%	15.17%
iii	15%	15.13%

Commentary:

Under the given stress cases also, MI's CAR ratio is well above the prudential capital adequacy requirements.

4. Statutory Liquid Assets Stress Test

Underlined stress scenario: Measuring the relative impact on Statutory Liquid Assets ratio position, in the event of a fall in liquid assets under stress situations.

Stress scenario	Magnitude of shock	Statutory Liquid Assets %
i	5%	15.19%
ii	10%	14.39%
iii	15%	13.59%

Commentary:

Under the given stress cases, MI's Statutory Liquid Assets ratio will yet remain well above the statutory requirement limit of 6%.

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 91.

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. Review the adequacy and effectiveness of the management level committees to address specific risks and to manage those risks within quantitative and qualitative risk limits. 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. Approve parameters and limits set by the Management against various categories of risk upon ascertaining that they are in accordance with the laws and regulations.
- g. Identify and monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises.
- h. Review MI's approach to risk management periodically and introduce changes to bridge any gaps arising due to evolving business landscape.

Key Committee Actions Initiated During 2019/20

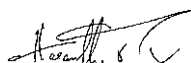
Over the course of the year, the Committee considered a wide range of risks faced by the Company, both standing and emerging due to the Easter Sunday events and COVID-19 crisis, across all key areas of risk management. The Committee took following actions during the year in fulfilling its responsibilities 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.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

During FY 2019/20, the Committee continued to utilize established Corporate Management Committees to provide additional focus on credit risk, liquidity risk, IT resilience and cyber Security, operational risk concerns, business continuity planning and sustainability risks. The key actions of these Committees and benefits are briefed below.

Action	Benefit to MI
<p>❑ 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.</p>	<p>❑ Enhanced treasury management function with stronger risk controls.</p> <p>❑ Improved the maturity profile of the Company's Assets and Liabilities.</p> <p>❑ Established a new committee under ALCO to determine the product pricing.</p>
<p>❑ IT Steering Committee - Implemented necessary steps proactively to ensure safety from cyber threats and improve system capabilities to cope with situations like COVID-19 by facilitating work from home technique.</p>	<p>❑ Facilitated MI's operations without technological disruptions and made prompt actions during the Easter event and COVID-19 crisis.</p> <p>❑ Initiated options of working from home and initiated actions to digitalizing collections during the lockdown period.</p> <p>❑ Oversight of ongoing external system evaluations and associated risk.</p>
<p>❑ Management Committee - Reviewed the ongoing performance to provide early warning signals and a platform for decision-making.</p>	<p>❑ Supported smooth flow of operations by overseeing the risks attached to operations and the workforce.</p>
<p>❑ Sustainability Governance Committee - Initiated a number of sustainability projects and reviewed MI's adherence to sustainable business practices.</p>	<p>❑ Ensured that the Company's obligations towards society and environment are fulfilled and the associated risks were managed.</p>



N. H. V. Perera

Chairman

Integrated Risk Management Committee

26th June 2020

BOARD REMUNERATION COMMITTEE REPORT

Committee Composition

The Committee comprises of three Non-Executive Directors and is chaired by an Independent Non-Executive Director of the Company.

Name	Membership Status	Directorship status/ Position held in company
Mr. S. M. S. S. Bandara [w.e.f. 27th February 2020]	Chairman	Independent Non-Executive Director
Mr. N. H. V. Perera	Member	Non-Executive Director
Ms. P. T. K. Navaratne	Member	Non-Executive Director
Mr. S. H. J. Weerasuriya [upto 26th January 2020]	Former Chairman	Independent Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

Terms of Reference

The terms governing the Committee are;

- ❑ Recommending and approving total remuneration package and incentivization packages of the Executive Directors including the Managing Director.
- ❑ Considering and recommending to the Board, the broad policy for the remuneration and incentivization package.
- ❑ Reviewing company's remuneration practices and policies to ensure fairness in Directors' Remuneration.
- ❑ Determining the policy for the terms of employment of the Executive Directors.
- ❑ Monitoring the performance conditions subject to which any long term incentive awards may be granted under the schemes adopted by the company and approving grant of long term incentive awards, such as share appreciation rights and performance shares.
- ❑ Reviewing the design of all share incentive schemes.
- ❑ Bearing the responsibility for selecting and appointing any remuneration consultants who advises the Committee.
- ❑ Bearing the responsibility for selecting and appointing any remuneration consultants who advises 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:

- ❑ Implement formal and transparent procedures for developing 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 and made note of the COVID-19 crisis on the economy and business when making remuneration policy amendments.
- ❑ Recommend/decide directions on disciplinary matters resulting in a significant financial loss to the Company, caused by Key Personnel Management of the Company.

Guiding Remuneration Principles Followed

In order to remunerate individuals in an effective manner, MI Board set forth guiding principles which encompass alignment of policy to following broader corporate objectives;

- ❑ Deciding on standard pay that will enable the company to attract and retain high caliber personalities, necessary to achieve the objectives of the Company in a competitive environment.
- ❑ Remuneration was aligned in a way that it satisfies both shareholder and members interest.
- ❑ Periodic committee meetings to identify performance and recommend suitable remuneration changes.
- ❑ Employee benefits were reassessed post COVID-19 to adjust to the temporary business environment.
- ❑ Set goals and targets for the CEO and Key Management Personnel and evaluated the performance against set targets and goals periodically and determine the basis for revised remuneration, benefits and other incentives.

Key Activities during FY 2019/20

- ❑ The Committee reviewed and obtained Board approval for the Board Remuneration Policy, drawing due reference to industry best practices during the financial year.
- ❑ Human Resource Remuneration Policies were revisited and 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 [Pvt] Limited, implemented a comprehensive appraisal mechanism on performance management renowned HR platform, aligning corporate goals, individual goals and rewards.
- ❑ Due to the present COVID-19 crisis, annual remuneration changes were kept on hold and the formal meeting postponed until situation improves.

S. Bandara

S. M. S. S. Bandara
Chairman
Remuneration Committee

26th June 2020

BOARD NOMINATION COMMITTEE REPORT

Composition of the Nomination Committee

The Nomination Committee comprised the following Board Directors and a Committee Secretary.

Name	Membership Status	Directorship Status
Mr. S. M. S. S. Bandara (w.e.f. 27th February 2020)	Chairman	Independent Non-Executive Director
Mr. Gerard G. Ondaatjie	Member	Managing Director
Mr. N. H. V. Perera	Member	Non-Executive Director
MS. P. T. K. Navaratne (w.e.f. 27th February 2020)	Member	Independent Non-Executive Director
Mr. S. H. J. Weerasuriya (upto 26th January 2020)	Former Chairman	Independent Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

Objectives of the Committee

The Nomination Committee was established by the Mercantile Investments 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;

- Conduct continuing study of the size, structure and composition of the Board and make appointment of new Directors or re-elect current Directors to the Board.
- Implement a procedure to select or appoint new directors, CEO and Key Management Personnel.
- 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.
- Ensure succession arrangements are in place for the post of CEO and Key Management Personnel and put in place of a training and development plan for the KPMs identified for succession.
- Recommend ways in which the Board could improve its performance.

Key Activities during the FY 2019/20

- The Committee having considered the skills, knowledge, expertise and experience, made the recommendations to the Board to appoint Mr. P. D. D. Perera, Independent Non-Executive Director. This was initiated to fill vacancy of the Non-Executive Director Mr. Saro Weerasuriya (Chairman) resigning after completing 9 years with the Company.
- 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.
- The Committee advised to revise the succession plan of the Key Management Personnel of the Company.
- There was a thorough oversight of the Board evaluations undertaken during the year.

Meeting Information

Nomination Committee meeting related to FY 2019/20 was held in April 2020 due to rise of COVID-19 pandemic.

S. Bandara

S. M. S. S. Bandara
Chairman
Nomination Committee

26th June 2020

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. N. H. V. Perera	Member	Non-Executive Director
Mr. P. D. D. Perera [w.e.f. 27th February 2020]	Member	Independent Non-Executive Director
Mr. S. H. J. Weerasuriya [Upto 26th January 2020]	Former Member	Independent Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

During the period, the Finance Director, Chief Financial Officer and representatives from Internal and External Auditors were present at meetings by invitation.

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.

Responsibilities of the Audit Committee

- ❑ Make recommendations on matters in connection with the appointment of the external audit services, the implementation of CBSL guidelines issued to auditor from time to time, application of relevant accounting standards, and service period, audit fee, resignation or dismissal of the auditor.
- ❑ Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.
- ❑ Develop and implement a policy with the approval of the Board on the engagement of the external auditor to provide non-audit services that permitted under the relevant statues, regulations, requirements and guidelines.
- ❑ Review the financial information of Company in order to monitor the integrity of the annual and interim financial statements and disclosures focusing on major judgemental areas, any changes in accounting policies, significant adjustments arising from audit, the going concerns assumptions and the compliance with relevant accounting standards and other legal requirements.

- ❑ Discuss the issues, problems and reservations arising from the interim and final audits and any other matters with the auditors.
- ❑ To review the External Auditor's management letter and the managements responses.
- ❑ Review the adequacy of the scope and functions of the Internal Auditors, Internal Audit program, and independency of the Internal Audit Department.

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 whistle-blowing policies are in place to address issues relating to breach of ethics.

The Committee held 06 meetings during the financial year 2019/20 and submitted 05 reports to the Board of Directors during the year under review, highlighting the key matters taken up. The effectiveness of the Committee was evaluated by the Board of Directors at the end of the financial year.

Internal Audit

The Committee ensured that the Internal Audit Division of MI is independent of the operational activities of the Company and Internal Audit performed its activities impartially, 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.

BOARD AUDIT COMMITTEE REPORT

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 and other advisory services. 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 2021, 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 2019/20 financial year and approved by the Board.

Key Activities during FY 2019/20

- Reappointed Messrs. Ernst and Young, Chartered Accountants as the External Auditor of the Company.
- Reappointed Messrs. PricewaterhouseCoopers (Private) Ltd. as the outsourced Internal Auditors team of the Company for branches.
- The Committee continuously monitored the progression of implementation of SLFRS 16 on 'Leases' and its impact to the Financial Statements and reporting.
- The Committee also reviewed the effectiveness of the adoption of a risk-based audit approach and internal controls of the Company.
- The 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 statutory requirement.

S. Bandara

S. M. S. S. BANDARA

Chairman

Audit Committee

26th June 2020

BOARD RELATED PARTY TRANSACTION REVIEW COMMITTEE REPORT

Composition of the Committee

The Board-Related Party Transaction Review Committee (BRPTRC) was established during the financial year 2014/15 to review all the related party transactions carried out by the Company, by early adopting the code of Best Practices on Related Party 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. Jayasuriya	Member	Executive Director
Mr. N. H. V. Perera	Member	Non-Executive Director
Mr. Dinuka Perera (w.e.f. 27th February 2020)	Member	Independent Non-Executive Director
Mr. S. H. J. Weerasuriya (upto 26th January 2020)	Former Member	Independent 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 transaction 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.
- ❑ Develop and recommend policies and procedures to review related party transactions 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.
- ❑ Periodically review proposed related party transactions of the Company except those explicitly exempted by the Committee policies.
- ❑ Ensure that procedures and guidelines are issued to compel all RPTs, to be referred to the Committee review.
- ❑ 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 2019/20

- ❑ The Committee reviewed and approved the Related Party Transaction Review Policy which comprehensively covers all the aspects of related party transactions.
- ❑ 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 91. 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 array of information to draw conclusions which were submitted through the Finance Division.
- ❑ Formulated, revised and approved policies on related party transactions.
- ❑ Carried out review over the ongoing systemization of related party transaction reports, through the Compliance Officer.

S. Bandara

S. M. S. S. Bandara

Chairman

Related Party Transactions Review Committee

26th June 2020

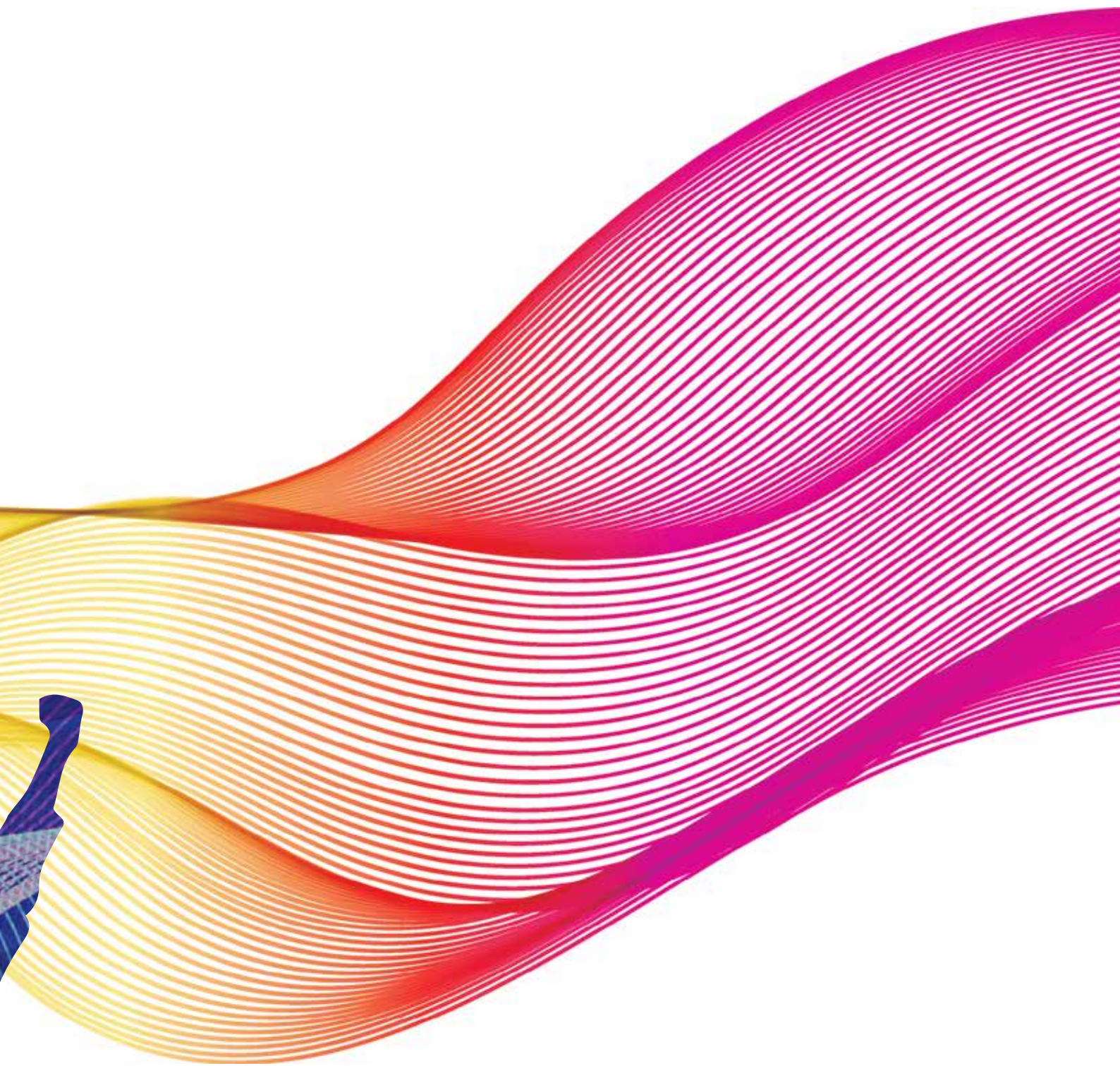
ACHIEVING A COLLECTIVE GOAL

The financial reporting section provides readers a comprehensive view of MI's financial results in the period under review, along with the independent audit report. The profitability and accumulated wealth during the successful business journey of the last five decades is showcased via the strong balance sheet, capital position and supportive numbers and graphs.

FINANCIAL REPORTS

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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, 2020 and the Auditors' Report on those Financial Statements, conforming to the requirement of the Companies Act No 07 of 2007, Finance Business Act No 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 and transferred to the second board in 15 November 2019. Fitch Ratings Lanka Ltd has assigned BBB- long term [negative outlook] financial institution rating 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 June 26, 2020.

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, 2020)

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 196
II] Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 [1] (b)	Refer pages 192 to 193
III] Auditor's Report on Financial Statements of the Company and the Group.	Section 168 [1] (c)	Refer page 187 to 190
IV] Any changes made to the Accounting policies during the year under review.	Section 168 [1] (d)	Refer page 196 to 208
V] Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 [1] (e)	Refer page 177
VI] Remuneration and other benefits paid to Directors of the Company during the period.	Section 168 [1] (f)	Refer page 214
VII] Total amount of donations made by the Company during the period.	Section 168 [1] (g)	Refer page 214
VIII] Information on Directorate of the Company during and at the end of the accounting period.	Section 168 [1] (h)	Refer pages 176 to 177
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 214
X] Auditors' relationship or any interest with the Company	Section 168 [1] (j)	Refer page 178
XI] Acknowledgment of the contents of this report/signatures on behalf of the Board by two Directors and the Secretary of the Company.	Section 168 [1] (k)	Refer page 179

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

The company's Vision and Mission are given on page 14 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

2.2 Reviews on Operations of the Company

The company has established delivery points across all key regional hubs of the country. During the year, there were no new delivery points added (03 in 2019), the total number of delivery points in country was 39 at the end of 2020 (39 at the end of 2019)

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 29 and Management Discussion & Analysis on pages 30 to 74 of this Annual Report.

Further to the requirement of Colombo Stock Exchange an announcement on the impact of COVID 19 on the business of the company was made on 12th May 2020. A further disclosure in this regard is given in Note 54 to Financial Statements on page 279.

Segment wise contribution to revenue, results, assets and liabilities is disclosed in Note 51 to the Financial Statements on page 256 to 257.

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% (2019 - 26.12%) holding in The Nuwara Eliya Hotels Company PLC which is a quoted public company and involving in the business of hoteliering. Details of the investments in associate is given in note 29 to Financial Statement on page 230 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 193 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 192 to 279 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 No. 42 of 2011 and the listing rules of the Colombo Stock Exchange. The statement of 'Directors Responsibilities' appearing on page 182 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 173 to 179.

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 186.

2.6 Auditors' Report

Company's Auditors, Messrs Ernst & Young Partners performed the audit on the Financial Statements for the year ended March 31, 2020 and the Auditor's Report on the Financial Statements is given on pages 187 to 190 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, 2020, 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 196 to 208 of the Annual Report as required by Section 168 (1) (d) of the companies Act No 07 of 2007. The Board of Directors wish to confirm that there were no changes to the Accounting Policies used by the company during the year.

2.8 Interest Register

The Interests Register is maintained by the Company, as per the Section 168(1) (e) of the Companies Act No 7 of 2007. All Directors have made declarations as provided for in section 192(1) & (2) of the Companies Act aforesaid. The related entries were made in the Interest Register during the year under review. The share ownership of Directors is disclosed on page 177 of this report, Entries were made in the Interests Register on share transactions, 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. 0.782mn (2019-Rs. 0.523 mn). There are no donations made to the Government approved charities from above (2019 -Nil). The information given above on donations forms

integral part of the Report of the Board of Directors as required by section 168(1) (g) of the companies Act No 07 of 2007.

2.10 Future Developments

Future developments activities of the company is discussed under the Managing Director's report on page 24 to 29 of this Annual Report.

3. Gross Incomes

The income of the company for the year ended March 31, 2020 was Rs. 7,610 million [year ended March 31, 2019- Rs. 7,638 million]. An analysis of income is given in Notes 6 & 7 to the Financial Statements on page 209 to 210 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 2020 was Rs. 692 million (Rs. 786 million in 2019) and the profit after tax for the year ended 2020 was Rs. 372 million (Rs. 458 million in 2019)

The details of profits relating to the company are tabled below.

As at March 31	2020	2019
Profit before Tax	691,791	786,653
Taxation	320,082	328,580
Profit after Tax	371,708	458,073
Other Comprehensive Income	9,235	[13,552]
Balance brought forward	1,765,028	1,720,522
Available for Appropriation	2,145,972	2,165,043
Transfer to Statutory Reserve	[25,000]	[25,000]
Impact of Adoption of SLFRS 9	-	[375,015]
Impact of Adoption of SLFRS 16	[51,590]	-
Defferred tax Impact of Adoption of SLFRS 16	6,887	-
Interim Dividend Paid	[60,120]	-
Balance carried forward	2,016,150	1,765,028

4.2 Dividend on Ordinary Shares

Details of information on dividends are given in Note 17 to the Financial Statements on page 217.

4.3 Provision for Taxation

Income tax for 2020 has been provided at the rate of 28% from April - December 2019 and January 2020 to March 2020 at the rate of 24% [28% - 2019] on the taxable income arising from the operations of the company and has been disclosed in accordance with Sri Lanka Accounting Standards. Profits of the company are also liable for Value Added Tax on Financial Services at the rate of 15% [15% -2019], Crop Insurance Levy

of 01% and Debt Repayment Levy 07% was abolished from Jan 2020, 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 215 & 246 respectively, of this Annual Report.

4.4 Reserves

A summary of reserves of the company as at year ended 31st march 2020 is as follows

	2020	2019
Statutory Reserve Fund	761,400	736,400
Revaluation Reserve	1,744,351	1,527,486
Associate Company- reserve	581,234	597,049
General Reserve	4,086,430	4,086,430
Available for sale Reserve	[327,238]	[75,529]
Retain Earnings	2,016,150	1,765,028

The company's total Reserves as at March 31, 2020 amounted to Rs. 8,898 million [2019-Rs. 8,672 million]. The movement of the reserves are given on page 194 under Statement of Changes in Equity & Note 39 & 44 to the Financial Statements of this Annual Report.

5. Property, Plant & Equipment & Leasehold Property & Intangible Assets

Capital expenditure incurred on Property Plant & Equipment, Intangible assets, Leasehold Property are as follows.

Year	2020	2019
Property, Plant & Equipment	58 Million	257 Million
Leasehold Property	Nil	Nil
Intangible Assets	1 Million	31 Million

Details of which are given in Note 31 on page 234 in the Financial Statements. Capital expenditure approved and contracted for is given in Note 45 to the Financial Statements on page 251 of this Annual Report.

6. Market Value of Freehold Properties

Significant components of freehold land and buildings of the company were revalued by a professionally qualified independent valuer as at March 31, 2020, 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 236.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

7. Stated Capital and Debentures

The stated capital of the company as at March 31, 2020 was Rs. 36 million comprising 3,006,000 ordinary shares. (2019- Rs.36 Million). The details of the stated capital are given in Note 39 to the Financial Statements on page 249 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 Mn on November 30, 2018.

The Company did not issue any debentures during the financial year ended March 31, 2020.

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 16. 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 Relations' on page 281 to 283.

8.2 Distribution Schedule of Shareholdings

Information on distribution of shareholding and the respective percentages are given in the Section on 'Investor Relations' on page 282.

8.3 Issue of shares

The company did not make any share issues during the year under review.

Class of Shares	Voting Ordinary shares	
	2020	2019
Number of share issued	Nil	Nil

9. Substantial Shareholdings

The list of 20 Largest Shareholders as at 31 March 2020 are as follows.

Nilaveli Beach Hotels (Pvt) Ltd	629,580
Mr. G. G. Ondaatjie (Managing Director)	477,213
Ms. A. M. Ondaatjie	477,213
Mr. T. J. Ondaatjie	477,213
Mercantile Fortunes (Pvt) Ltd	415,162
Mr. G. L. A. Ondaatjie (Deceased)	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. M. Dominic & J S Dominic	151
Mr. R. Vaseeharan	10

Float adjusted market capitalization as at 31 March Rs. 821,419,560/-

The Company is not fully Compliant with the minimum public holding requirement as of 31 March 2020.

Number of shares representing the share capital 3,006,000

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 282 .

9.1 Equitable Treatment to all Stakeholders

While valuing the patronage of all our stakeholders, the company has made all endeavours to ensure equitable treatment to all our shareholders

10. Board of Directors

10.1 Information on Directors of the Company

10.1.1 List of Directors

The Board of Directors of the Company as at March 31 2020 comprised of Ten Directors [Ten Directors as at March 31, 2019] with extensive financial & commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors - Profile' on pages 76 and 79 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 2020, 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. G. G. Ondaatjie	Executive	Non Independent
Mr. P. M. Amarasekara	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
Mr. P. D. D. Perera	Non Executive	Independent
Mr. S. H. J. Weerasooriya (Retired)	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

Mr. P. D. D. Perera was appointed as a Non-Executive Independent Director on 21/02/2020.

Resignation/Cessations

Mr S H J Weerasuriya ceased to be a Director in terms of section 4(2) of the Finance companies (Corporate Governance) Direction on No 30 2008 w.e.f 26/01/2020.

10.1.3 Recommendation for Re-election

In terms of Article 23(7) of the articles of association, Ms. A. M. Ondaatjie, Mr. T. J. Ondaatjie and Mr. P. M. Amarasekera 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 89.

10.1.5 Board Sub-Committees

Information with regard to Board subcommittees is given under Corporate Governance on pages 163 to 169 of this Annual Report.

Board Audit Committee

All members of the Audit committee are Non-Executive Directors. The Managing Director/CEO, Senior Management Committee members, Internal and External auditors attend the meetings by invitation. The Board Audit Committee report is given on page 167 to 169 of this Annual Report.

Integrated Risk Management Committee

The Board of Directors have 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 163 to 164 of this Annual Report.

Remuneration & Nomination Committee

The Report of the Remuneration & Nomination Committee is given on pages 165 to 166 of this Annual Report.

Related Party Transaction Review Committee

The report of the Related Party Transaction Review Committee is given on pages 169 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 March 31, 2020 is given in Note 13.1 to the Financial Statements on page 214 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

	2020	%	2019	%
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	-	-	-	-
Mr. P. M. Amarasekera	-	-	-	-
Mr. S. H. J. Weerasuriya [Retired]	-	-	-	-
Ms. P. T. K. Navaratne	-	-	-	-
Mr. N. H. V. Perera	10,020	0.33	10,020	0.33
Mr. S. M. S. S. Bandara	-	-	-	-
Mr. P. C. Guhashanka	-	-	-	-
Mr. P. D. D. Perera	-	-	-	-

11.1.1. Mr. Gerard 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 March 31, 2020 was 315,790 shares [2019- 316,792] which amounted to 10.51% [2019- 10.54%] of the stated capital of the company.

11.1.3 Directors Interest in Debentures

There were no debentures registered in the name of any Director as at the beginning and at the end of the year.

12. Directors Interests in Contracts or Proposed Contracts and Related Party Transaction.

Directors have no direct or indirect interest in any contract or proposed contract with the company for the year ended March 31, 2020. Further information is given on page 180 to 181 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'. Refer note 48 to the Financial Statements on pages 252 to 253 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

13. Employee Share Option Plans and Profit Sharing Plans

The Company does not have any employee profit sharing plans or employee share option plans.

14. Environmental Protection

The Directors, to the best of their knowledge and belief, are satisfied that the company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

15. Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and employees have been paid up to date.

16. Events after the Balance Sheet Date

There have been no material events occurring after the balance sheet date that would require adjustments to or disclosure in the financial statements as disclosed in Note 50 to the Financial Statements on page 255 of this Annual Report. Impact of the COVID-19 on the business of Company discuss in Note 54 to Financial Statement on page 279.

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, The Company is 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 2,055,000/- is payable by the company to the Auditors for the year under review comprising Rs. 1,540,000/- as Audit fees, and expenses Rs. 515,000/- for non-audit services.

As far as the Directors are aware, the auditors do not have any other relationship or interest in contracts with the company.

Auditors too have provided a declaration confirming that they are not aware of any relationship with or interest in the company or, in their professional judgment, may reasonably be thought

to have a bearing on their independence within the meaning of the Code of Conduct and Ethics of The Institute of Chartered Accountants of Sri Lanka applicable as at the date of their declaration.

20. Risk Management & System of Internal Controls

20.1 Risk Management

Specific steps that have been taken by the company in place to identify, evaluate and manage both business risk & financial risk are detailed on pages 259 to 278 of this Annual Report.

20.2 System of Internal Controls

The Board of Directors have 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 167 to 168 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 evaluations for the year under review were discussed at the Board Meeting held in the month of May 2020.

20.4 Audit Committee

The composition of the Audit Committee and their report is given on page 167 to 168 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 a 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 84 to 144 of 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 84 to 144.

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 Strength section on page 60 to 61 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 Evaluated the implications on adoption of the Sri Lanka Accounting Standard – SLFRS 16 on "Leases" effective from 1 January, 2019 and developed the required financial models to assess the impact on financials under the new framework.

24 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. Refer further information on Note 46 to the Financial Statement on page 251.

25. Contingent Liabilities

Except as disclosed in Note 46 to the Financial Statements, there were no material contingent liabilities as at the reporting date.

26. Notice of Meeting

The details of the Annual General Meeting are given in the notice of meeting on page 294 of this Annual Report.

27. Acknowledgement of the contents of the Report

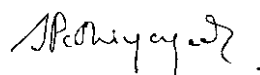
As required by section 168(1)(k) of the Companies Act No 07 of 2007, the Board of Directors hereby acknowledge the contents of this report.



Gerard G. Ondaatje
Managing Director



Angeline. M. Ondaatje
Director



Ms. Sonali Pethiyagoda
Company Secretary

Colombo
26 June 2020

DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2020 Rs. '000	As at 31.03.2019 Rs. '000
[a] Mr. G. G. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Chairman	Motor vehicle hire, repairs and others	2,774	1,934
Tangerine Beach Hotels PLC	Director	Deposits	364,818	336,555
		Motor vehicle hire, repairs and others	677	260
Royal Palms Beach Hotels PLC	Director	Deposits	304,302	240,101
		Motor vehicle hire, repairs and others	672	322
The Nuwara Eliya Hotels Company PLC	Deputy	Deposits	745,507	673,963
	Chairman	Motor vehicle hire, repairs and others	504	535
Tangerine Tours (Pvt) Limited	Director	Deposits	87,427	103,198
		Motor vehicle hire, repairs and others	931	820
Nilaveli Beach Hotels (Pvt) Limited	Chairman	Deposits	150,256	151,611
		Motor vehicle hire, repairs and others	5	(6)
Security Ceylon (Pvt) Limited	Chairman	Deposits	9,588	1,420
		Motor vehicle hire, repairs and others	40	45
		Security expenses	2,838	2,824
Mercantile Orient (Pvt) Limited	Chairman	Deposits	6,187	5,913
Global Films Limited	Chairman	Deposits	1,533	1,431
Fair View Hotel (Pvt) Limited	Chairman	Deposits	131,355	98,389
Mercantile Fortunes Insurance brokers (Pvt) Limited	Chairman	Deposits	10,000	106
		Motor vehicle hire, repairs and others	1,218	1,219
		Insurance commission receivable	61,046	55,279
		Insurance premium payable	163,570	172,993
Tangerine Vacations (Pvt) Limited	Director	Deposits	3,000	-
[b] Ms. A. M. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	2,774	1,934
Tangerine Beach Hotels PLC	Chairperson & Managing Director	Deposits	364,818	336,555
		Motor vehicle hire, repairs and others	677	260
Royal Palms Beach Hotels PLC	Chairperson & Managing Director	Deposits	304,302	240,101
		Motor vehicle hire, repairs and others	672	322
The Nuwara Eliya Hotels Company PLC	Director	Deposits	745,507	673,963
		Motor vehicle hire, repairs and others	504	535
Tangerine Tours (Pvt) Limited	Chairperson & Managing	Deposits	87,427	103,198
	Director	Motor vehicle hire, repairs and others	931	820
Nilaveli Beach Hotels (Pvt) Limited	Director	Deposits	150,256	151,611
		Motor vehicle hire, repairs and others	5	(6)
Security Ceylon (Pvt) Limited	Director	Deposits	9,588	1,420
		Motor vehicle hire, repairs and others	40	45
		Security expenses	2,838	2,824
Mercantile Orient (Pvt) Limited	Director	Deposits	6,187	5,913
Global Films Limited	Director	Deposits	1,533	1,431
Fair View Hotel (Pvt) Limited	Director	Deposits	131,355	98,389
Mercantile Fortunes Insurance brokers (Pvt) Limited	Chairman	Deposits	10,000	106
		Motor vehicle hire, repairs and others	1,218	1,219
		Insurance commission receivable	61,046	55,279
		Insurance premium payable	163,570	172,993
Tangerine Vacations (Pvt) Limited	Chairperson	Deposits	3,000	-

Company	Relationship	Accommodation granted / deposits / receivable for services rendered / payable for services obtained	As at 31.03.2020 Rs. '000	As at 31.03.2019 Rs. '000
[c.] Mr. T. J. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	2,774	1,934
Tangerine Beach Hotels PLC	Director	Deposits	364,818	336,555
		Motor vehicle hire, repairs and others	677	260
Royal Palms Beach Hotels PLC	Director	Deposits	304,302	240,101
		Motor vehicle hire, repairs and others	672	322
The Nuwara Eliya Hotels Company PLC	Director	Deposits	745,507	673,963
		Motor vehicle hire, repairs and others	504	535
Tangerine Tours (Pvt) Limited	Director	Deposits	87,427	103,198
		Motor vehicle hire, repairs and others	931	820
Nilaveli Beach Hotels (Pvt) Limited	Managing Director	Deposits	150,256	151,611
		Motor vehicle hire, repairs and others	5	[6]
Security Ceylon (Pvt) Limited	Director	Deposits	9,588	1,420
		Motor vehicle hire, repairs and others	40	45
		Security expenses	2,838	2,824
Mercantile Orient (Pvt) Limited	Director	Deposits	6,187	5,913
Global Films Limited	Director	Deposits	1,533	1,431
Fair View Hotel (Pvt) Limited	Director	Deposits	131,355	98,389
Tangerine Vacations (Pvt) Ltd	Director	Deposits	3,000	-
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	10,000	106
		Insurance commission receivable	61,046	55,279
		Insurance premium payable	163,570	172,993
		Motor vehicle hire, repairs and others	1,218	1,219
[d] Mr. S. H. Jayasuriya				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	2,774	1,934
Security Ceylon (Pvt) Limited	Director	Deposits	9,588	1,420
		Motor vehicle hire, repairs and others	40	45
		Security expenses	2,838	2,824
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	10,000	106
		Insurance commission receivable	61,046	55,279
		Insurance premium payable	163,570	172,993
		Motor vehicle hire, repairs and others	1,218	1,219
[e] Mr. P. M. Amarasekara				
Security Ceylon (Pvt) Limited	Director	Deposits	9,588	1,420
		Motor vehicle hire, repairs and others	40	45
		Security expenses	2,838	2,824
Fair View Hotel (Pvt) Limited	Director	Deposits	131,355	80,330
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	10,000	106
		Insurance commission receivable	61,046	55,279
		Insurance premium payable	163,570	172,993
		Motor vehicle hire, repairs and others	1,218	1,219
[f] Mr. N. H. V. Perera				
Tangerine Beach Hotels PLC	Director	Deposits	364,818	336,555
		Motor vehicle hire, repairs and others	677	260
Royal Palms Beach Hotels PLC	Director	Deposits	304,302	240,101
		Motor vehicle hire, repairs and others	672	322

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 167 to 168 of this Annual Report. The Financial Statements consisting of the Statement of Financial Position as at 31st March 2020 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 192 to 195, 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 Board of Directors also approves the interim financial statements prior to their release following a review and recommendation by the Board Audit Committee.

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.

Further, the Board of Directors is responsible for the implementation of an adequate and effective internal control mechanisms at MI and ensure that it facilitates to manage the key areas of risk within an acceptable risk profile, rather than eliminating the risk of failure to achieve corporate objectives of the Company.

The Directors are responsible for taking reasonable steps to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities 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 risk faced by the Company, which was mainly executed through the Integrated Risk Management Committee [IRMC Report given on pages 163 to 164].

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.

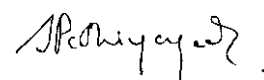
The Directors also confirm that as per the Section 166[1] and 167[1] of the Companies Act No. 07 of 2007, Directors of the Company prepared the Annual Report on time and ensured that copies are sent to the shareholders within the specified period of time required by Rule No. 7.5 [a] & [b] of Listing 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 187 to 190 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

26th June 2020

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 formats and 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.

There were no changes to the Accounting Policies and methods of computation since the publication of the Annual Report for the year ended March 31, 2019, except for the Accounting Policies and methods of computation adopted to be in compliant with the requirements of the Sri Lanka Accounting Standard SLFRS 16 on "Leases", which became effective for Annual Financial periods from April 1, 2019. SLFRS 16 requires the recognition of lease liabilities and right-of-use of assets for leases previously classified as operating leases in accordance with LKAS 17 on "Leases". As permitted by the paragraph 5 (b) of the Appendix C of SLFRS 16, the Company decided not to restate Financial Statements of prior periods, and to recognise lease liability

and the right of use asset in line with the paragraph 8 (a) and 8 (b) ii of the Appendix C of SLFRS 16, respectively. Accordingly, the difference arising from reversal of deferred tax asset created on liability as a result of straight lining of lease rentals have been recognised directly in equity as at April 01, 2019, the date of initial application of SLFRS16, as disclosed in Statement of Changes in Equity on page 194. 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. As we believe, the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly continued to adopt Going Concern basis in preparing the financial statements.

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 2020, as required by the Finance Companies [Corporate Governance] Direction on No. 3 of 2008, result of which is given on pages 184 to 185 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.

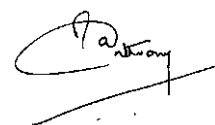
The Financial Statements of the Company were audited by Messrs. Ernst & Young, Chartered Accountants and their Audit Report is given on pages 187 to 190 of this Annual Report

The Audit Committee has reviewed and recommended the scope and fees of audit and non-audit services, provided by the External Auditors for approval of the Board of Directors to ensure that the provision of such services does not impair the Auditor's independence and objectivity. Both Internal and External Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

We confirm that the Company has complied with all applicable laws, regulations and prudential requirements, and there are no material non-compliances and litigations pending against MI other than those disclosed in Note 46 of the Financial Statements in this Annual Report. All taxes, duties and statutory payments by the Company and in respect of the employees of MI as at 31 March 2020 have been paid or where relevant accrued.



Gerard Ondaatjie
Managing Director



Deva Anthony
Chief Financial Officer

26th June 2020

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 and

supported by the CFO have been delegated the task of preparing the Annual Financial Statements and other periodic financials 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 annual audit plan is reviewed and approved by the Board Audit Committee. All branches and operational units are audited in order to provide an independent and objective report and the frequency of the audits are determined by the level of risk assessed.
- 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 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 2019/20.
- The comments made by the external auditors with regard to the internal control system over financial reporting in previous years were reviewed and appropriate steps have been taken to address any matters raised.
- 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 Company adopts Sri Lanka Accounting Standards comprising LKAS and SLFRS and progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure. Financial reporting and management information processes will be further strengthened by constant monitoring and adaptation to market realities. Also, Company adopted Sri Lanka Accounting Standard – SLFRS 16 "Leases" which became effective for financial reporting periods beginning on or after 1st April 2019.

- Additionally Company took necessary steps to further improve the models used for Impairment computation under the Sri Lanka Accounting Standard – SLFRS 9 on ‘Financial Instruments’ in consultation with the External Auditors. The required processes and controls have been designed to be in line with SLFRS - 9 and regulatory requirements. Also adequate training and awareness sessions have been conducted for all stakeholders. The Board will continuously strengthen the processes and controls around management information systems and reports required for validation and compliance in line with SLFRS 9; and financial statement disclosures related to risk management.

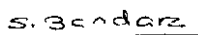
CONFIRMATION BY THE BOARD

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting. Based on the established internal control mechanism explained above, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes is done in line with Sri Lanka Accounting Standards and requirements of the regulator.

EXTERNAL AUDITORS REVIEW OF THE STATEMENT

The External Auditors have reviewed the above ‘Report of the Board on Internal Control’ for the year ended 31 March 2020 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 / Chairman –Board Audit Committee



Gerard Ondaatjie

Managing Director

26th June 2020

INDEPENDENT ASSURANCE REPORT ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL



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Chartered Accountants
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BW/UM/TW

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 2020.

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 Chartered 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.

26 June 2020
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A 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
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

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INDEPENDENT AUDITORS' REPORT



Ernst & Young
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT 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 2020, 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 2020, 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.

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

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INDEPENDENT AUDITORS' REPORT



Key audit matters specific to Company

Key Audit Matter

Impairment allowance for Loans & receivables, Lease receivable & Hire Purchase receivables

We considered the impairment allowance for Loans & receivables, Lease receivable & Hire Purchase receivables as a key audit matter. Significant judgments and assumptions were used by the management to determine the impairment allowance and complex calculations were involved in its estimation. Probable impacts of COVID -19 outbreak on the economically impacted customers and related government relief measures on the key assumptions, the higher level of estimation uncertainty involved, and materiality of the amounts reported in the Company's financial statements, underpinned our basis for considering it as a Key Audit Matter.

As at 31 March 2020, Loans & receivables, Lease receivable & Hire Purchase receivables net of impairment amounted to Rs.33 Bn. These collectively contributed 76% to the Company's total assets.

The Note 23-25 of the financial statements describes the basis of impairment allowance and assumptions used by the management in its calculation.

Revaluation of Land & Buildings

As of 31 March 2020, the Company carried freehold land and buildings at fair value amounting to Rs. 1.7 Bn and Rs. 512 Mn respectively, of which Rs. 301 Mn has been recognized through OCI.

Fair value was determined by an external valuer engaged by the Company. The valuation was significant to our audit due to the use of estimates in the valuation techniques, and valuation is judgemental and is based on certain key assumptions. Given the significance of assumptions associated with the valuation of these assets we have considered the valuation of freehold land and building as a key audit matter.

Refer Note 31.4 to the financial statements for significant accounting judgements, estimates and assumptions related to valuation of freehold land and buildings.

How our audit addressed the matter

We designed our audit procedures to obtain sufficient appropriate audit evidence on the reasonableness of the impairment allowance, these included the following procedures:

- ❑ We evaluated the design effectiveness of controls over impairment allowance, in the light of the requirements in SLFRS 9, focusing on the oversight, review and approval of impairment policies by the board audit committee and management.
- ❑ We evaluated the model used to calculate impairment allowance to assess its appropriateness.
- ❑ We assessed the completeness and relevance of the underlying information used in the impairment calculations by agreeing details to source documents and information in IT systems; Our assessment included evaluating whether the underlying historical information was up to the reporting date.
- ❑ We rechecked the underlying calculations.
- ❑ We also considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included assessing the appropriateness of the weightages assigned to possible economic scenarios.
- ❑ We assessed the adequacy of the related financial statement disclosures as set out in Note[s], 23-25 of the financial statements

Our procedures amongst others included the following specific procedures;

- ❑ We have assessed the objectivity, competence and capabilities of the external valuer appointed by the management.
- ❑ We checked the valuation report to obtain an understanding of the work done by the valuer and evaluated the appropriateness as audit evidence for the recorded valuation of freehold land and buildings in the financial statements.
- ❑ We engaged internal specialists to evaluate the appropriateness of the valuation method and price range per perch with market data and other key assumptions applied by the external valuer in appraising the value.
- ❑ In addition, we evaluated the overall appropriateness of the related financial statement disclosures in Note 31.4.

Key Audit Matter

Management's use of significant judgements relating to the impacts of the evolving COVID-19 pandemic on the Company

Management has assessed the impact of the evolving COVID-19 pandemic on its business and financial statements of the Company as disclosed in Note 54.

We considered such management's assessment in the wake of the evolving COVID-19 pandemic as a key audit matter, since it involved the use of significant management judgments and estimates considering future events, circumstances and impacts on cash flows, based on available information.

The nature of the significant assumptions involved, are disclosed in Note 54 to the financial statements.

How our audit addressed the matter

Our audit procedures included the following;

- ☑ We gained an understanding of significant judgements used by the management related to the impact of the COVID-19 pandemic on the business of the Company.
- ☑ We obtained an understanding of the procedures adopted by the management to manage and mitigate the prevailing business interruption which are disclosed in Note 54.
- ☑ We evaluated the sensitivity of the projected available funding by considering assumed scenarios together with reasonable changes to the key assumptions.
- ☑ We inspected the facility agreements for the Company's interest-bearing loans and assessed the Company's compliance with the covenants in understanding the availability of adequate funding.
- ☑ We reviewed the adequacy of the disclosures made in Notes 53 and 54 in the financial statements.

Other information included in the 2020 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2020 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.

INDEPENDENT AUDITORS' REPORT



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.

26 June 2020
Colombo

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STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March	Note	2020 Rs.'000	2019 Rs.'000
Gross income	6	7,610,170	7,638,497
Interest income	7.1	7,475,320	7,436,054
Interest expenses	7.2	(3,842,380)	(3,861,878)
Net interest income		3,632,941	3,574,176
Fee and commission income	8	82,943	94,955
Net fee and commission income		82,943	94,955
Other operating income	9	51,906	107,488
Total operating income		3,767,790	3,776,619
Impairment charge/[reversal] for loans and receivables and equity investments	10	(484,009)	(681,648)
Net operating income		3,283,780	3,094,971
Less: Operating expenses			
Personnel expenses	11	(989,859)	(923,352)
Depreciation of PPE and Right-of-use assets and amortization of intangible assets	12	(144,478)	(99,494)
Other operating expenses	13	(1,013,253)	(962,135)
Total operating expenses		(2,147,590)	(1,984,982)
Operating profit before value added tax and NBT on financial services		1,136,190	1,109,988
Value Added Tax ,NBT & DRL on financial services	15.2	(460,859)	(403,059)
Operating profit after value added tax and NBT on financial services		675,331	706,929
Add: Share of associate company's profit	14	16,459	79,724
Profit before taxation from operations		691,791	786,653
Less: Income tax expenses	15	(320,082)	(328,580)
Profit for the year		371,708	458,073
Other comprehensive income/(expenses)			
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods			
Changes in fair value of financial investments through OCI		-	-
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods			
Changes in fair value of financial investments through OCI		(251,709)	(276,015)
Net change in revaluation surplus on Land & Buildings		301,201	-
Deferred tax effect on revaluations surplus on Land & building		(84,336)	-
Share of other comprehensive income of associates (net of tax)		(15,815)	196,285
Actuarial gain/(loss) on retirement benefit obligation (Note 38)		22,339	(24,304)
Deferred tax effect on actuarial gain		(13,104)	10,752
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		(41,423)	(93,282)
Other comprehensive income/(expenses) for the year (net of tax)		(41,423)	(93,282)
Total comprehensive income/(expenses) for the year net of tax		330,285	364,791
Earnings per share			
Basic earnings per share (Rs.)	16	123.66	152.39
Diluted earnings per share (Rs.)	16	123.66	152.39
Dividend per ordinary share (Rs.)	17	20.00	-

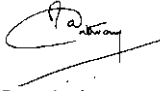
Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 196 to 279 form an integral part of these financial statements.

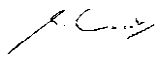
STATEMENT OF FINANCIAL POSITION


As at 31 March	Note	2020 Rs.'000	2019 Rs.'000
Assets			
Cash and cash equivalents	20	1,813,985	1,196,226
Placement with banks at Amortized cost	21	282,359	241,376
Financial investments - at Fair Value through OCI	22	2,682,898	2,863,058
Loans and receivables at Amortized Cost	23	17,407,591	15,913,287
Finance leases receivables at Amortized Cost	24	13,746,155	12,722,875
Hire purchase receivables at Amortized Cost	25	1,605,426	3,308,315
Financial investments - at Fair Value through OCI (unquoted)	22	70,427	70,427
Other financial assets	26	438,638	499,594
Inventories	27	9,540	23,231
Other assets	28	45,984	96,740
Current tax refunds		146,042	-
Investment in associates	29	1,260,144	1,267,430
Investment property	30	246,166	198,431
Property, plant and equipment	31	3,105,781	2,848,159
Right-of-use assets	31.15	223,255	-
Leasehold property	32	40,739	41,207
Intangible assets	33	45,987	64,211
Total assets		43,171,119	41,354,567
Liabilities			
Bank overdraft		86,567	186,276
Deposits due to customers at Amortized Cost	34	22,814,923	21,176,433
Debt instruments issued and other borrowings at Amortized Cost	35	9,128,983	8,957,478
Other financial liabilities	36	855,247	955,246
Current tax liabilities		-	290,338
Deferred tax liabilities	37	807,835	830,950
Other liabilities		54,865	46,870
Retirement benefit obligations	38	254,385	238,112
Lease Liability	36.1	269,986	-
Total liabilities		34,272,792	32,681,703
Shareholders' funds			
Stated capital	39	36,000	36,000
Revaluation reserve	40.1 & 40.2	2,325,585	2,124,535
Statutory reserve fund	41	761,400	736,400
General reserves	42	4,086,430	4,086,430
Retained earnings	43	2,016,150	1,765,028
Fair Value through OCI reserve	44	[327,238]	[75,529]
Total shareholders' funds		8,898,327	8,672,864
Total liabilities and shareholders' funds		43,171,119	41,354,567
Net assets per share (Rs.)			
Capital commitments and contingencies	45 & 46	2,960	2,885

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

The Board of Directors are responsible for these Financial Statements.
 The Financial Statements were authorised for issue by the Directors on 26 June 2020. 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


Shermal H. Jayasuriya
 Finance Director

The significant accounting policies and the notes from pages 196 to 279 form an integral part of these financial statements.

26 June 2020
Colombo

STATEMENT OF CHANGES IN EQUITY

	Revaluation Reserves			Associate Company Reserve	Statutory Reserves	General Reserves	Fair Value through OCI			Retained Earnings	Total
	Capital	Land and Buildings					AFS Reserve	OCI Reserve			
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'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 of 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)	444,521	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		
Impact on transition of SLFRS 16	-	-	-	-	-	-	-	(51,590)	(51,590)		
Deferred tax impact on transition of SLFRS 16	-	-	-	-	-	-	-	6,887	6,887		
Restated Opening Balance as of 1st April 2019	36,000	1,527,486	597,049	736,400	4,086,430	-	(75,529)	1,720,325	8,628,162		
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	371,708	371,708		
Other comprehensive income/(expenses)	-	216,865	(15,815)	-	-	-	(251,709)	9,235	(41,424)		
Total comprehensive income/(expenses)	-	216,865	(15,815)	-	-	-	(251,709)	380,943	330,284		
Dividends paid to equity shareholders	-	-	-	-	-	-	-	(60,120)	(60,120)		
Transfer to statutory reserve	-	-	-	25,000	-	-	-	(25,000)	-		
As At 31st March, 2020	36,000	1,744,351	581,234	761,400	4,086,430	-	(327,238)	2,016,150	8,898,327		

Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 196 to 279 form an integral part of these financial statements.

STATEMENT OF CASH FLOW

Year ended 31 March	Note	2020 Rs.000	2019 Rs.000
Cash flow from operating activities			
Interest and commission receipts		7,558,264	7,531,009
Interest payments		(3,842,380)	(3,861,878)
Cash receipts from customers		25,523	48,877
Cash payments to employees, suppliers and tax authority		(2,425,370)	(2,258,216)
Operating profit before changes in operating assets and liabilities (Note A)		1,316,037	1,459,792
(Increase) / decrease in operating assets			
Deposits held for regulatory or monetary control purposes		115,501	(390,582)
Funds advanced to customers		(1,802,601)	(1,049,858)
Other receivables		125,402	(2,375)
Increase / (decrease) in operating liabilities			
Other payables		(130,757)	187,663
Deposits from customers		1,638,491	1,103,423
		1,262,073	(1,271,392)
Income taxes paid		(758,405)	(210,757)
Net cash from operating activities		503,667	1,097,306
Cash flows from investing activities			
Dividends received	9	20,756	48,197
Dividends received from associates	29.1	7,930	15,085
Net Purchase/sale of non-dealing securities		153,528	(3,712)
Proceeds from sale of property, plant and equipment and investment properties		50,846	29,879
Purchase of property, plant and equipment and investment property	31	(129,600)	(284,943)
Acquisition of intangible assets	33	(1,045)	(30,965)
Net cash from investing activities		102,415	(226,457)
Cash flows from financing activities			
Borrowings obtained during the year		19,837,237	13,955,000
Borrowings repaid during the year		(19,665,732)	(14,325,479)
Dividends paid		(60,120)	-
Net Cash from financing activities		111,385	(370,479)
Net increase in cash and cash equivalents		717,468	500,369
Cash and cash equivalents at the beginning of the period		1,009,950	509,581
Cash and cash equivalents at the end of the period (Note B)		1,727,418	1,009,950
Reconciliation of profit before tax with cash inflow from operating activities (Note A)			
Profit before tax		691,791	786,653
Capital gain from sale of quoted shares and treasury bonds	9	(11)	-
Dividend from investing securities	9	(20,756)	(48,197)
Share of profit of associates	14	(16,459)	(79,724)
(Profit)/loss on sale of property, plant and equipment	9	(5,627)	(10,414)
Depreciation of property, plant and equipment and investment property	12	89,519	83,295
Depreciation of ROU assets	12	35,222	-
Amortisation of leasehold property	12	468	465
Amortisation of intangible assets	12	19,268	15,734
Provision for bad and doubtful debts	10	484,009	681,648
Retirement benefit provision	38.2	47,967	41,452
Retirement benefit paid	38.1	(9,355)	(11,121)
		1,316,037	1,459,792
Cash and cash equivalents at the end of the period (Note B)			
Cash in hand		201,761	715,399
Balance with bank		1,612,224	480,827
Bank Overdraft		(86,567)	(186,276)
		1,727,418	1,009,950

The significant accounting policies and the notes from pages 196 to 279 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

1.1. Corporate information

Mercantile Investments and Finance PLC is a public limited liability company, listed on the Colombo Stock Exchange, incorporated on 15th June 1964 and domiciled in Sri Lanka. It is a licensed finance company regulated under the Finance Business Act No. 42 of 2011. The company was re-registered under the Companies Act No. 07 of 2007. The registered office of the company is located at No. 236, Galle Road, Colombo 03.

The staff strength of the company as at 31st March 2020 was 1,094 [1,040 as at 31st March 2019].

1.2. Principal activities and nature of operations

Company

The company provides a comprehensive range of 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 2020 (including comparatives) were approved and authorized for issue by the Board of Directors on 26 June 2020.

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 are 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 193.

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 192).
- Statement of financial position providing the information on the financial position of the company as at year end (refer page 193).
- A statement of changes in equity depicting all changes in shareholders' equity during the year under review (refer page 194).
- Statement of cash flow providing the information on the users on the ability of the company to generate cash and cash equivalents and the needs to utilization of those cash flows (refer page 195)
- Notes to the financial statements which comprise of accounting policies used and other explanatory information (refer pages 196 to 279).

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 recognized as the present value of the defined benefit obligation.	38
Lease liability	Lease liability is recognized as the present value of future operating lease rentals	36.1

2.3.1 Changes in Accounting Policies and Disclosures

2.3.1.1 New Accounting Standards/Interpretations effective during the year

The Company has adopted SLFRS16 - Leases, effective for annual periods beginning on or after 1 April 2019, for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below. The Company has not early adopted standard, interpretation or amendment that has been issued but is not yet effective.

☑ SLFRS 16-Leases

SLFRS 16 supersedes LKAS 17 on Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. SLFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised through retained earnings at the date of initial application.

The Company has lease contracts for various branches. Before the adoption of SLFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 3.3.1.1 for the accounting policy prior to 1 April 2019.

Upon adoption of SLFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 3.3.1.2 for the accounting policy beginning 1 April 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously classified as finance leases

For leases that were classified as finance leases applying LKAS 17, the carrying amount of the right of use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying LKAS 17. For those leases, the Company accounted for the right of use asset and the lease liability applying this Standard from the date of initial application.

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- ☑ Used a single discount rate to a portfolio of leases with reasonably similar characteristics
 - ☑ Relied on its assessment of whether leases are onerous immediately before the date of initial application
 - ☑ Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
 - ☑ Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 April 2019:

- ☑ Right-of-use assets of Rs.253.2 Million were recognised and presented in the Statement of Financial Position within as "Right-of-use assets".
- ☑ Separately lease liabilities of Rs.253.2 Million were recognised in the Statement of Financial Position.
- ☑ The adoption of SLFRS 16 had an impact of Rs.44.7 Million on the Company's retained earnings and no material impact on the company's prudential Capital Adequacy ratio.

NOTES TO THE FINANCIAL STATEMENTS

Reconciliation between the Operating Lease Commitments to the Lease Liability Balances Reported under SLFRS 16 as at 1 April 2019

	Rs. 000
Operating lease commitments as at 31 March 2019	348,064
Recognition exemptions adopted for short-term leases and leases of low-value assets	[1,815]
Undiscounted lease liabilities as at 1 April 2019	346,249
Weighted average incremental borrowing rate as at 1 April 2019	14%
Lease liability after discontinuing arising from the initial application of SLFRS 16, recognized as at 1 April 2019	253,204

SLFRS 16 Key Financial Impacts

The single lease accounting model which comprises Sri Lanka Accounting Standard – SLFRS 16’s most material impact for the company results in an increase of Rs. 253,203,691 in total assets and liabilities. The total undiscounted operating lease commitments as at 31 March 2019 amounted to Rs. 346,249,308 and the lease liability as at 1 April 2019 amounted to Rs. 253,203,691. This difference primarily relates to discounting the operating lease commitments balance at the company’s weighted average incremental borrowing rate, which is 14%.

Impact of Company’s Summarized Statement of Financial Position on 1 April 2019

	SLFRS transition		
	31 March 2019 Rs. 000	adjustment at 1 April 2019 Rs. 000	1 April 2019 Rs. 000
Assets			
Right-of-use Assets	-	317,521	317,521
Other financial assets and other assets	484,622	[64,317]	450,305
Total	484,622	253,204	767,826
Liability			
Lease Liability	-	253,204	253,204
Equity	8,672,864	44,703	8,628,161
Total	8,672,864	253,204	767,826

IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment”

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments. The Interpretation specifically addresses the following:

- ☑ Whether an entity considers uncertain tax treatments separately
- ☑ The assumptions an entity makes about the examination of tax treatments by taxation authorities
- ☑ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- ☑ How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex environment, it assessed whether the interpretation had an impact on its Financial Statements. Upon adoption of the interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Company in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the Financial Statements of the Company.

Except for 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 Lanka Rupees, which is the company's functional and presentation currency except when otherwise indicated.

2.5. Presentation of financial statements

The assets and liabilities of the company presented in its statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the financial statements. An analysis on recovery or settlement within 12 months after the reporting date [current] and more than 12 months after the reporting date [non-current] is presented in the Note 52 to the financial statements.

2.6. Materiality and aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by Sri Lanka Accounting Standards LKAS 1 "Presentation of Financial Statements".

2.7. Rounding

The amounts in the financial statements have been rounded off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standards LKAS 1 "Presentation of Financial Statements".

2.8. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amount and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of comprehensive income, unless required or permitted by an Accounting Standards or Interpretation, and as specifically disclosed in the accounting policies of the company.

2.9. Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter period comparability. The presentation and classification of the financial statements of the previous

year are amended, where relevant for better presentation and to be comparable with those of the current year. The impact derived on the comparative information due to the adoption of SLFRS 16 is mentioned in Note 43 to the financial statements.

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 recognized prospectively.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognized in the financial statements of the company are as follows:

2.11.1. Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not possible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is described in more detail in the Note 19 to the financial statements.

2.11.2. Financial assets and liabilities classification

The accounting policies of the company provide scope for assets and liabilities to be classified at inception into different accounting categories under certain circumstances.

NOTES TO THE FINANCIAL STATEMENTS

The classification of financial instrument is given in the Note 18 to the financial statements.

2.11.3. Impairment losses on loans and advances

The company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence, actual results may differ, resulting in future changes to the provisions made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to Expected Credit Loss (ECL applicable after 1 January 2018 onward).

A collective assessment of impairment takes into account data from the Loans and advance portfolio (such as credit quality, levels of arrears, credit utilization, 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 loss on Loans and Receivables is disclosed in more detail in Note 10 to the financial statements.

The impairment loss on loans and receivables is disclosed in more detail in Notes 10, 23, 24 and 25 to the financial statements.

2.11.4 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.

2.11.5 Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the

likely timing and the level of future taxable profits together with future tax planning strategies.

2.11.6 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.

2.11.7 Estimation of carrying value 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.

2.11.8 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 values of significant components of land and buildings as at 31st March 2020. 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.

2.11.9 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.

3. Significant accounting policies – Recognition of assets and liabilities.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements, unless otherwise indicated.

3.1. Financial instruments – Initial recognition, classification and subsequent measurement

3.1.1. Date of recognition

All financial assets and liabilities except "regular way trades" are initially recognized on the trade date, i.e., the date that the company becomes a party to the contractual provisions of the instrument. "Regular way trades", means purchases or sales

of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Those trades are initially recognized on the settlement date.

3.1.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instrument".

Transaction cost in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through the statement of comprehensive income.

3.1.2.1. Day 1' Profit or Loss

When the transactions price differs from the fair value of other observable current market transactions in the same instruments, or based on a valuation technique shows variables include only data from observable markets, the company immediately recognizes the difference between the transaction price and fair value [a'Day1' profit or loss] in "interest income and personnel expenses". In cases where fair value is determined using data which is not observable, or when the instrument is recognized, The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortized using "Effective Interest Rates" (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.2 Financial Instruments

(i) Classification of Financial Instruments

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 amortized 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 amortized 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 amortized cost

Cash and Cash equivalent, Placements, Loans and Receivables from Customers and Other Financial Assets are measured at amortized cost where they have:

- ☑ Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest 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 recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost. The measurement of credit impairment is based on the three-stage Expected Credit Loss (ECL) model described below in Note 3.2.(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 recognized through Profit or Loss, nor contingent consideration recognized 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 recognized in Profit or Loss.

Debt Instruments

Investments in debts instruments including Government securities 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 recognized in Profit or Loss.

(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 recognized at fair value, with transaction costs recognized in the Statement of Profit or Loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized 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.

NOTES TO THE FINANCIAL STATEMENTS

(a) Financial Investments - For Trading

A Financial Investment is classified as Financial Assets recognized 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 amortized cost and
- ☑ Fair value through Other Comprehensive Income.

ECL is not recognized 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 recognized.

Company determines 12 month ECL from customers who are not significantly credit deteriorated, [i.e. 0 to 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 recognized.

In being consistent with the policies of the Company, significant deterioration is measured through the rebuttable presumption of more than 30 days and less than or equal to 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 recognized and Financing Income is calculated by applying the Effective Rate to the amortized 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 uncollectable, 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.

ECLs are recognized using a provision for impairment loss account in Statement of Profit and Loss.

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 derecognized 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 realization of any collateral.

[vi] Recognition of Financial Instruments

A Financial Asset or Financial Liability is recognized 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 recognized when cash is advanced [or settled] to the borrowers.

Financial Assets are recognized initially at fair value plus directly attributable transaction costs.

[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 realize the asset and settle the liability simultaneously. Refer to Note on 53 Financial risk management - Offsetting of Financial Assets and Liabilities.

[Viii] 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 losses. 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.

3.2.1 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

3.2.2 Cash and cash equivalents

Details of cash and cash equivalents are given in the note 20 to the financial statements.

3.2.3 Classification and subsequent measurement of financial liabilities

At inception a financial liability is classified into one of the following categories;

- ☑ At fair value through profit or loss
 - Held for trading; or
 - Designated at fair value through profit or loss.
- ☑ At amortized cost

The subsequent measurement of financial liabilities depends on their classification.

NOTES TO THE FINANCIAL STATEMENTS

Details on different types of financial liabilities recognized on the statement of financial position are given in the note 18 to the financial statements.

3.2.4 Financial liabilities 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.

3.2.5 Financial liabilities at amortized cost

Financial instruments issued by the company that are not designated at fair value through profit or loss, are classified as liabilities under 'due to customers', 'debt securities issued' or 'subordinated term debts' as appropriate, where the substance of the contractual arrangement results in the company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of owned equity shares.

After initial recognition, such financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in 'interest expenses' in the statement of comprehensive income. Gain and losses too are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Details of financial liabilities at amortized 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

3.2.6 Reclassification of financial assets and liabilities

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Company changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

3.2.7 De-recognition of financial assets and financial liabilities

3.2.7.1 Financial assets

A financial asset [or, where applicable a part of a financial asset or part of a group of similar financial assets] is derecognized when:

- ☑ The rights to receive cash flows from the asset has 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 recognized to the extent of the company's continuing involvement in the asset. In that case, the company also recognizes 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.

3.2.7.2 Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the statement of comprehensive income.

3.2.8 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.

3.2.9 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 are 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.

3.2.9.1 Impairment of financial assets carried at amortized cost

The company recognizes the changes in the impairment provisions for loans and receivables which are assessed as per the SLFRS 9 - "Financial Instruments". The methodology adopted by the company is explained below:

Individual assessment of impairment

For individual assessment of impairment for financial assets carried at amortized cost (such as loans and advances to customers, finance leases and hire purchase receivable), the company first assesses individually, whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognized in statement of comprehensive income. Interest income continues to be accrued and recorded in 'interest income' on the reduced carrying amount/impaired balance and is accrued using the

rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. The calculation of the present value of the estimated future cash flows of collateralized financial asset, reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated impairment provision are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the provision account. If a future write-off is later recovered, the recovery is credited to 'other income'.

Collective Assessment of Impairment

If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the company's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from year-to-year such as changes in;

- Growth in Gross Domestic Production (GDP)
- Interest rates
- Inflation rates
- Changes in unemployment rate
- Property prices
- Commodity prices
- Payment status
- Changes in laws and regulations
- Recent lending portfolio growth and product mix

NOTES TO THE FINANCIAL STATEMENTS

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.

3.2.9.2 Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets are reviewed at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples,

quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the statement of comprehensive income under those expense categories consistent with the function of the impaired asset, except for property previously revalued where the gain or loss on revaluation was taken to equity. In this case, the impairment is also recognized in equity up to the extent of any previously recognized revaluation gains.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

3.3 Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.3.1 Operating leases (Policies applicable prior to 1 April 2019)

3.3.1.1 Operating leases – company as a lessee

Leases that do not transfer to the company substantially all risks and benefits incidental to ownership of the leased assets are operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

3.3.1.2 Operating leases – company as a lessor

Leases where the company does not transfer substantially all risks and benefits of ownership of the asset are classified as operating leases.

Details of 'operating leases' are given in the note 9, 26 and 31 to the financial statements.

3.3.2 Finance leases

3.3.2.1 Finance leases – company as a lessee

Finance leases that transfer substantially all risks and benefits incidental to ownership of the leased item to the company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The company does not have any finance leases as a lessee.

3.3.2.2 Finance leases – company as a lessor

When the company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'finance leases receivables. The finance income receivable is recognized in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Details of 'finance leases receivables are given in the note 24 to the financial statements.

3.4 Hire purchase receivable

Advances granted under agreements that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as "hire purchases receivables."

Details of hire purchase receivables are given in the note 25 to the financial statements.

3.5 Property, Plant and Equipment

Details of property, plant and equipment are given in the note 31 to the financial statements.

3.5.1 Depreciation

Details of depreciation is given in the note 12 to the financial statements.

3.6 Intangible assets

Details of intangible assets are given in the note 33 to the financial statements.

Amortization recognized during the year in respect of intangible assets is included under the item of amortization of intangible assets under depreciation and amortization in the statement of comprehensive income.

3.7 Investment property

Details of investment property are given in the note 30 to the financial statements.

3.8 Provisions

When the company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the company can reliably estimate the amount of the obligation, we recognize it as a provision in accordance with LKAS 37 – Provisions, Contingent Liabilities and Contingent Asset.

3.9 Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.10 Employee benefits

3.10.1 Defined benefit plan – gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

Details of retirement benefit obligations are given in the note 38 to the financial statements.

3.10.2 Defined contribution plan

Details of the defined contribution plans and amount recognized in the statement of comprehensive Income as expenses on defined contribution plans are given in the note 11 to the financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

4.1 Income and expenses

Details and recognition criteria of income and expenses are given in the Notes 6 to 13 to the financial statements.

4.2 Income tax expenses

Details of income tax expense are given in the Note 15 to the financial statements.

NOTES 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 2020.

The following new accounting standards/amendments have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those accounting standards will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future Financial Statements. None of those have been early adopted by the Company.

Amendments to LKAS 1 and LKAS 8: Definition of Material

Amendments to Sri Lanka Accounting Standard - LKAS 1 [Presentation of Financial Statements] and Sri Lanka Accounting Standard - LKAS 8 [Accounting policies, Changes in accounting Estimates and Errors] are made to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The Company shall apply those amendments prospectively for annual financial periods beginning on or after 1 January 2020.

The amendments to the definition of material are not expected to have a significant impact on the Company's Financial Statements.

Amendments to SLFRS 3: Definition of a Business

Amendments to the definition of a business in Sri Lanka Accounting Standard - SLFRS 3 [Business Combinations] are made to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The Company shall apply these amendments to business combinations prospectively for annual financial periods beginning on or after 1 January 2020, if the asset acquisitions occurs on or after the beginning of that period.

Amendments to Conceptual Framework for Financial Reporting

Revisions to the Conceptual Framework were made because some important issues were not covered, and some guidance was unclear or out of date. The revised Conceptual Framework includes:

- ✔ a new chapter on measurement;
- ✔ guidance on reporting financial performance;
- ✔ improved definitions of an asset and a liability, and guidance supporting these definitions; and
- ✔ clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

The amendments are effective for annual periods beginning on or after 1 January 2020, with early application being permitted. Further, the amendments to the references to the conceptual framework in SLFRS standards are not expected to have a significant impact on the Company's Financial Statements.

6. GROSS INCOME

Accounting policy

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and such revenue can be reliably measured. The specific recognition criteria is given under the respective income notes.

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Interest income [Note 7.1]	7,475,320	7,436,054
Fee and commission income [Note 8]	82,943	94,955
Other operating income [Note 9]	51,906	107,488
Total	7,610,170	7,638,497

7. NET INTEREST INCOME

Accounting policy

Recognition of income and expense

For all financial instruments measured at amortized cost and interest bearing financial assets classified as 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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Discounts/premium on treasury bills and treasury bonds are amortized over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognized on an accrual basis. The interest income on securities purchased under resale agreements is recognized in the statement of comprehensive income on an accrual basis over the period of the agreement.

7.1 Interest income

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Income from finance lease	3,146,245	2,751,109
Income from hire purchase	557,348	1,036,448
Income from other loans and receivables	3,583,325	3,456,566
Income from treasury bills and bonds	158,915	165,078
Income from fixed deposits	29,488	26,854
Total	7,475,320	7,436,054

NOTES TO THE FINANCIAL STATEMENTS

7.2 Interest expenses

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Interest on fixed deposits	2,582,949	2,629,443
Interest on savings deposits	8,184	4,425
Interest on certificate of deposits	-	23
Interest on bank overdraft	16,916	21,307
Interest on bank and securitized borrowings	1,184,103	1,206,681
Interest on lease liability	50,228	-
Total	3,842,380	3,861,878
Net interest income	3,632,941	3,574,176

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 loans and receivable customers.

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Gross Commission Income	82,943	94,955
	82,943	94,955

9. OTHER OPERATING INCOME

Accounting policy

Other income

Other income is recognized on an accrual basis.

Dividend income

Dividend income is recognized when the company's right to receive the payment is established.

Gain or losses on disposal of Property, Plant and Equipment, investments in Government Securities, Dealing Securities and Investment Securities

Gains or losses resulting from the disposal of Property, Plant and Equipment is accounted for through the income statement & 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 recognized on a cash basis.

Operating lease rental income

Income arising on operating leases is accounted for on a straight line basis over the lease terms on ongoing leases.

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Dividend from FVOCI	20,756	48,197
Rental income from properties /Investment properties	10,724	15,352
Net gain/(loss) on disposal of Property, Plant and Equipment	5,627	10,414
Operating lease rental income	5,789	8,182
Other income	3,421	13,374
Bad debts recovered	5,589	11,968
Total	51,906	107,488

10. IMPAIRMENT CHARGES AND OTHER LOSSES

Accounting policy

The company recognises the changes to the impairment provision which is assessed based on Expected Credit Loss method (ECL) in accordance with the Sri Lanka Accounting Standard -SLFRS 09 (Financial Instruments).The methodology adopted by the company is explained in the Note 3.2 (v) to these Financial Statements.

10.1

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Charges to the statement of comprehensive income on impairment		
- Loans and receivables (Note 23.4)	164,732	310,655
- Finance leases receivables (Note 24.4)	286,243	274,934
- Hire purchase receivables (Note 25.4)	33,035	54,960
- Other financial assets	-	41,099
Total	484,009	681,648

10.2 Analysis of Impairment Charges and Other Losses

	2020				2019			
	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Loans and receivables	5,468	19,124	140,139	164,732	40,928	22,147	247,580	310,655
Finance leases receivables	(4,075)	2,194	288,125	286,243	42,164	47,266	185,504	274,934
Hire purchase receivables	(14,414)	(7,969)	55,417	33,034	(20,217)	7,447	67,730	54,961
Other financial assets/ Equity investments	-	-	-	-	-	-	41,099	41,099
Total	(13,021)	13,350	483,681	484,009	62,875	76,860	541,914	681,648

NOTES TO THE FINANCIAL STATEMENTS

11. PERSONNEL EXPENSES

Accounting policy

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses.

Bonus

The provision for bonus is recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Defined contribution plans - Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF)

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods as defined in the 'Sri Lanka Accounting Standard LKAS 19 - Employee Benefits'.

The contribution payable to a defined contribution plan is in proportion to the services rendered to the company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The company and the employees contribute 14% and 8% respectively on the salary of each employee to the Employees' Provident Fund where as the company contributes 3% of the salary to the Employees' Trust Fund.

Defined benefit plan - gratuity

Defined benefit plan contribution are recognized in the statement of comprehensive income based on an actuarial valuation carried out for the gratuity liability in accordance with 'LKAS 19 - Employee Benefits'.

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Salary and bonus	785,094	756,310
Employer's contribution to EPF	96,745	82,377
Employer's contribution to ETF	20,003	16,897
Defined benefit plan (Note 38)	47,967	41,452
Other allowances and staff related expenses	40,051	26,315
Total	989,859	923,352

12. DEPRECIATION OF PPE AND RIGHT-OF-USE ASSETS AND AMORTIZATION OF INTANGIBLE ASSETS

Accounting policy

Depreciation of property, plant and equipment & Right of Use Assets

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of Property Plant 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
Right of Use Assets	20-25	4 to 5 Years

The depreciation rates are determined separately for each significant part of an item of Property, Plant and Equipment and commence to depreciate when it is available-for-use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is derecognized. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

All classes of Property, Plant & Equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in the note 31 to the financial statements.

Depreciation of investment property

Investment property includes land and buildings. Depreciation on building are recognized on a straight line basis over the estimated useful life of 40-75 years.

Amortization of intangible assets

Intangible assets are amortized using the straight line method to write down the cost over its estimated useful economic lives as given below:

Class of assets	Depreciation % per annum	Estimated useful life
Computer software	20% - 50%	2 - 5 Years

The unamortized balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognized as expenses in the statement of comprehensive income to the extent that they are no longer probable of being recovered from the expected future benefits.

The reconciliation of carrying amounts and accumulated amortization and impairment at the beginning and end of the year are given in the note 33 to the financial statements.

Amortization of leasehold property

Leasehold property includes a land on 99 years lease which is amortized over the lease period using the straight line method.

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Depreciation of Investment Property (Note 30)	1,664	1,665
Depreciation of Property, Plant & Equipment (Note 31)	87,855	81,630
Depreciation of ROU Assets (Note 31.15)	35,222	-
Amortization of Leasehold Property (Note 32)	468	465
Amortization of Intangible Assets (Note 33)	19,268	15,734
Total	144,478	99,494

The company has reviewed the residual value and the useful lives of the assets as at 31st March, 2020 and there were no any material changes with the previous year reassessment.

NOTES TO THE FINANCIAL STATEMENTS

13. OTHER OPERATING EXPENSES

Accounting policy

Other operating expenses are recognized in the statement of comprehensive income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to the statement of comprehensive income in arriving at the profit for the year.

Crop Insurance Levy (CIL)

As per the provision of Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 01st April, 2013 and is payable to the National Insurance Trust Fund.

Currently, the CIL is payable at 1% of the profit after tax and amount relevant for the year is accounted under "others" category of other operating expense.

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Directors' emoluments (Note 13.1)	82,271	76,903
Auditors' remuneration	1,540	1,400
Professional and legal expenses	7,561	11,481
Advertising and business promotion expenses	113,972	102,663
Insurance premium	45,673	49,148
Donations	782	523
Office and building maintenance	38,556	31,161
Computer equipment maintenance	32,461	30,027
Others	690,436	658,830
Total	1,013,253	962,135

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 recognized in the statement of comprehensive income.

	2020 Rs.'000	2019 Rs.'000
Nuwara Eliya Hotels Co. PLC (Note 29.1)	16,459	79,724
Total	16,459	79,724

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 recognized in the statement of comprehensive income except to the extent it relates to items recognized directly in equity or in other comprehensive income (OCI), in which case it is recognized in equity or in OCI.

Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 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 no 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 no 15.2 of the Financial statements. However this tax was abolished with effect from 1st December 2019.

Debt Repayment Levy (DRL) on financial services

As per Finance Act No 35 of 2018, with effect from 1st 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. However this tax was also abolished with effect from 1 January 2020.

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Income tax expenses on profit for the year (Note 15.1)	398,666	439,446
(over)/ under provision in respect of previous year	35,084	44,567
Deferred tax (reversal)/ charged (Note 37)	(113,668)	(155,433)
Total tax expense for the year	320,082	328,580

NOTES TO THE FINANCIAL STATEMENTS

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.

	2020 Rs.'000	2019 Rs.'000
Accounting Profit before income tax	675,331	706,929
Income tax expense *	182,339	197,940
Add: Tax effect on non-deductible expenses	827,657	1,124,529
Less: Tax effect on deductible expenses	(605,727)	(869,528)
Tax effect on exempt income/profit	(5,604)	(13,495)
	398,666	439,446
Effective tax rate (including deferred tax)	42.20%	40.18%
Accounting profit before tax on financial services	1,136,190	1,109,988
Effective tax rate (excluding tax on financial services)	28.17%	29.60%

* Income tax expense of the company has been recorded for on the taxable income at the rate of 28% for the first 09 months and balance three months has been charged at the rate of 24%.

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 there to in determining the taxation on profits for the year.

15.2 Value Added Tax ,NBT & DRL charged on financial services

	2020 Rs.'000	2019 Rs.'000
Value Added Tax on Financial Services	306,670	273,522
Nation Building Tax on Financial Services	26,417	36,792
Debt Repayment Levy on Financial Services	127,772	92,745
	460,859	403,059

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	2020 Rs.'000	2019 Rs.'000
Amount used as the numerator		
Net profit attributable to equity holders of the company	371,708	458,073
Net profit attributable to equity holders of the company for basic and diluted earnings per share	371,708	458,073
	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.)	123.66	152.39
Diluted earnings per share (Rs.)	123.66	152.39

17. DIVIDEND PER ORDINARY SHARE

Accounting policy

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No 7 of 2007.

For the year ended 31st March	2020			2019		
	Gross Dividend Rs.'000	Dividend Tax Rs.'000	Net Dividend Rs.'000	Gross Dividend Rs.'000	Dividend Tax Rs.'000	Net Dividend Rs.'000
First and final dividend						
Out of dividend received - free of tax	32,459	-	32,459	-	-	-
Out of normal profits	27,661	3,873	23,788	-	-	-
Total dividend	60,120	3,873	56,247	-	-	-
Dividend per ordinary share (Rs.)	20.00	-	18.71	-	-	-

Dividend paid during the financial year is for 2018/2019 financial period.

NOTES TO THE FINANCIAL STATEMENTS

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Accounting policy

Financial instruments are measured on an ongoing basis either at fair value or at amortized cost. The summary of significant accounting policies describes how the classes of financial instruments are measured and how income and expense, including fair value gains and losses are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in 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 31.03.2020

	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	1,813,985	-	1,813,985
Placements with bank	282,359	-	282,359
Financial investments - through OCI	-	2,753,325	2,753,325
Loans and receivables	17,407,591	-	17,407,591
Finance leases receivables	13,746,155	-	13,746,155
Hire purchase receivables	1,605,426	-	1,605,426
Other financial assets	438,638	-	438,638
Total financial assets	35,294,155	2,753,325	38,047,479

	At Amortized Cost Rs.'000	Total Rs.'000
Financial liabilities		
Bank overdraft	86,567	86,567
Deposits due to customers	22,814,923	22,814,923
Debt instruments issued and other borrowed funds	9,128,983	9,128,983
Other financial liabilities	855,247	855,247
Total financial liabilities	32,885,721	32,885,721

18.2 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 - through OCI	-	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	36,815,158

	At Amortized 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

19. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. External valuers are involved for valuation of significant assets such as properties.

19.1. Determination of fair value and fair value hierarchy

For all financial instruments where fair values are determined by referring to externally quoted price or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a trade price may not be possible. In these circumstances the company uses alternative market information to validate the financial instrument's fair value with greater weight given to information that is considered to be more relevant and reliable.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized using the following fair value hierarchy, which reflects the significance of the inputs used in the fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS

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 categorized. These amount were based on the values is disclosed in the statement of financial position.

As at 31st March	2020				2019			
	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)	-	-	2,667,024	2,667,024	-	-	2,384,627	2,384,627
	-	-	2,667,024	2,667,024	-	-	2,384,627	2,384,627
Financial assets								
Financial investments- (FVOCI)								
Quoted investments	975,411	-	-	975,411	999,087	-	-	999,087
Unquoted investments (Note 19.3.2)	-	-	70,427	70,427	-	-	70,427	70,427
Government debt securities	1,707,486	-	-	1,707,486	1,863,970	-	-	1,863,970
	2,682,898	-	70,427	2,753,325	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 31st March, 2020 & 31st March, 2018.

19.3.2. Value of unquoted shares as at 31st March, 2020 categorized under financial investments- (FVOCI) whose fair values can not be reliably measured is stated at cost in the statement of financial position .

19.3.3. Significant unobservable inputs used in level 3 measurement

Note no 31.4 to the financial statements provides information on significant unobservable inputs used in measuring fair value of land and buildings categorized as Level 3 in the fair value hierarchy.

There were no transfer between Level 1 and Level 2 during the year 2019 and 2020

19.4. Financial instruments not measured at fair value and fair value hierarchy

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows:

19.4.1. Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity it is assumed that carrying amount approximate their fair value. This assumption is also applied to savings accounts which doesn't have specific maturity.

19.4.2. Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rate of similar financial instruments as a significant unobservable input in measuring the fair value and accordingly none of the financial assets were categorized 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 interests rates 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	2020					2019				
	Level 1 Note	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	-	-	-	1,813,985	1,813,985	-	-	-	1,196,226	1,196,226
Placement with banks	-	-	-	282,359	282,359	-	-	-	241,376	241,376
Loans and receivables	-	-	17,313,186	17,313,186	17,407,591	-	-	15,871,846	15,871,846	15,913,287
Finance leases receivables	-	-	13,889,062	13,889,062	13,746,155	-	-	12,436,454	12,436,454	12,722,875
Hire purchase receivables	-	-	1,572,511	1,572,511	1,605,426	-	-	3,272,008	3,272,008	3,308,315
Other financial assets	-	-	438,638	438,638	438,638	-	-	499,594	499,594	499,594
Total financial assets	-	-	33,213,397	35,309,741	35,294,155	-	-	32,079,902	33,517,504	33,881,673
Financial liabilities										
Bank overdraft	-	-	-	86,567	86,567	-	-	-	186,276	186,276
Deposits due to customers	-	-	22,929,898	22,929,898	22,814,923	-	-	20,888,527	20,888,527	21,176,433
Debt instruments issued and other borrowings	-	-	9,355,821	9,355,821	9,128,983	-	-	8,957,478	8,957,478	8,957,478
Other financial liabilities	-	-	855,247	855,247	855,247	-	-	955,246	955,246	955,246
Total financial liabilities	-	-	33,140,966	32,227,533	32,885,721	-	-	30,801,251	30,987,527	31,275,433

19.5. Reclassification of financial assets

There have not been any reclassifications during the year 2019 and 2020.

NOTES TO THE FINANCIAL STATEMENTS

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 amortized cost in the statement of financial position.

There were no cash and cash equivalents held by the company that were not available for use by the company.

Details of cash and cash equivalents in the statement of financial position are given below.

As at 31st March	2020 Rs.'000	2019 Rs.'000
Cash in hand	201,761	715,399
Balances with the banks	1,612,224	480,827
	1,813,985	1,196,226

As at 31st March 2020, the company had available Rs.1,350 Million (2019-Rs.1,501 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 amortized cost in the statement of financial position.

As at 31st March	2020 Rs.'000	2019 Rs.'000
Fixed deposits	282,359	241,376
	282,359	241,376

22. FINANCIAL INVESTMENTS - AT (FVOCI)

Accounting policy

Financial investments at FVOCI include equity and debt securities. Equity investments classified as FVOCI 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 within the Other Comprehensive Income Statement.

As at 31st March	2020 Rs.'000	2019 Rs.'000
Government securities and quoted investments		
Government debt securities	1,707,486	1,863,970
Equities [Note 22.1]	975,411	999,087
	2,682,898	2,863,058
Unquoted investments		
Equities [Note 22.2]	70,427	70,427
	70,427	70,427
Total financial investments - (FVOCI)	2,753,325	2,933,485

22.1 Equities [quoted]

As at 31st March	2020			2019		
	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	550	63	33	542	62	53
Sampath Bank PLC	37,368	9,916	4,447	35,893	9,568	6,464
Singer Finance PLC	296,760	14,357	2,552	400,000	19,351	5,040
		24,336	7,032		28,982	11,558
Diversified holdings						
Aitken Spence & Co. PLC	15,000	343	461	15,000	343	615
John Keells Holding PLC	1,314,307	243,096	151,671	1,314,307	243,096	205,032
Vallibel One PLC	4,850,250	135,777	58,203	5,176,000	144,896	74,017
		379,217	210,335		388,336	279,664
Hotels and travels						
Amaya Leisure PLC	966,720	60,070	24,168	966,720	60,070	35,962
Eden Hotels PLC	1,049,600	17,738	16,164	1,049,600	17,738	14,170
Fortres Resource PLC	100,000	2,844	780	100,000	2,844	1,000
Hotel Sigiriya PLC	13,340	556	486	13,340	556	788
John Keells Hotels PLC	-	-	-	13,000,000	209,107	97,500
Light House Hotels PLC	7,736,677	224,407	185,680	7,736,677	224,407	198,059
Plam Garden Hotel PLC	200,000	25,913	3,600	200,000	25,913	3,700
Royal Palms Beach Hotels PLC	8,576,700	124,582	108,924	8,576,700	124,582	138,085
Tangerine Beach Hotels PLC	3,899,644	26,343	136,878	3,899,644	26,343	158,326
		482,453	476,680		691,559	647,589
Investment trust						
Lanka Century Investments PLC	-	-	-		7,156	568
	-	-	-		7,156	568
Manufacturing						
Royal Ceramic PLC	550,000	89,930	30,745		89,930	32,450
		89,930	30,745		89,930	32,450
Land & property development						
East West Properties PLC	50,000	2,471	290		2,471	875
		2,471	290		2,471	875

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	2020			2019		
	No of Shares	Cost Rs.'000	Market Value Rs.'000	No of Shares	Cost Rs.'000	Market Value Rs.'000
Motor						
United Motors PLC	150,000	18,701	6,810	150,000	18,701	10,020
		18,701	6,810		18,701	10,020
Construction & engineering						
Access Engineering	12,671,925	266,590	167,269	-	-	-
Colombo Dockyard PLC	-	-	-	161,000	44,966	8,533
		266,590	167,269		44,966	8,533
Trading						
Odel PLC	300,000	11,943	5,700	300,000	11,943	7,830
		11,943	5,700		11,943	7,830
Telecommunication						
Dialog Axiata	8,300,000	90,070	70,550	-	-	-
		90,070	70,550		-	-
Total		1,365,710	975,411		1,284,043	999,087

As at 31st March	2020			2019		
	No of Shares	Cost Rs.'000	Market Value Rs.'000	No of Shares	Cost Rs.'000	Market Value Rs.'000
22.2 Equities (non-quoted)						
Security Ceylon (Pvt) Ltd	250	200	200	250	200	200
Credit Bureau of Sri Lanka	269	27	27	269	27	27
Finance Houses Consortium	20,000	200	200	20,000	200	200
Fair View Hotels (Pvt) Ltd	7,000,000	70,000	70,000	7,000,000	70,000	70,000
		70,427	70,427		70,427	70,427

23. LOANS AND RECEIVABLES

Accounting policy

Financial assets classified as loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- ☑ Those that the company intends to sell immediately or in the near term and those that, upon initial recognition, designates as at fair value through profit or loss
- ☑ Those that the company, upon initial recognition, designates as FVTOCI
- ☑ Those for which the company may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, 'loans and receivables' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in "impairment charge/reversal for loans and receivables".

"Day 1" difference for staff loans

All staff loans granted at below market interest rates were recognized at fair value. The difference between the fair value and the amount disbursed were treated as 'day 1' difference and amortized as staff cost over the loan period by using effective interest rate (EIR). The staff loans were subsequently measured at amortized costs.

Write-off of loans and receivables

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is non-realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security.

As at 31st March	2020 Rs.'000	2019 Rs.'000
Gross loans and receivables	23,322,156	21,354,568
Prepaid rentals	(316)	(328)
Unearned interest	(4,362,354)	(4,021,320)
Allowance for impairment (Note 23.4)	(1,303,054)	(1,199,920)
Interest in suspense	(248,840)	(219,713)
Net loans and receivables	17,407,591	15,913,287
23.1 Loans and receivables-within one year		
Gross loans and receivables	12,612,341	11,564,694
Prepaid rentals	(80)	(28)
Unearned interest	(2,176,302)	(2,011,483)
Loans and receivables	10,435,960	9,553,183
23.2 Loans and receivables-from one to five years		
Gross loans and receivables	10,708,888	9,789,302
Prepaid rentals	(236)	(299)
Unearned interest	(2,185,800)	(2,009,691)
Loans and receivables	8,522,852	7,779,312
23.3 Loans and receivables-after five years		
Gross loans and receivables	927	572
Unearned interest	(252)	(147)
Loans and receivables	674	425
23.4 Movement in allowance for impairment		
Balance at the beginning of the year	1,199,920	750,922
Transitional Provision as per SLFRS 09	-	155,068
Bad debt written off during the year	(61,597)	(16,726)
Charge/(reverse) to the statement of comprehensive income	164,732	310,655
Balance at the end of the year	1,303,054	1,199,920
Stagewise impairment provision movement for loan and receivables is disclosed in Note 54 of the financial statements.		
23.4.1 Individual impairment		
Balance at the beginning of the year	763,865	651,266
Transitional Provision as per SLFRS 09	-	57,393
Bad debt written off during the year	(61,597)	(16,726)
Charge/(reverse) to the statement of comprehensive income	51,168	71,932
Balance at the end of the year	753,436	763,865
23.4.2 Collective impairment		
Balance at the beginning of the year	436,055	99,657
Transitional Provision as per SLFRS 09	-	97,675
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	113,563	238,723
Balance at the end of the year	549,618	436,055
23.5 Sector wise analysis of loans and receivables		
Agriculture	1,076,307	835,009
Industrial	1,725,310	1,203,380
Tourism	735,042	702,068
Trading	5,424,577	5,528,220
Construction	626,748	469,777
Services	11,856,835	10,937,754
Others	1,877,337	1,678,360
	23,322,156	21,354,568

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCE LEASES RECEIVABLES

Accounting policy

When the company is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as finance lease. Amount receivable under finance leases net of initial rentals received, unearned interest and provision for impairment are classified as finance leases receivables in the statement of financial position.

After initial measurement, 'finance leases receivables' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest Income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in 'impairment charge/reversal for Loans and receivables'. The impairment allowance is determined based on the ECL approach specified in SLFRS 9.

As at 31st March	2020 Rs.'000	2019 Rs.'000
Gross finance leases receivables	19,113,635	17,598,536
Prepaid rentals	(417)	(1,032)
Unearned interest	(4,546,959)	(4,316,723)
Allowance for impairment (Note 24.4)	(798,515)	(522,447)
Interest in suspense	(21,587)	(35,458)
Net finance leases receivables	13,746,155	12,722,875
24.1 Finance leases receivable-within one year		
Gross finance leases receivables	8,443,623	7,444,908
Prepaid rentals	(216)	(613)
Unearned interest	(2,408,684)	(2,281,750)
Finance leases receivables	6,034,722	5,162,545
24.2 Finance leases receivable-from one to five years		
Gross finance leases receivables	10,658,176	10,153,691
Prepaid rentals	(201)	(419)
Unearned interest	(2,137,331)	(2,034,932)
Finance leases receivables	8,520,643	8,118,340
24.3 Finance leases receivable-after five years		
Gross finance leases receivables	11,836	726
Unearned interest	(944)	(41)
Finance leases receivables	10,892	685
24.4 Movement in allowance for impairment		
Balance at the beginning the year	522,447	202,758
Transitional Provision as per SLFRS 09	-	62,690
Bad debt written off during the year	(10,175)	(17,934)
Charge/(reverse) to the statement of comprehensive income	286,243	274,934
Balance at the end the year	798,515	522,447

Stagewise impairment provision movement for lease receivables is disclosed in Note 54 of the financial statements.

As at 31st March	2020 Rs.'000	2019 Rs.'000
24.4.1 Movement in individual impairment		
Balance at the beginning of the year	131,892	95,327
Transitional Provision as per SLFRS 09	-	[23,815]
Bad debt written off during the year	[10,175]	[17,934]
Charge/(reverse) to the statement of comprehensive income	101,987	78,315
Balance at the end of the year	223,704	131,892
24.4.2 Movement in collective impairment		
Balance at the beginning of the year	390,555	107,431
Transitional Provision as per SLFRS 09	-	86,505
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	184,256	196,619
Balance at the end of the year	574,811	390,555
24.5 Sector wise analysis of finance leases receivables		
Agriculture	1,740,426	1,392,324
Industrial	2,627,726	2,039,514
Tourism	448,105	475,269
Trading	4,494,663	4,151,709
Construction	328,779	287,695
Services	9,090,181	8,921,709
Others	383,755	330,317
	19,113,635	17,598,536

25. HIRE PURCHASES RECEIVABLES

Accounting policy

Advances granted under agreement that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as hire purchase receivables. Amount receivable under hire purchases net of initial rental received, unearned interest and provision for impairment are classified as hire purchases receivable in the statement of financial position.

After initial measurement, 'hire purchases receivables' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in "impairment charge/ reversal for loans and receivables".

As at 31st March	2020 Rs.'000	2019 Rs.'000
Gross hire purchases receivables	2,202,823	4,464,950
Prepaid rentals	[1,259]	[2,293]
Unearned interest	[288,287]	[875,290]
Allowance for impairment [Note 25.4]	[269,607]	[247,136]
Interest in suspense	[38,243]	[31,916]
Net hire purchases receivables	1,605,426	3,308,315

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	2020 Rs.'000	2019 Rs.'000
25.1. Hire purchases receivable-within one year		
Gross hire purchases receivables	1,396,192	2,364,919
Prepaid rentals	(1,259)	(1,034)
Unearned interest	(173,189)	(537,445)
Hire purchases receivables	1,221,744	1,826,441
25.2. Hire purchases receivable-from one to five years		
Gross hire purchases receivables	806,330	2,099,491
Prepaid rentals	-	(1,259)
Unearned interest	(115,098)	(337,844)
Hire purchases receivables	691,233	1,760,388
25.3. Hire purchases receivable-after five years		
Gross hire purchases receivables	300	540
Unearned interest	(1)	(2)
Hire purchases receivables	299	538
25.4. Movement in allowance for impairment		
Balance at the beginning the year	247,136	256,760
Transitional Provision as per SLFRS 09	-	(38,604)
Bad debt written off during the year	(10,564)	(25,980)
Charge/(reverse) to the statement of comprehensive income	33,035	54,960
Balance at the end the year	269,607	247,136
Stagewise impairment provision movement for hire purchase receivables is disclosed in the Note 54 of the financial statements.		
25.4.1. Movement in individual impairment		
Balance at the beginning of the year	103,044	166,989
Transitional Provision as per SLFRS 09	-	(80,129)
Bad debt written off during the year	(10,564)	(25,980)
Charge/(reverse) to the statement of comprehensive income	44,487	42,164
Balance at the end of the year	136,967	103,044
25.4.2. Movement in collective impairment		
Balance at the beginning of the year	144,092	89,770
Transitional Provision as per SLFRS 09	-	41,526
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	(11,452)	12,796
Balance at the end of the year	132,639	144,092
25.5. Sector wise analysis of hire purchases receivables		
Agriculture	91,004	184,262
Industrial	196,400	445,528
Tourism	61,248	118,543
Trading	575,692	1,073,816
Construction	31,394	46,033
Services	1,106,719	2,297,992
Others	140,367	298,775
	2,202,823	4,464,950

26. OTHER FINANCIAL ASSETS**Accounting policy****Insurance receivables**

Premium receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premium receivables is reviewed for impairment whenever or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income.

Operating lease receivables

All leases other than finance leases are classified as operating leases. When acting as lessor, the company includes the assets subject to operating leases in 'Property, Plant and Equipment' and accounts for them accordingly. Impairment losses are recognized to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

Rental receivable under operating leases are accounted for on a straight line basis over the periods of the leases to reduce the asset to its estimated residual value and are included in 'other operating income'. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

As at 31st March	2020 Rs.'000	2019 Rs.'000
Insurance receivables	114,335	176,587
Operating leases receivables	535	1,655
Investments	249,307	249,307
Other receivables	74,461	72,045
	438,638	499,594

27. INVENTORIES**Accounting policy**

Inventory consists of spareparts, 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	2020 Rs.'000	2019 Rs.'000
Spareparts	3,572	4,743
Lubricant and others	1,981	1,607
Stationary	3,987	2,556
	9,540	23,231

NOTES TO THE FINANCIAL STATEMENTS

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	2020 Rs.'000	2019 Rs.'000
Other receivables	21,629	43,386
Deposit and prepayments	15,371	44,371
Unamortized staff cost	8,984	8,984
	45,984	96,740

29. INVESTMENT IN ASSOCIATES

Accounting policy

Investments in associates is accounted by using the equity method in terms of the Sri Lanka Accounting Standard – LKAS 28 on “investments in associates”. An associate is an entity in which the company has significant influence. Significant influence is presumed to exist when the company holds between 20% and 50% of the voting power of another entity.

Under the equity method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the company’s share of net assets of associate since acquisition date.

Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of comprehensive income reflects the company’s share of results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the company and the associate are eliminated to the extent of the interest in the associate.

The company’s share of the profit or loss of an associate is shown on the face of the statement of comprehensive income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the company. When necessary, adjustments are made to bring the accounting policies in line with those of the company.

After application of the equity method, the company determines whether it is necessary to recognize an impairment loss on its investment in its associate. The company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in 'share of losses of an associate' in the statement of comprehensive income.

Upon loss of significant influence over the associate, the company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the statement of Comprehensive Income.

Company has a 26.12% [2019-26.12%] holding in Nuwera Eliya Hotels Company PLC which is a quoted public company and involved in the business of the hotelliery. The Principal 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 % whereas Income from other sources are taxed at the rate of 28% .

As at 31st March	2020 Rs.'000	2019 Rs.'000
Investment in associates - quoted (Note 29.1)	1,260,144	1,267,430
Total	1,260,144	1,267,430
29.1 Investment in associates - quoted		
Nuwara Eliya Hotels Company PLC		
Carrying value at the beginning of the year	1,267,430	1,006,506
Increase/(Decrease) in Investment		
Add: Share of associates profit after tax (Note 29.1.1)	16,459	79,724
Less : Dividend received from associates	[7,930]	[15,085]
Current year retained profit	8,529	64,639
Share of other comprehensive income	[15,815]	196,285
Carrying value at the end of the year	1,260,144	1,267,430

Summary of associate's statement of financial position as per audited financial statements

As at 31st March	2020 Rs.'000	2019 Rs.'000
Current assets	1,516,087	1,440,563
Non-current assets	3,906,484	4,022,109
Current liabilities	[154,020]	[171,515]
Non-current liabilities	[444,110]	[438,823]
Net assets	4,824,441	4,852,334
Holding percentage of the company	26.12%	26.12%
Share of net assets of the company	1,260,144	1,267,430
Market value per share [Rs.]	835.10	1,250.00
Total market value of the investment [Rs.'000]	476,898	713,835

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

	2020 Rs.'000	2019 Rs.'000
Revenue	732,612	1,104,375
Profit after tax	63,013	305,223
Share of associate's profit after tax	16,459	79,724
	16,459	79,724

NOTES TO THE FINANCIAL STATEMENTS

30. INVESTMENT PROPERTY

Accounting policy

Recognition and measurement

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under cost model in the financial statements. Accordingly, after initial recognition, the property is carried at its cost, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided on a straight line basis over the estimated useful life of the class of asset from the date of purchase upto the date of disposal. Estimated useful life of the buildings classified as investment property ranges from 40 to 75 years.

De-recognition

Investment properties are de-recognized when they are disposed of, or permanently withdrawn from use since no future economic benefits are expected. Transfers are made to and from investment property only when there is a change in use.

As at 31st March	2020 Rs.'000	2019 Rs.'000
Cost		
Balance at the beginning of the year	206,754	179,454
Additions during the year	72,000	27,300
Disposals during the year	(22,600)	-
Balance at the end of the year	256,154	206,754
Less : Accumulated Depreciation		
Balance at the beginning of the year	8,324	6,659
Charge for the year	1,664	1,665
Disposals during the year	-	-
Balance at the end of the year	9,988	8,324
Carrying value	246,166	198,431

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	2020 Rs.'000	2019 Rs.'000
Rental income derived from investment properties	1,424	7,732
Direct operating expenses incurred generating rental income	(790)	(1,923)
Profit arising from investment properties	634	5,809

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				2020		2019	
Location	Extent [Perches]	Building [Square Feet]	No of Buildings	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, Thatthiripitiya, Welipenneghamulla.	80		-	2,500	3,000	2,500	3,000
Peliyagoda 151/3A Negombo Road, Peliyagoda.	5		-	5,000	5,500	5,000	5,500
Pannipitiya 1222, Hokandara Road, Pannipitiya.	79.2		-	-	-	1,600	1,800
Kollupitiya No. 75A-23/2, Kollupitiya Road, Colombo 03.	-	2,636	1	83,234	89,900	83,234	89,900
Gampaha No. 254, Biyagama Road, Kelaniya.	36.6		-	-	-	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	12,300	12,300
Gampaha No. 14/5 Athupathdeniya, Loluwagoda.	1,280.0		-	15,000	15,000	15,000	15,000
Godagama Lenagalawatta, Habarakada.	14.8		-	2,000	2,000	-	-
Nugegoda No. 19, Sigiri Mawatha, Kohuwala, Nugegoda.	66		-	60,000	60,000	-	-
Kandana No. 72, Theresa Mawatha, Kandana.	9.7		-	10,000	10,000	-	-
Total				256,154	270,520	206,754	221,320

The fair value of the investment properties as at 31st March, 2020 was based on market valuations carried out in the year 2014/2015 by a professionally qualified independent valuer Mr. P. T. T. Mohideen, Chartered Valuation Surveyor, Bsc (Hons) Estate Management and Valuation, Executive Diploma in Business Administration, FIV (Sri Lanka) and member of the Royal Institute of Chartered Surveyors - England and directors are of the view that there is no material change in the fair values as at 31.03.2020 as per their judgement.

NOTES TO THE FINANCIAL STATEMENTS

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 statements.

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 its significant component of freehold land and building as at 31st March, 2020. The rest of the land and buildings, directors have estimated that carrying amount as of 31.03.2020 approximate the fair value.

Subsequent cost

These are costs that are recognized in the carrying amount of an asset if it is probable that the future economic benefits embodied within that part will flow to the company and it can be reliably measured. The costs of the day-to-day servicing of Property and Equipment are recognised in the statement of comprehensive income as incurred.

Restoration cost

Expenditure incurred on replacement, repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance is recognized as an expense when incurred.

Derecognition

An item of Property, Plant and Equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset [calculated as the difference between the net disposal proceeds and the carrying amount of the asset], is recognised in 'other income/ expenses' in the statement of comprehensive income in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant and Equipment'.

Capital work-in-progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the statement of financial position at cost.

Assets on operating leases

Assets leased to customers under agreements in which we retain substantially all the risks and rewards associated with ownership and legal title are classified as operating leases. Such assets are recognized as Property, Plant and Equipment in the statement of financial position.

31.1 Carrying value of Property, Plant and Equipment

	At valuation					At cost					Total Rs. '000
	Land	Buildings	Motor vehicles	Plant and machinery	Computer hardware	Office equipment	Furniture, fixtures & fittings	Motor vehicle on operating leases	Capital work-in-progress		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000		
2020- Current year											
Cost/ valuation											
Balance as at 01.04.2019	1,658,931	725,695	374,610	39,230	157,789	77,038	79,370	31,250	52,961	3,196,874	
Additions during the year	-	-	24,562	3,860	12,662	8,862	4,175	-	3,479	57,600	
Disposals during the year	-	-	(19,483)	-	(346)	(768)	-	(7,650)	-	(28,246)	
Derecognition	-	-	-	-	-	-	-	-	-	-	
Surplus on revaluation of property	252,450	48,751	-	-	-	-	-	-	-	301,201	
Transfers/ adjustments	-	(18,804)	-	-	-	-	-	-	-	(18,804)	
Cost/ valuation as at 31.03.2020	1,911,381	755,642	379,689	43,090	170,104	85,133	83,546	23,600	56,440	3,508,625	
Accumulated depreciation											
Balance as at 01.04.2019	-	13,284	109,918	23,157	114,376	32,605	39,058	16,319	-	348,716	
Charge for the year	-	14,514	26,035	6,026	21,511	7,748	7,564	4,457	-	87,854	
Disposals during the year	-	-	(9,650)	-	(312)	(529)	-	(4,430)	-	(14,921)	
Derecognition	-	-	-	-	-	-	-	-	-	-	
Transfers/ adjustments	-	(18,804)	-	-	-	-	-	-	-	(18,804)	
Accumulated depreciations as at 31.03.2020	-	8,994	126,302	29,182	135,575	39,823	46,622	16,346	-	402,845	
Net book value as at 31.03.2020	1,911,381	746,649	253,387	13,908	34,529	45,309	36,924	7,254	56,440	3,105,781	
2019 - previous 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 depreciations as at 31.03.2019	-	13,284	109,918	23,157	114,376	32,605	39,058	16,319	-	348,716	
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	

NOTES TO THE FINANCIAL STATEMENTS

31.2 Revaluation of Property, Plant and Equipment

Significant components of the land and buildings were revalued during the financial year 2019/2020 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, 2020. 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]	No of Buildings	Revalued	Revalued	Net Book	As a % of	Net Book	As a % of
				Amount of Buildings Rs.'000	Amount of Land Rs. '000	Value As At 31.03.2020 Rs. '000	Total NBV As At 31.03.2020	Value As At 31.03.2019 Rs. '000	Total NBV As At 31.03.2019
Kollupitiya No. 236, Galle Road, Colombo 03	32.56	46,777	1	365,500	709,500	1,075,000	40.44	1,022,300	43.11
Maharagama No. 176, Lake Road, Maharagama	168.74	10,919	2	24,400	464,000	488,400	18.37	356,120	15.02
Maharagama No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama	104.00	17,364	3	36,600	208,000	244,600	9.20	192,927	8.14
Kohuwala No. 28, Sunethra Devi Road, Kohuwala	88.00	27,543	2	79,800	340,600	420,400	15.82	375,351	15.83
Kohuwala No. 30/8, Sunethra Devi Road, Kohuwala	17.80	1,700	1	6,000	40,000	46,000	1.73	36,148	1.52
Borella No. 219, Dr. N.M. Perera Mw, Colombo 08	9.46	6,264	1	47,232	85,800	133,032	5.00	134,016	5.65
Negombo No. 26A, Colombo Road, Negombo	13.87	4,500	1	36,252	31,200	67,452	2.54	68,192	2.88
Kollupitiya No. 75-17/4, Kollupitiya Road, Colombo 03	-	1,210	1	38,112	-	38,112	1.43	38,906	1.64
Kollupitiya No. 89-28/4 & 89-28/5, Kollupitiya Road, Colombo 03	-	3,583	1	112,752	-	112,752	4.24	115,101	4.85
Negombo No. 814/24 Colombo Road, Negombo.	17.20	-	-	-	13,750	13,750	0.52	13,750	0.58
Negombo No. 26A, Colombo Road, Negombo	16.22	-	-	-	18,532	18,532	0.70	18,532	0.78
Total				746,648	1,911,382	2,658,030	100	2,371,343	100

31.4 Revaluation

Significant component of Freehold land and building of the company were revalued by a professionally qualified independent valuer [Mr. P. P. T. Mohideen] as at 31st March, 2020.

31.4.1 Effective Date of Valuation as at 31st March, 2020

Location	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	NBV before revaluation		Revalued amount of		Revaluation gain/ [loss] recognised on	
			As At 31st March, 2020					
			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		363,733	651,000	365,500	709,500	1,767	58,500
	Price per perch of land (Rs.)	22,000,000.00						
	Price per square feet for building (Rs.)	7,813.67						
Maharagama - No. 176, Lake Road, Maharagama.	Open market basis		18,240	337,500	24,400	464,000	6,160	126,500
	Price per perch of land (Rs.)	2,750,000.00						
	Price per square feet for building (Rs.)	2,234.64						
Maharagama - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama.	Open market basis		10,704	182,000	36,600	208,000	25,896	26,000
	Price per perch of land (Rs.)	2,000,000.00						
	Price per square feet for building (Rs.)	2,107.81						
Kohuwala - No. 28, Sunethra Devi Road, Kohuwala.	Open market basis		65,976	308,000	79,800	340,600	13,824	32,600
	Price per perch of land (Rs.)	4,000,000.00						
	Price per square feet for building (Rs.)	2,897.29						
Kohuwala - No. 30/8, Sunethra Devi Road, Kohuwala.	Open market basis		4,896	31,150	6,000	40,000	1,104	8,850
	Price per perch of land (Rs.)	2,250,000.00						
	Price per square feet for building (Rs.)	3,529.41						
Total			463,549	1,509,650	512,300	1,762,100	48,751	252,450

NOTES TO THE FINANCIAL STATEMENTS

31.4.2 Effective Date of Valuation as at 31st March, 2018

Location	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	NBV before revaluation		Revalued amount of		Revaluation gain/ (loss) recognised on		
			As At 31st March, 2018						
			Buildings	Land	Buildings	Land	Buildings	Land	
			Rs. '000	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.]	20,000,000.00							
	Price per square feet for building [Rs.]	7,503.69							
Maharagama - No. 176, Lake Road, Maharagama.	Open market basis		17,860	169,000	19,000	337,500	1,140	168,500	
	Price per perch of land [Rs.]	2,000,000.00							
	Price per square feet for building [Rs.]	829.69							
Maharagama - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama.	Open market basis		11,675	67,500	11,150	182,000	(525)	114,500	
	Price per perch of land [Rs.]	1,750,000.00							
	Price per square feet for building [Rs.]	1,191.88							
Kohuwala - No. 28, Sunethra Devi Road, Kohuwala.	Open market basis		64,578	220,000	68,725	308,000	4,147	88,000	
	Price per perch of land [Rs.]	3,500,000.00							
	Price per square feet for building [Rs.]	2,495.19							
Kohuwala - No. 30/8, Sunethra Devi Road, Kohuwala.	Open market basis		5,462	22,250	5,100	31,150	(362)	8,900	
	Price per perch of land [Rs.]	1,750,000.00							
	Price per square feet for building [Rs.]	3,000.00							
Borella - No. 219, Dr. N. M. Perera Mw, Colombo 08.	Open market basis		39,287	38,600	49,200	85,800	9,913	47,200	
	Price per perch of land [Rs.]	10,000,000.00							
	Price per square feet for building [Rs.]	7,854.41							
Negombo - No. 26A, Colombo Road, Negombo.	Open market basis		-	20,000	-	31,200	-	11,200	
	Price per perch of land [Rs.]	2,250,000.00							
Kollupitiya - No. 75-17/4, Kollupitiya Road, Colombo 03.	Investment method		27,260	-	39,700	-	12,440	-	
	Gross annual rentals [Rs.]	2,250,000.00							
	Years purchase[present value of 1 unit per period]	23.5 Y.P							
Kollupitiya - No. 89-28/4 & 89-28/5, Kollupitiya Road, Colombo 03.	Investment method		81,310	-	117,450	-	36,140	-	
	Gross annual rentals [Rs.]	6,666,000.00							
	Years purchase[present value of 1 unit per period]	23.5 Y.P							
Negombo - No. 814/24 Colombo Road, Negombo.	Open market basis		-	10,000	-	13,750	-	3,750	
	Price per perch of land [Rs.]	800,000.00							
Total			555,282	856,350	661,325	1,640,400	106,043	784,050	

Narrative descriptions on the sensitivity of fair value measurement to changes in significant unobservable inputs are tabled below.

Valuation Technique	Significant unobservable valuation inputs	Sensitivity of the fair value measurement to inputs
Market comparable method In determining the fair value of the property being revalued, this method considers the selling price of a similar property within a reasonably recent period of time. This involves evaluating recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of the specific property.	<ul style="list-style-type: none"> ☑ Price per perch for land ☑ Price per square feet for building 	Estimated fair value would increase [decrease] if; <ul style="list-style-type: none"> ☑ 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.	<ul style="list-style-type: none"> ☑ Gross Annual Rentals ☑ Years Purchase 	Estimated fair value would increase [decrease] if; <ul style="list-style-type: none"> ☑ 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	2020			2019		
	Cost Rs.'000	Cumulative Depreciation Rs.'000	Net Carrying Amount Rs.'000	Cost Rs.'000	Cumulative Depreciation Rs.'000	Net Carrying Amount Rs.'000
Class of asset						
Freehold land	160,521	-	160,521	160,521	-	160,521
Freehold buildings	255,755	94,624	161,131	255,755	89,531	166,224
	416,276	94,624	321,652	416,276	89,531	326,745

31.6 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value [excluding capital working progress] of Rs. 54,121,155/- (2019 - Rs. 253,280,239/-)

Cash payments amounting to Rs. 54,121,155/- (2019- Rs. 244,756,645/-) were made during the year for purchase of Property, Plant and Equipment.

31.7 Property, Plant and Equipments include assets under operating leases, where the company is a lessor. The net carrying amount of those assets as at 31st March 2020 was Rs. 7,253,982/- (2019 - Rs.14,931,329/-), on which the accumulated depreciation as at 31st March 2020 was Rs. 16,346,018/-(2019-Rs. 16,318,671/-) .

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 2020				
Future Operating Lease Receivable	3,519	-	-	3,519
As at 31st March 2019				
Future Operating Lease Receivable	6,766	5,728	-	12,494

NOTES TO THE FINANCIAL STATEMENTS

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. 197,542,693/- [2019- Rs. 170,078,353/-]

31.10 Property, Plant and Equipment pledged as security for liabilities

There were no Property, Plant and Equipment pledged as securities for liabilities except properties at Sri Vajiragnana Mawatha, Maharagama and No. 28, Sunethradevi Road, Kohuwala pledged as securities for overdraft facilities obtained from Sampath Bank PLC and Hatton National Bank PLC respectively for Rs.100 Mn each.

31.11 Title restriction in property, plant and equipment

There were no restrictions that existed in the title of the property, plant and equipment of the company as at reporting date except properties at Sri Vajiragnana Mawatha, Maharagama and No.28, Sunethradevi Road, Kohuwala pledged as securities for overdraft facilities obtained from Sampath Bank PLC and Hatton National Bank PLC respectively.

31.12 Compensation from third parties for items of property, plant and equipment

There were no compensation received /receivable from third parties for items of Property, Plant and Equipment that were impaired, lost or given up.

31.13 Capitalization of borrowing cost

There were no borrowing costs that have been capitalized into the capital work-in-progress.

31.14 Capital commitments

There are no significant capital commitments which have been approved or contracted for by the company as at 31st March, 2020.

31.15 Right of use assets

Accounting policy

Basis of recognition

The company applies Sri Lanka Accounting standard SLFRS 16 "Leases" in accounting for all lease hold rights except for short term leases, which are held for use in the provision for services.

Basis of Measurement

The company recognises right of use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right of use assets are measured at cost less any accumulated amortization and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right of use assets are amortised on the straight line basis over the lease term.

The company applied modified retrospective approach in accordance with SLFRS 16 when accounting for right of use assets and operating lease liabilities.

31.15.a Movement in right -of- use assets

	2020 Rs.'000
Cost	
Balance as at 1st April 2019	-
Day 1 impact from the application of SLFRS 16	253,204
Opening balance of Advance Payments for the Right -of -Use Assets	64,317
Restated Balance as at 1st April 2019	317,521
Additions/renewal operating leases during the year	42,351
Balance as at 31st March 2020	359,871
Accumulated amortization and impairment	
Balance as at 1st April 2019	-
Day 1 impact from the application of SLFRS 16	101,394
Restated Balance as at 1st April 2019	101,394
Amortization for the year	35,222
Impairment	-
At the end of the year	136,616
Net book value as at 31st March 2020	223,255

32. LEASEHOLD PROPERTY

	2020 Rs.'000	2019 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 amortization and impairment		
At the beginning of the year	5,147	4,682
Amortization for the year	468	465
Disposals	-	-
Impairment	-	-
At the end of the year	5,615	5,147
Net book value as at 31st March	40,739	41,207

NOTES TO THE FINANCIAL STATEMENTS

33. INTANGIBLE ASSETS

Accounting policy

Basis of recognition

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 38 'Intangible Assets'. Accordingly, these assets are stated in the statement of financial position at cost, less accumulated amortization and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in these assets. All other expenditure is charged to the statement of comprehensive income when incurred.

Useful economic lives, amortization and impairment

The company does not possess intangible assets with indefinite useful lives. Useful economic lives, amortization and impairment of finite intangible assets are described below:

Intangible assets with finite lives and amortization

Intangible assets with finite lives are amortized over the useful economic lives. The amortization period and the amortization method for an intangible asset with finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefit embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income as an expense.

Computer software

All computer software costs incurred, licensed for use by the company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the statement of financial position under the category of intangible assets and carried at cost, less accumulated amortization and accumulated impairment losses, if any.

Useful life/ depreciation rate of the computer software is disclosed in the Note 12 of the financial statements.

Derecognition of intangible assets

Intangible assets are derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income.

	2020 Rs.'000	2019 Rs.'000
Cost		
At the beginning of the year	114,352	83,492
Additions	1,045	30,965
Disposal	-	[105]
At the end of the year	115,396	114,352
Accumulated amortization and impairment		
At the beginning of the year	50,141	34,512
Amortisation for the year	19,268	15,734
Disposal	-	[105]
At the end of the year	69,409	50,141
Net book value as at 31st March	45,987	64,211

33.1 Net book value of Intangible assets reported as of 31.03.2020 solely comprised of computer softwares which were acquired from the market.

33.2 Fully amortized Intangible assets

The cost of intangible assets as at reporting date includes the fully depreciated assets amounting to Rs 23,743,312 - (2019 - Rs.20,414,416-)

34. DEPOSITS DUE TO CUSTOMERS

These include fixed deposits and savings deposits and subsequent to initial recognition deposits are measured at their amortised cost using the Effective Interest Rate method [EIR]. Interest paid/payable on these deposits are recognized in the statement of comprehensive income.

As at 31st March	2020 Rs.'000	2019 Rs.'000
Fixed deposits (Note 34.1)	22,571,556	21,098,861
Savings deposits	243,367	77,571
	22,814,923	21,176,433
34.1 Analysis of fixed deposits by maturity date		
1 to 90 days	8,028,384	6,932,555
91 to 365 days	10,477,828	9,270,337
More than 365 days	4,065,345	4,895,969
	22,571,556	21,098,861

34.2 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. 27,054,195 as the premium for the above insurance scheme during the year. (2019 - Rs. 26,693,442).

35. DEBTS INSTRUMENTS ISSUED AND OTHER BORROWINGS

Accounting policy

These represent the funds borrowed by the company for long term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortized cost using the EIR method except where the company designates debt securities issued at fair value through profit or loss. Interest paid or payable is recognized in the statement of comprehensive income.

As at 31st March	2020 Rs.'000	2019 Rs.'000
Money market borrowings	-	200,000
Short term borrowings (Note 35.1)	1,958,333	3,833,320
Long term borrowings (Note 35.2)	6,742,650	4,676,355
Interest payable	428,000	247,803
	9,128,983	8,957,478

NOTES TO THE FINANCIAL STATEMENTS

35.1 Short Term Borrowings

As at 31st March	Terms of Repayment			2020	2019
	Interest Rate	Period	Payment terms	Rs.'000	Rs.'000
National Development Bank PLC	10.85%	3 Months	At maturity	500,000	-
National Development Bank PLC	10.25%	3 Months	At maturity	500,000	-
Seylan Bank PLC	13.00%	1 Month	At maturity	500,000	-
Seylan Bank PLC	13.97%	1 Year	Monthly	83,333	-
Seylan Bank PLC	14.10%	1 Year	Monthly	125,000	-
Cargills Bank Limited	10.00%	1 Month	Monthly	250,000	-
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
				1,958,333	3,833,320

35.2 Long Term Borrowings

As at 31st March	Terms of Repayment			2020	2019
	Interest Rate	Period	Payment terms	Rs.'000	Rs.'000
Securitized Borrowings	12.75%-16.12%	4 yrs	Variable Installment	2,952,475	341,600
Hatton National Bank PLC	11.00%	4 yrs	Fixed monthly installment	-	187,501
Commercial Bank of Ceylon PLC	15.00%	4 yrs	Fixed monthly installment	-	499,600
Cargills Bank Limited	AWPLR+2.75%	2 Yrs	Fixed monthly installment	156,250	105,530
Cargills Bank Limited	AWPLR+1.65%	5 yrs	Fixed monthly installment	54,540	-
Commercial Bank of Ceylon PLC	15.00%	4 yrs	Fixed monthly installment	249,400	750,400
Commercial Bank of Ceylon PLC	13.50%	4 yrs	Fixed monthly installment	500,800	-
Sampath Bank PLC	13.25%	2 Yrs	Fixed monthly installment	249,999	-
Public Bank of Behard (Sri Lanka)	AWPLR+1.5%	2 Yrs	Fixed monthly installment	79,187	-
Hatton National Bank PLC	AWPLR+1.5%	2 yrs	Fixed monthly installment	749,998	500,800
Hatton National Bank PLC	15.75%	4 yrs	Quartley	-	950,000
Seylan Bank PLC	AWPLR+1.9%	4 yrs	Fixed monthly installment	250,000	-
National Development Bank PLC	13.50%	4 yrs	Annually	1,500,000	-
Hatton National Bank PLC	13.00%	2 yrs	Fixed monthly installment	-	417,600
Sampath Bank PLC	13.25%	2 yrs	Fixed monthly installment	-	750,000
Public Bank of Behard (Sri Lanka)	13.43%	2 yrs	Fixed monthly installment	-	173,324
				6,742,650	4,676,355

Maturity analysis of borrowings and assets pledged details are given in note 52 and 49 to the financial statements respectively.

36. OTHER FINANCIAL LIABILITIES

As at 31st March	2020 Rs.'000	2019 Rs.'000
Vendor payable	605,041	719,283
Insurance payable	163,570	171,976
Other payable	86,637	63,988
	855,247	955,246

36.1 Lease Liability**Accounting policy**

The company recognises a lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. The Company has measured the lease liability at the present value of the remaining lease payments, discounted using the company's Incremental Borrowing Rate of 14%.

	2020 Rs.'000
Lease Liability (Note 36.1.1)	269,986

36.1.1 Movement in Operating lease liabilities

	2020 Rs.'000
Balance as at 1st April 2019	-
Day 1 impact from the application of SLFRS 16	253,204
Restated Balance as at 1st April 2019	253,204
Additions/renewal operating leases during the year	30,290
Accretion of the Interest	50,228
Payment to lease creditors	[63,736]
Balance as at 31st March 2020	269,986

36.1.2 Sensitivity Analysis of Lease Liability

The following table illustrates the impact arising from the possible changes in the incremental borrowing rate on the lease liability of the company as at 31 March 2020.

	2020	
	Rs. 000	Rs. 000
Increase/[Decrease] in Incremental Borrowing Rate	Sensitivity effect on Lease Liability Increase / [Reduction] in the Liability	Sensitivity effect on Interest Expense Increase / [Reduction] in profit for the year
1bp Up	[6,759]	4,184
1bp Down	7,019	[4,253]

NOTES TO THE FINANCIAL STATEMENTS

36.1.3 Contractual Maturity Analysis of Lease Liability

As at 31 March 2020	With in One Year Rs. 000	1 - 5 Years Rs. 000	Over 5 Years Rs. 000	Total Rs. 000
Lease Liability	5,234	189,512	75,239	269,986

37. DEFERRED TAX LIABILITIES

Accounting policy

Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except;

- ☑ Where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ☑ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- ☑ Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilized: except
- ☑ Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ☑ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

The deferred tax relating to items recognized directly in equity are also recognized in equity, and not in the statement of comprehensive income.

As at 31st March	2020		2019	
	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000
Summary of net deferred tax liability				
Balance at the beginning of the year	2,967,677	830,950	3,503,456	980,968
SLFRS Adjustments	[24,598]	[6,887]	57,821	16,190
Amount originating/[reversing] during the year	[405,956]	[113,668]	[555,117]	[155,433]
Deferred tax effect on revaluation surplus on PPE	-	-	-	-
Deferred tax effect on actuarial gain	348,001	97,440	[38,400]	[10,752]
Balance at the end of the year	2,885,124	807,835	2,967,677	830,950
Deferred tax asset				
Retirement benefit obligation	254,385	71,228	238,114	66,672
Unclaimed impairment provision	406,456	113,808	622,202	174,217
Lease Liability	46,730	13,084	-	-
	707,571	198,120	860,316	240,889
Deferred tax liability				
Accelerated depreciation for tax purpose - leased assets	[1,010,387]	[282,908]	[1,615,694]	[452,394]
Accelerated depreciation for tax purpose - owned assets	[306,039]	[85,691]	[237,232]	[66,425]
Deferred tax effect on revaluation surplus	[2,276,268]	[637,355]	[1,975,067]	[553,019]
	[3,592,694]	[1,005,954]	[3,827,993]	[1,071,838]
Net temporary difference and deferred assets/(tax liability)	[2,885,124]	[807,835]	[2,967,677]	[830,950]

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 No. 19 - on 'Employees Benefits'. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflow using interest rates that apply to the currency in which the benefits will be paid.

The company policy is to perform actuarial valuation in every year.

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS 19 on 'Employees Benefits'.

This is a final salary defined benefit plan where regulatory requirement [Gratuity Act No. 12 of 1983] is to pay half month last drawn salary into number of years completed to the employees who completed 5 years upon termination of the employment.

38.1 Provision for retirement benefit obligations

As at 31st March	2020 Rs.'000	2019 Rs.'000
Balance at the beginning of the year	238,112	183,476
Expenses recognized during the year (Note 38.2)	25,628	65,757
Payments made during the year	[9,355]	[11,121]
Balance at the end of the year	254,385	238,112

NOTES TO THE FINANCIAL STATEMENTS

38.2 Expenses recognized in the statement of comprehensive income

As at 31st March	2020 Rs.'000	2019 Rs.'000
Interest cost - statement of comprehensive income	27,859	22,935
Current service cost - statement of comprehensive income	20,108	18,518
	47,967	41,452
Actuarial (gain) / loss - other comprehensive income	[22,339]	24,304
	25,628	65,757

Actuarial valuation of the gratuity liability was carried out as at 31st March, 2020 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' (PUC), 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 18 % used in this valuation have been determined based on the staff turnover statistics of the company. [Previous year 19%].

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

The employees who are aged over the specified retirement age of 55 years, have been assumed to retire on their respective next birthdays. [2019 - 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 10.20% has been used having given weightage to the anticipated long term rate of inflation. [Previous year 11.7%].

Salary increases

A 8% p.a salary increment rate has been used in respect of the active employees. [Previous year 10%].

38.4 Sensitivity analysis

In order to show the significance of the salary escalation rate and discount rate used in the actuarial valuation as at 31st March 2020, sensitivity analysis has been carried out as follows:

Discount Rate	Salary Escalation Rate	Present Value of Defined Benefit Obligation	
		2020 Rs.'000	2019 Rs.'000
1% Increase	As the Rate Above	243,679	228,403
1% Decrease	As the Rate Above	266,171	248,734
As the Rate Above	1% Increase	265,149	247,760
As the Rate Above	1% Decrease	244,445	229,144

38.5 Maturity profile of the Defined Benefit Obligation

	2020 Rs.'000	2019 Rs.'000
Within the next 12 Months	48,727	49,482
Between 1 - 2 years	85,545	-
Between 2 - 5 years	51,151	115,953
Beyond 5 years	68,963	72,679
	254,385	238,112

Weighted Average duration of Defined Benefit Obligation as at 31st March 2020 is 4.81 years. [4.71 years in 2019]

39. STATED CAPITAL

As at 31st March	2020 Rs.'000	2019 Rs.'000
Value		
Ordinary shares	36,000	36,000
	36,000	36,000

	2020 Nos '000	2019 Nos '000
Number of shares in issue		
Ordinary shares [no par value]	3,006	3,006
	3,006	3,006

NOTES TO THE FINANCIAL STATEMENTS

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.

	2020 Rs.'000	2019 Rs.'000
Balance at the beginning of the year	2,124,535	1,928,250
Increase during the year through FVTOCI	285,386	196,285
Deferred tax effect	[84,336]	-
Balance at the end of the year	2,325,585	2,124,535
40.1 Revaluation Reserve- Company		
Balance at the beginning of the year	1,527,486	1,527,486
Increase during the year due to revaluation	301,201	-
Transfer out realized gain on disposed revalued building	-	-
Deferred tax effect	[84,336]	-
Balance at the end of the year	1,744,351	1,527,486
40.2 Associate Company Reserve		
Balance at the beginning of the year	597,049	400,764
Increase during the year through FVTOCI	[15,815]	196,285
Transfer out realized gain on disposed revalued building	-	-
Deferred tax effect	-	-
Balance at the end of the year	581,234	597,049

Revaluation reserve (Company & Associates) can be utilized for dividend distribution upon realization.

41. STATUTORY RESERVE FUND

	2020 Rs.'000	2019 Rs.'000
Balance at the beginning of the year	736,400	711,400
Transfers during the year	25,000	25,000
Balance at the end of the year	761,400	736,400

Statutory reserve fund which is a capital reserve, was created in accordance with Finance Companies Direction No. 1 of 2003 issued by Central Bank of Sri Lanka.

42. GENERAL RESERVE

	2020 Rs.'000	2019 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

	2020 Rs.'000	2019 Rs.'000
Balance at the beginning of the year	1,765,028	1,720,522
Transitional Provision as per SLFRS 09	-	(375,015)
Transitional Provision as per SLFRS 16	(44,703)	-
Profit for the year	371,708	458,073
Other comprehensive income	9,235	(13,552)
Transfer to general reserve	-	-
Transfer to statutory reserve	(25,000)	(25,000)
Dividend paid	(60,120)	-
Balance at the end of the year	2,016,150	1,765,028

44. FAIR VALUE THROUGH OCI RESERVE

	2020 Rs.'000	2019 Rs.'000
Balance at the beginning of the year	(75,529)	200,485
Net gain and losses on remeasuring of FVTOCI	(251,709)	(276,015)
Balance at the end of the year	(327,238)	(75,529)

Fair Value through OCI reserve comprises the cumulative net change in fair value of financial investment, until such investment are derecognized or impaired.

45. CAPITAL COMMITMENTS

There are no significant capital commitments which have been approved or contracted for by the company as at 31st March, 2020.

46. CONTINGENCIES**46.1 Contingent liabilities****Accounting policy**

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless its occurrence is remote.

The company does not anticipate any contingent liabilities to arise out of any contingent event as at the date of statement of financial position except as disclosed below :

- a. The gratuity liability of the company as at 31st March, 2020 is based on the actuarial valuation carried out by Ms. Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. As per the actuarial valuation, the provision in respect of gratuity liabilities of the existing employees of the company as at 31st March, 2020 is Rs. 254,384,823/-. If the company had provided for gratuity on the basis of Gratuities Act No.12 of 1983, the liability would have been Rs. 273,754,317/-. Hence, there is a contingent liability of Rs. 19,369,494/-, which would crystallize only if the company ceases to be a going concern.
- b. Litigations filed by the customers against the company.
Although litigations resulted from the ordinary course of business activities of the company, 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.
- Cases pending against the Company (Values claimed) was Rs. 1,500,000/- as at 31 March 2020 (2019-Rs. 1,500,000/-).

NOTES TO THE FINANCIAL STATEMENTS

46.2 Contingent assets

There are no contingent assets as at the date of statement of financial position.

47. TRUST ACTIVITIES

The company is not engaged in any trust activities which may have an impact on its financial results, financial position or liquidity of the company.

48. RELATED PARTY DISCLOSURE

The company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Except for the transactions that key management personnel [KMPs] have made under schemes uniformly applicable to all the staff at concessionary rates, transactions with the related parties listed below have been at commercial rates.

48.1 Parent and ultimate controlling party

The company does not have an identifiable parent of its own.

48.2 Transactions with the Key Management Personnel [KMP's]

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 2,349mn [FY 2019 - 2,349 mn]

For the year ended 31st March	2020 Rs.'000	2019 Rs.'000
Short - Term Employee Benefits	113,691	104,611
Post Employment Benefits	76,059	72,839
	189,750	177,450

48.3 Transactions involving Key Management Personnel [KMPs] and their close family members [CFMs]

Close family members [CFM] are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include children, spouse or domestic partner of KMP.

	2020 Rs.'000	2019 Rs.'000
Statement of financial position		
Liabilities		
Deposits	783,459	683,020
	783,459	683,020
Statements of comprehensive income		
Interest expenses	90,412	86,651
Other Expenses	886	885
Other transactions		
Dividend paid on shareholding	28,833	-

48.4 Transactions with the entities which are controlled by Key Management Personnel [KMPs] and their close family members [CFMs].

48.4.1 Statement of financial position		
As at 31st March	2020	2019
	Rs.'000	Rs.'000
Assets		
Insurance commission receivable	61,046	55,279
Other receivables	6,821	5,129
Total	67,867	60,408
Accommodation as a % of capital funds	0.76%	0.70%
Liabilities		
Deposits	1,813,974	1,612,686
Insurance Premium Payable	163,570	172,993
Accrued Expenses Payable	2,838	2,824
	1,980,382	1,788,503
Statements of comprehensive income		
For the year ended 31st March	2020	2019
	Rs.'000	Rs.'000
Interest Income on Loans & Advances	-	15
Interest Expenses on Fixed Deposit	163,033	213,320
Rent Income	9,300	8,100
Insurance Commission Income	82,943	79,156
Other Income	7,629	8,224
Security Expenses	31,803	28,632
Insurance Marketing Expenses	-	3,000
Other Expenses	3,542	2,742
Other Transactions		
Dividend Paid on shareholding	24,971	-
48.4.2 Transactions with Associate		
Statement of financial position		
As at 31st March	2020	2019
	Rs.'000	Rs.'000
Assets		
Other Receivables	504	535
Liabilities		
Deposits	745,507	673,963
Statements of comprehensive income		
For the year ended 31st March	2020	2019
	Rs.'000	Rs.'000
Interest Expenses on Fixed Deposit	88,053	88,884
Rent Income	1,560	1,500
Other Income	1,288	998
Other Expenses	-	9
Other transactions		
Dividend income	7,930	15,085

NOTES TO THE FINANCIAL STATEMENTS

49. ASSETS PLEDGED

The following assets have been pledged as security for banking and loan facilities

Name of the bank	Nature of the facility	Facility amount [Rs.]	Outstanding as at 31.03.2020 [Rs.]	Securities/ mortgages
Cargills Bank Limited	Short Term Loan	250 Million	250,000,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.2 times
	Term Loan	250 Million	156,250,006.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.5 times
	Term Loan	250 Million	54,540,429.86	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.5 times
Commercial Bank of Ceylon PLC	Overdraft	125 Million	319,775,980.73	Mortgaged over investments in quoted shares by the company
	Term Loan	1 Billion	249,400,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
	Term Loan	1 Billion	500,800,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
Hatton National Bank PLC	Overdraft	400 Million	54,913,486.75	Mortgaged over investments in quoted shares by the company and over immovable property No. 28, Sunethradevi Road, Kohuwala
	Term Loan	1 Billion	749,998,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 140%
National Development Bank PLC	Short Term Loan	500 Million	500,000,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
	Short Term Loan	500 Million	500,000,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
	Term Loan	1.5 Billion	1,500,000,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
Public Bank of Behard (Sri Lanka)	Term Loan	195 Million	79,186,976.12	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.67 times
Sampath Bank PLC	Overdraft	100 Million	83,780,605.87	Mortgaged over property at Vajiragnana Mawatha, Maharagama
	Term Loan	1 Billion	249,999,400.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 133%
Seylan Bank PLC	Short Term Loan	500 Million	500,000,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.5 times
	Short Term Loan	500 Million	83,333,334.06	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.5 times
	Short Term Loan	500 Million	125,000,000.08	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.5 times
	Term Loan	250 Million	250,000,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.5 times
Nations Trust Bank PLC	Overdraft	50 Million	3,572,641.27	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times

Name of the bank	Nature of the facility	Facility amount [Rs.]	Outstanding as at 31.03.2020 [Rs.]	Securities/ mortgages
Securitized borrowings	Trust Loan	917 Million	682,617,543.78	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
	Trust Loan	784 Million	784,857,458.29	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
	Trust Loan	635 Million	635,000,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
	Syndicated Loan	1.1 Billion	850,000,000.00	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times

50. EVENTS AFTER THE REPORTING DATE

Accounting Policy

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made into the financial statements where necessary.

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosures in the financial statements.

51. FINANCIAL REPORTING BY SEGMENTS

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 organized and managed separately according to the nature of the products and services provided with each segment representing a strategic business unit that offers different products and serves different markets. The operating segments identified by the company for are as follows:

Finance lease	This segment includes finance leasing products offered to the customers
Hire purchase	This segment includes hire purchase products offered to the customers
Loans and advances	This segment include vehicle loans, loans against property mortgages and micro finance lending
Investments	This segment includes the investments in equities and debt securities
Other	This segment includes all other business activities other than the above segments

The company has aggregated all other business lines under "other segment" considering the risks & rewards and the materiality criteria. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing financial statements of the company. Inter- segment transfers are accounted at arms length basis.

Business Segments

The following table presents the income, profit and assets and liability information on the company business's segment for the year ended 31st March, 2020 and comparative figures for the year ended 31st March, 2019.

NOTES TO THE FINANCIAL STATEMENTS

51. FINANCIAL REPORTING BY SEGMENTS (CONTD.)

Financial reporting by segment as per the provisions of Sri Lanka Financial Reporting Standard –SLFRS 08

For the year ended 31st March	Finance Lease		Hire Purchase		Loans & Advances	
	2020	2019	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
External operating income						
Interest income	3,146,245	2,751,109	557,348	1,036,448	3,583,325	3,456,566
Interest expenses	1,588,541	1,390,908	281,405	524,008	1,809,223	1,747,574
Net interest income/(expenses)	1,557,704	1,360,200	275,943	512,439	1,774,102	1,708,992
Fee and commission income	-	-	-	-	-	-
Capital gains	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total operating income	1,557,704	1,360,200	275,943	512,439	1,774,102	1,708,992
Impairment charge/(reversal) for loans and receivables / Equity Investments	286,243	274,934	33,035	54,960	164,732	310,655
Net operating income	1,271,461	858,755	242,908	600,263	1,609,370	606,787
Personnel expenses	409,234	332,558	72,495	125,287	466,085	417,834
Commission	92,794	73,065	222	7,158	38,254	30,664
Depreciation and amortisation	59,731	35,834	10,581	13,500	68,029	45,023
Disallowed VAT on expenses	19,757	16,599	3,500	6,253	22,502	20,855
Other overheads	344,878	289,990	61,094	109,250	392,789	364,351
	926,394	748,046	147,891	261,449	987,659	878,728
Operating profit before value added tax on financial services	345,066	110,709	95,017	338,814	621,712	(271,941)
Value added tax and NBT on financial services	190,531	145,167	33,752	54,690	217,000	182,392
Operating profit after value added tax on financial services	154,535	(34,458)	61,265	284,124	404,711	(454,333)
Share of associate company's profit before taxation						
Profit before taxation from operations						
Income tax expenses						
Profit for the year						
Other information						
As At 31st March						
Segment assets	13,746,155	12,722,875	1,605,426	3,308,315	17,407,591	15,913,287
Segment liabilities	14,169,274	11,770,760	2,510,044	4,434,495	16,137,686	14,789,097
Net assets	(393,662)	2,327,898	(899,400)	1,297,774	1,303,455	2,385,103

Investments		Others		Total	
2020	2019	2020	2019	2020	2019
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
188,403	191,932	-	-	7,475,320	7,436,054
105,604	121,405	57,606	77,984	3,842,380	3,861,878
82,798	70,527	[57,606]	[77,984]	3,632,941	3,574,176
-	-	82,943	94,955	82,943	94,955
-	-	-	-	-	-
20,756	48,197	-	-	20,756	48,197
-	-	31,150	59,290	31,150	59,290
103,554	118,724	56,488	76,262	3,767,790	3,776,618
-	41,099	-	-	484,009	681,648
103,554	(236,195)	56,488	54,639	3,283,780	3,094,970
27,205	29,027	14,840	18,645	989,859	923,352
-	-	-	-	131,270	110,887
3,971	3,128	2,166	2,009	144,478	99,494
1,313	1,449	716	931	47,789	46,087
22,927	25,312	12,506	16,259	834,194	805,161
55,417	58,915	30,229	37,844	2,147,590	1,984,981
48,138	(295,110)	26,258	16,795	1,136,190	1,109,989
12,666	12,671	6,909	8,139	460,859	403,059
35,471	(307,781)	19,349	8,656	675,331	706,930
				16,459	79,724
				691,791	786,654
				[320,082]	[328,580]
				371,708	458,073
4,295,827	4,442,290	6,116,119	4,967,801	43,171,119	41,354,568
941,956	1,027,404	513,826	659,947	34,272,792	32,681,703
3,355,830	1,037,219	5,299,435	819,271	8,898,327	8,672,864

NOTES TO THE FINANCIAL STATEMENTS

52. CURRENT AND NON-CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of Assets and Liabilities analyzed according to when they are expected to be recovered or settled.

As at 31st March	2020			2019		
	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	1,813,985	-	1,813,985	1,196,226	-	1,196,226
Placement with banks	281,015	1,344	282,359	240,122	1,254	241,376
Financial investments-at FV through OCI	2,298,657	454,668	2,753,325	2,632,908	300,577	2,933,484
Loans and receivables	7,661,181	9,746,411	17,407,592	7,479,901	8,433,386	15,913,287
Finance lease receivables	5,381,276	8,364,879	13,746,155	4,891,635	7,831,240	12,722,875
Hire purchase receivables	860,323	745,103	1,605,426	1,529,504	1,778,811	3,308,315
Other financial assets	189,331	249,307	438,638	250,297	249,296	499,594
Total financial assets	18,485,768	19,561,712	38,047,482	18,220,593	18,594,564	36,815,157
Non-financial assets						
Inventories	-	9,540	9,540	-	23,231	23,231
Current tax refunds	-	146,042	146,042	-	-	-
Investment in associates	-	1,260,144	1,260,144	-	1,267,430	1,267,430
Other assets	21,629	24,355	45,984	43,386	53,354	96,740
Property, plant and equipment	-	3,105,781	3,105,781	-	2,848,159	2,848,159
Leasehold property	-	40,739	40,739	-	41,207	41,207
Intangible assets	-	45,987	45,987	-	64,211	64,211
Investment property	-	246,166	246,166	-	198,431	198,431
Right-of-use assets	-	223,255	223,255	-	-	-
Total non-financial assets	21,629	5,102,008	5,123,637	43,386	4,496,022	4,539,408
Total assets	18,507,397	24,663,721	43,171,119	18,263,979	23,090,586	41,354,567
Liabilities						
Financial liabilities						
Bank overdraft	86,567	-	86,567	186,276	-	186,276
Deposits due to customers	18,749,579	4,065,345	22,814,923	16,280,463	4,895,969	21,176,433
Debt instruments issued and other borrowings	5,622,762	3,506,222	9,128,983	6,218,413	2,739,066	8,957,478
Other financial liabilities	855,247	-	855,247	955,246	-	955,246
Total financial liabilities	25,314,155	7,571,566	32,885,721	23,640,398	7,635,035	31,275,433
Non-financial liabilities						
Current tax liabilities	-	-	-	290,338	-	290,338
Deferred tax liability	-	807,835	807,835	-	830,950	830,950
Other liabilities	54,859	-	54,865	46,870	-	46,870
Retirement benefit obligation	-	254,385	254,385	-	238,112	238,112
Lease Liability	-	269,986	269,986	-	-	-
Total non-financial liabilities	54,859	1,332,206	1,387,065	337,208	1,069,062	1,406,270
Total liabilities	25,369,014	8,903,772	34,272,792	23,977,606	8,704,097	32,681,703
Net assets/ liabilities	(6,861,617)	15,759,949	8,898,327	(5,713,627)	14,386,489	8,672,864

53. FINANCIAL RISK MANAGEMENT		
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53.2 Introduction

As a financial services sector operating Company, MI is exposed to various types of risks including credit, market, liquidity, operational and capital risks which are inherent in the Company's activities. Integral to our good corporate governance practices is our Risk Management function that strives to identify potential risks in advance, analysing them and guiding management to take precautionary steps to mitigate the impact of risk whilst optimising risk-adjusted returns within the Risk Appetite of the Company. By instilling various controls and strategies, management continuously strives to mitigate risks in the attempt of generating higher profits and minimizing unexpected losses. This detail disclosure note given herewith illustrates MI's exposure to each identified key risks and outlines management process for the identification, analysing, measurement and monitoring of such risks and associated considerations by referring to our unique business model which includes our various business lines.

53.2.1 Board's Role in Risk Management

While keeping the Company's ultimate responsibility for the risk management, MI's Board of Directors have delegated oversight of this function to two key Board Subcommittees namely the Integrated Risk Management Committee (IRMC) and the Audit Committee. In addition, other board subcommittees & management committees such as the Assets and Liabilities Committee (ALCO), Credit Committee, Remuneration Committee and Nomination Committee have been entrusted to oversee specified areas of business to either directly or indirectly assist IRMC in ensuring sound risk governance prevails across key functions of MI's business operation.

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Our risk management policies and procedures are properly 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. These recommendations & instructions with observations are periodically reported to MI Board depending on the materiality of the risk at hand.

53.2.2 Risk measurement and reporting

MI's exposures to various risks are measured in a way that provides clarity on the choice of actions and decisions enforcing balance in the risk-reward trade-off. Our comprehensive risk management framework illustrates an insight on the impact of probable and remote scenarios on the Company's risk profile. Respective risk measurement results are reported to the IRMC periodically by Head of Compliance and Risk Management. We have established 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 is provided in the Risk Management report of the Annual Report. [Refer pages 145 to 162]

53.2.3 MI's Integrated Risk Management Framework



53.3 Credit Risk

Credit risk is the financial loss resulting from a borrower or counterparty to a financial instrument failing or delaying to meet its contractual obligations. As a finance company, management of Credit Risk is the most vital element in MI's overall risk management strategy. Since MI possesses an over Rs.32.7 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 carefully.

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.]

Assessment of impairment

The methodology of the impairment assessment is explained in Note 3.2 to 3.4 under accounting policies. The references given herein should be read in conjunction with those Accounting policies.

53.3.1 Credit Quality by Class of Financial Assets

MI's credit quality categorisation method 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, and Fair Value through Other Comprehensive Income (FVOCI) as at the end of the financial year 2019/20.

53.3.1. A Credit Quality by Class of Financial Assets - As at 31st March 2020 [as per SLFRS 9]

Financial Assets	Not Subject	12 Month ECL	Life time ECL-not	Life time ECL -	Total
	to ECL	[Stage 1]	credit impaired	credit impaired	
	Rs. 000	Rs. 000	[Stage 2]	[Stage 3]	Rs. 000
			Rs. 000	Rs. 000	
Cash and Cash Equivalents	1,813,985	-	-	-	1,813,985
Placements with banks	282,359	-	-	-	282,359
Financial Assets Measured at FVOCI	2,753,325	-	-	-	2,753,325
Other Financial Assets	438,638	-	-	-	438,638
Hire Purchase Receivable	-	883,533	255,820	773,924	1,913,277
Finance Lease Receivables	-	11,089,141	1,433,292	2,043,825	14,566,258
Loans & Advances	-	13,933,233	1,346,666	3,679,587	18,959,486
	5,288,307	25,905,907	3,035,777	6,497,336	40,727,328

Commentary

Although MI's total financial assets portfolio comprises 64% of ECL stage 1 assigned loans and receivables, there is a constant review over both individual and collective impaired, ECL stage 2 and 3 accounts by MI's recovery division to sustain overall asset quality with further emphasis being placed considering the ongoing COVID pandemic hit to economy and other downward market conditions.

53.3.1.B Neither Past Due & Past Due [Facilities In Arrears of 1 Day and above] but not Impaired-Age Analysis by Class of Financial Assets- As at 31st March 2020 [as per SLFRS 9]

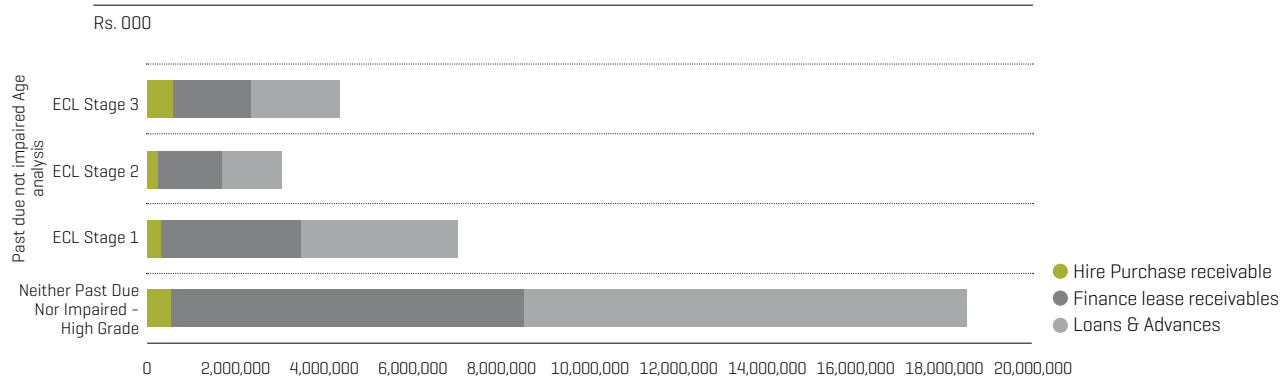
	Neither Past Due	Past due not impaired Age analysis		
	Nor Impaired - High Grade	ECL Stage 1	ECL Stage 2	ECL Stage 3
	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Hire Purchase receivable	551,768	326,435	255,820	602,714
Finance lease receivables	7,934,171	3,161,963	1,433,292	1,748,289
Loans & Advances	9,998,237	3,535,888	1,346,666	1,998,469
	18,484,176	7,024,287	3,035,777	4,349,473

NOTES TO THE FINANCIAL STATEMENTS

Commentary

Over 52% of the customer base of MI is in "high grade performing" customer group with zero past due basis. The shifting of arrears stages towards longer duration was notably experienced during the COVID-19 period from mid of March onwards. Recovery Actions have been initiated to these long term 90 days & above past due accounts to manage this temporary situation & MI Board is confident of bring down the stage values, with the country coming back to normalcy.

Neither Past Due & Past due not impaired Age analysis 2019/20



Measurement Assumptions

Credit quality is measured in terms of the collection status and categorized 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 201 to 207 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.
- ☑ Collective Impairment: All the lending contracts other than contracts which are considered for Individual Impairment, assessed under collective basis.
- ☑ 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 customer group with zero past due basis.

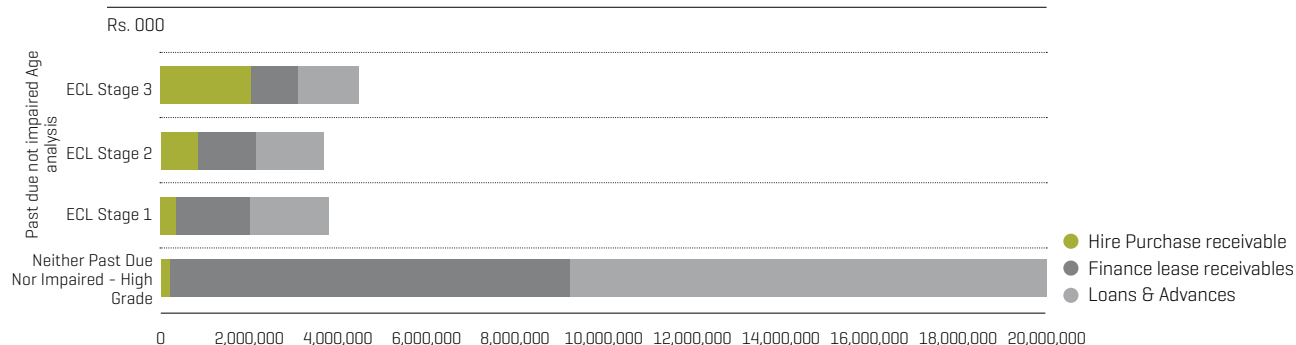
53.3.1.C Credit Quality by Class of Financial Assets - As at 31st March 2019 (as per SLFRS 9)

Financial Assets	Not Subject to ECL Rs. 000	12 Month ECL [Stage 1] Rs. 000	Life time ECL-not	Life time ECL -	Total Rs. 000
			credit impaired [Stage 2] Rs. 000	credit impaired [Stage 3] Rs. 000	
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	3,587,366
Finance Lease Receivables	-	10,726,212	1,598,899	955,670	13,280,781
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

53.3.1.D Neither Past Due & Past Due (Facilities In Arrears of 1 Day and above) but not Impaired-Age Analysis by Class of Financial Assets- As at 31st March 2019 [as per SLFRS 9]

	Neither Past Due Nor Impaired - High Grade	Past due not impaired Age analysis		
	Rs. 000	ECL Stage 1 Rs. 000	ECL Stage 2 Rs. 000	ECL Stage 3 Rs. 000
Hire Purchase receivable	207,580	351,318	858,159	2,044,963
Finance lease receivables	9,056,517	1,673,402	1,307,666	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

Neither Past Due & Past due not impaired Age analysis 2018/19



53.3.1.E Credit Exposure Movement - ECL Stage Wise [as per SLFRS 9]- As at 31st March 2020

The following tables show reconciliation from the opening to closing balance of the gross carrying amounts by class of financial instrument.

	Carrying Amount Rs. 000	Not Subject to ECL Rs. 000	12 Month ECL [Stage 1] Rs. 000	Life time ECL-not credit impaired [Stage 2] Rs. 000	Life time ECL - credit impaired [Stage 3] Rs. 000
Cash and Cash Equivalents					
Gross carrying amount as at April 1, 2019	1,196,226	1,196,226	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	617,759	617,759	-	-	-
Financial assets derecognized or repaid (excluding write-offs)	-	-	-	-	-
As at March 31, 2020	1,813,985	1,813,985	-	-	-
Placements with banks					
Gross carrying amount as at April 1, 2019	241,376	241,376	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	40,983	40,983	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
As at March 31, 2020	282,359	282,359	-	-	-
Financial assets at amortised cost-Other Loans & Advances					
Gross carrying amount as at April 1, 2019	17,332,919	-	12,913,033	1,539,638	2,880,248
Transfer to Stage	-	-	(1,510,120)	779,023	731,097
New assets originated or purchased	10,260,188	-	9,166,089	589,342	504,758
Financial assets derecognised or repaid (excluding write-offs)	(8,572,025)	-	(6,635,770)	(1,561,337)	(374,918)
Write-offs	(61,597)	-	-	-	(61,597)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2020	18,959,486	-	13,933,232	1,346,666	3,679,587

NOTES TO THE FINANCIAL STATEMENTS

	Carrying Amount Rs. 000	Not Subject to ECL Rs. 000	12 Month ECL (Stage 1) Rs. 000	Life time ECL-not credit impaired (Stage 2) Rs. 000	Life time ECL - credit impaired (Stage 3) Rs. 000
Financial assets at amortised cost–Finance Leases					
Gross carrying amount as at April 1, 2019	13,280,780	-	10,726,212	1,598,899	955,670
Transfer to Stage	-	-	(1,302,408)	209,561	1,092,848
New assets originated or purchased	6,706,611	-	5,968,115	422,615	315,881
Financial assets derecognised or repaid [excluding write-offs]	(5,410,958)	-	(4,302,777)	(797,783)	(310,398)
Write-offs	(10,175)	-	-	-	(10,175)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2020	14,566,258	-	11,089,142	1,433,292	2,043,825
Financial assets at amortised cost–Hire Purchase					
Gross carrying amount as at April 1, 2019	3,587,367	-	2,360,517	622,236	604,613
Transfer to Stage	-	-	(284,133)	(21,910)	306,043
New assets originated or purchased	62,020	-	31,229	557	30,234
Financial assets derecognised or repaid [excluding write-offs]	(1,725,546)	-	(1,224,079)	(345,063)	(156,404)
Write-offs	(10,564)	-	-	-	(10,564)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2020	1,913,277	-	883,534	255,820	773,923
Other Financial Assets					
Gross carrying amount as at April 1, 2019	499,594	499,594	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid [excluding write-offs]	(60,956)	(60,956)	-	-	-
Write-offs	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2020	438,638	438,638	-	-	-
Financial assets measured at FVOCI					
Gross carrying amount as at April 1, 2019	2,933,485	2,933,485	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid [excluding write-offs]	(180,160)	(180,160)	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2020	2,753,325	2,753,325	-	-	-

Commentary

The two unprecedented events occurring during the commencement & ending months of the financial year had a negative bearing on credit quality in Leases, Hire Purchase and Other loans, with shifting towards Stage- 2 & 3 age bucket, on account of slowed collections and with the recorded downward market conditions. Hence, management initiated bucket specific recovery strategies to control asset quality erosion during the financial year and is hopeful that once the easing of economic situation post lockdown, propelled by government measures to inject liquidity to system & positive economic conditions will stabilize repayment patterns.

53.3.1.F Provision for Impairment (ECL) Movement (as per SLFRS 9)- As at 31st March 2020

The following table shows reconciliations from the opening to closing balance of the provision for impairment by class of financial instruments.

	Note	Page No.	12 Month ECL (Stage 1) Rs. 000	Life time ECL-not credit impaired (Stage 2) Rs. 000	Life time ECL - credit impaired (Stage 3) Rs. 000	Total Rs. 000
Financial assets at amortised cost—Other Loans & Advances						
Provision for impairment (ECL) as at April 1, 2019			98,126	41,186	1,060,607	1,199,920
Transfer to Stage			(11,048)	4,859	6,189	-
Net remeasurement of impairment			923	(8,729)	166,853	159,046
New assets originated or purchased			77,577	39,710	41,895	159,181
Financial assets derecognised or repaid (excluding write-offs)			(61,983)	(16,715)	(74,797)	(153,496)
Write offs and Recoveries			-	-	(61,597)	(61,597)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2020	23.4	225	103,595	60,310	1,139,149	1,303,054
Financial assets at amortised cost – Finance Leases						
Provision for impairment (ECL) as at April 1, 2019			113,470	69,687	339,291	522,448
Transfer to Stage			(10,636)	(21,659)	32,296	-
Net remeasurement of impairment			(29,394)	25,181	241,423	237,210
New assets originated or purchased			55,644	16,375	49,471	121,490
Financial assets derecognised or repaid (excluding write-offs)			(19,689)	(17,702)	(35,065)	(72,457)
Write offs and Recoveries			-	-	(10,175)	(10,175)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2020	24.4	226	109,395	71,881	617,240	798,515
Financial assets at amortised cost – Hire Purchase						
Provision for impairment (ECL) as at April 1, 2019			20,130	14,279	212,727	247,136
Transfer to Stage			995	630	(1,624)	-
Net remeasurement of impairment			(9,989)	(3,846)	64,575	50,739
New assets originated or purchased			465	-	203	668
Financial assets derecognised or repaid (excluding write-offs)			(5,885)	(4,752)	(7,736)	(18,372)
Write offs and Recoveries			-	-	(10,564)	(10,564)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2020	25.4	229	5,716	6,310	257,580	269,607

NOTES TO THE FINANCIAL STATEMENTS

53.3.2 Credit Impaired Financial Assets [as per SLFRS 9]

Reconciliation of changes in the net carrying amount of life time ECL credit impaired (Stage 3) leases, hire purchases and other loans and advances are detailed below;

As at March 31, 2020	Loans and Advances Rs.'000	Leases Rs.'000	Hire Purchases Rs.'000	Total Rs.'000
Stage 3 loans and advances to customers as at April 1,	2,880,248	955,670	604,613	4,440,531
Newly classified as impaired loans and advances during the year	376,674	1,092,848	30,234	1,499,756
Net change in already impaired loans and advances during the year	859,180	315,881	306,042	1,481,104
Net payment, write-off and recoveries and other movement during the year	(436,515)	(320,573)	(166,967)	(924,056)
Impaired loans and advances to customers as at March 31,	3,679,587	2,043,825	773,923	6,497,336

As at March 31, 2019	Loans and Advances Rs.'000	Leases Rs.'000	Hire Purchases Rs.'000	Total Rs.'000
Stage 3 loans and advances to customers as at April 1,	1,945,266	582,309	499,407	3,026,982
Newly classified as impaired loans and advances during the year	-	530,791	135,697	666,488
Net change in already impaired loans and advances during the year	1,422,651	238,513	172,431	1,833,594
Net payment, write-off and recoveries and other movement during the year	(487,669)	(395,942)	(202,921)	(1,086,532)
Impaired loans and advances to customers as at March 31,	2,880,248	955,670	604,613	4,440,532

53.3.3 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 2020 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 2020 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	Stage 2	Stage 3	Total	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
PD 1% increase across all age buckets	47,342	8,095	-	55,436	(55,436)
PD 1% decrease across all age buckets *	(47,342)	(8,095)	-	(55,436)	55,436
LGD 5% increase	49,924	28,979	215,641	294,545	(294,545)
LGD 5% decrease *	(49,924)	(28,979)	(215,641)	(294,545)	294,545
Probability weighted Economic Scenarios					
Base case 10% increase, worst case 5% decrease and best case 5% decrease	1,328	1,191	-	2,519	(2,519)
Base case 10% decrease, worst case 5% increase and best case 5% increase	1,292	418	-	1,711	(1,711)

* 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]" currently impact from probability of default (+or -) 1% and (+or -) 5% Loss given default is at significant level Rs. 55 Million and Rs.295 Million respectively.

53.3.4 Types of Collateral Taken to Minimise Credit Exposure

53.3.4.A Collateral Held

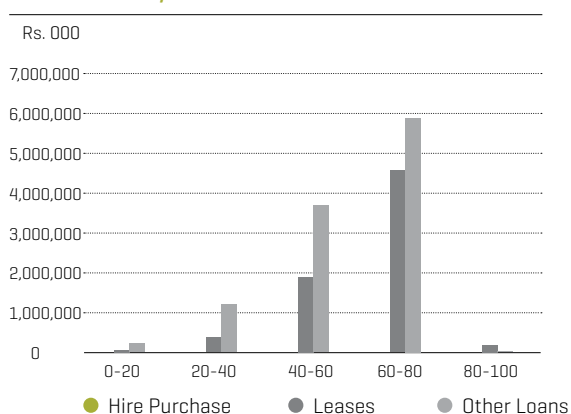
Type of Lending	Collateral generally obtained
Lease	Agricultural land and vehicles, Commercial property, Computer hardware and equipment, Dual purpose vehicles, Land vehicles, Motor bicycles, Motor cars, Motor coaches, Motor lorries, Motor Tricycles, Non- agricultural land vehicles, Other equipment, 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

53.3.4.B Credit Portfolio Classification Based on Loan to Value Ratio [LTV]

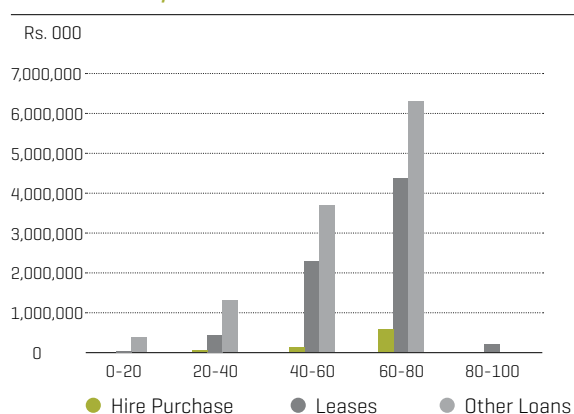
Lending facilities granted during the year were backed by collaterals as elaborated in the below table.

LTV Ratio %	2019/20				2018/19			
	Hire Purchase	Lease	Other Loans	Total New lending During the Year	Hire Purchase	Lease	Other Loans	Total New lending During the Year
0-20	25,000	69,585	237,490	332,076	3,860	34,884	378,390	417,133
20-40	-	370,608	1,212,712	1,583,320	32,916	434,771	1,300,163	1,767,850
40-60	2,488	1,902,347	3,682,746	5,587,581	129,460	2,275,782	3,685,399	6,090,641
60-80	-	4,560,476	5,886,388	10,446,864	578,159	4,378,346	6,302,913	11,259,418
80-100	-	192,575	24,428	217,002	-	202,978	-	202,978
	27,488	7,095,591	11,043,764	18,166,843	744,395	7,326,761	11,666,865	19,738,021

LTV Ratio 2019/20



LTV Ratio 2018/19



NOTES TO THE FINANCIAL STATEMENTS

53.3.4. C Maximum Net Exposure of the Financial Assets

The following table shows the company's net exposure to credit risk.

	31st March 2020		31st March 2019	
	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)	1,813,985	1,813,985	1,196,226	1,196,226
Placements with Banks	282,359	282,359	241,376	241,376
Financial Assets Measured at FVOCI/ Financial assets - Available-for-sale	2,753,325	2,753,325	2,933,485	2,933,485
Loans and receivables	32,759,173	-	31,944,477	-
Other Financial assets	438,638	438,638	499,594	499,594
	38,047,480	-	36,815,158	-

As an additional safeguard, guarantors are required particularly for lease and hire purchase contracts. The company resorts to repossessing 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

- ☑ Close to 50% of new lending business subject to repossessing during the year, encompassed contracts where the LTV remained below 60%. This indicates adequate collateral backing to cover against the remaining credit exposure.
- ☑ Lease business is 100% backed by collaterals.

53.3.5 Analysis of Risk Concentration

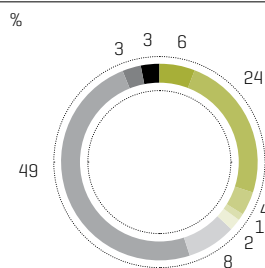
The company monitors its credit concentration risk by referring to the degree of credit exposure by MI to various sectors and by geographic locations.

53.3.5. A Sector Wise Analysis

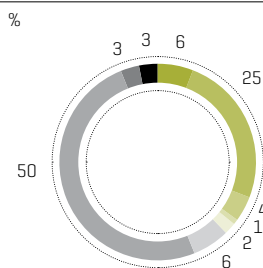
Outlined below are the maximum credit exposures of MI's loans and advances to various sectors, as at the end of the underlined financial year;

Industry	31.03.2020	%	31.03.2019	%
AGRICULTURE	2,259,132	6	1,856,930	6
COMMERCIAL	8,464,619	24	8,665,915	25
CONSUMPTION	1,549,238	4	1,343,616	4
FINANCE	459,104	1	368,859	1
HOUSING AND PROPERTY	815,457	2	647,467	2
INDUSTRIAL	2,652,192	8	2,112,535	6
SERVICES	17,147,273	49	17,111,410	50
TOURISM	987,004	3	1,000,334	3
OTHERS	1,105,001	3	1,094,002	3
Grand Total	35,439,020	100	34,201,068	100

Sector-Wise Credit Concentration 2019/20



Sector-Wise Credit Concentration 2018/19



- Agriculture
- Commercial
- Consumption
- Finance
- Housing and Property
- Industrial
- Services
- Tourism
- Others

Measurement Assumptions

☑ Sector-wise credit concentration is measured using the information submitted by customers.

Commentary

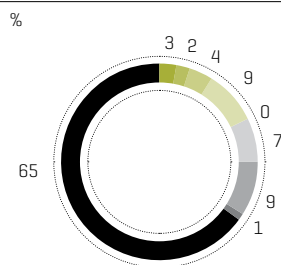
There is high concentration on Services sector which is close to 50% of total lending value. This is mainly attributable to the lendings carried out for transportation services. Management closely monitors the risk levels attached to these sectors especially in the backdrop of the two unprecedented events impacting the tourism & related sectors. Management will take a cautionary approach towards the high risk sectors until the economy improves, with the easing of the COVID crises, global travel & import restrictions.

53.3.5. B. Province Wise Analysis

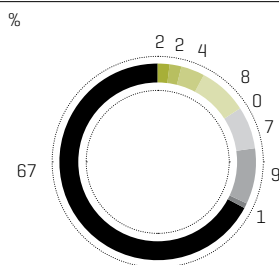
This table below discloses MI's geographic credit exposure;

Province	31.03.2020	%	31.03.2019	%
Central	916,333	3	881,522	2
Eastern	709,013	2	663,985	2
North Central	1,347,400	4	1,230,833	4
North Western	3,292,125	9	2,656,108	8
Northern	28,772	0	24,158	0
Sabaragamuwa	2,531,386	7	2,291,152	7
Southern	3,263,888	9	3,181,070	9
Uva	267,992	1	290,070	1
Western	23,082,111	65	22,982,170	67
Total	35,439,020	100	34,201,068	100

Province-Wise Credit Concentration 2019/20



Province-Wise Credit Concentration 2018/19



- Central
- Eastern
- North Central
- North Western
- Northern
- Sabaragamuwa
- Southern
- Uva
- Western

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Measurement Assumptions

- Geographical credit concentration is measured based on the credit disbursement geographic spread of MI's branch network.

Commentary

Western Province has provided largest contribution of 65% towards MI's total lending, with a marginal decrease compared to last financial year contribution of 67%. In keeping to MI's expansion strategy beyond the Western Province, there is a gradual diversification to other regions as well, in particular the Southern, North Western and North Central Provinces.

53.4 Liquidity Risk

Liquidity risk is the potential risk arising from the Company's inability to meet obligations in a timely manner as and when they become due, mainly on account of mismatches between the maturities of the Company's assets and liabilities. 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 assets and liquidity mismatches in both the short & long term.

53.4.1 Exposure to Liquidity Risk

Ratio	2020	2019
Net Loans/Customer Deposits	144%	151%
Net Loans/Total Assets	76%	77%

Commentary

We expect to manage this ratio within a range of 120% to 140% over the next year through the securing of greater non-deposit based borrowing. MI's net loans to deposits ratio remained at 144% level which is acceptable level with management planning to keep this ratio close to 140%.

53.4.2 Financial Assets and Liabilities by Remaining Contractual Maturities

The following tables illustrate the maturity gap analysis of MI's financial assets and financial liabilities based on their remaining period to maturity undiscounted as at 31st March 2020.

	On demand	Up to 3 Months	4-12 months	1 to 3 Years	3 to 5 Years	More than 5 Years	Unclassified	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets								
Cash & Cash Equivalents	1,813,985	-	-	-	-	-	-	1,813,985
Placement with Banks	-	21,255	271,550	-	-	-	-	292,805
Financial Investments Available for Sale	-	969,385	1,329,271	9,929	-	-	444,738	2,753,324
Loans and Receivables	2,558,217	2,333,666	7,720,459	8,540,947	2,167,941	927	(1,303)	23,320,853
Finance Lease Receivables	998,283	2,280,456	5,164,883	8,879,115	1,779,061	11,836	(799)	19,112,836
Hire Purchase Receivables	368,832	338,282	689,079	774,729	31,602	300	(270)	2,202,553
Other Financial Assets	-	189,331	-	-	-	-	295,291	484,622
Total Financial Assets	5,739,317	6,132,375	15,175,242	18,204,720	3,978,604	13,063		49,980,978
Liabilities								
Financial Liabilities								
Bank Overdraft	86,567	-	-	-	-	-	-	86,567
Deposits Due to Customers	243,367	8,302,252	11,661,672	5,093,749	1,069,451	-	-	26,370,491
Debt Instruments Issued and Other Borrowings	-	2,727,031	3,231,193	3,828,272	497,623	-	-	10,284,118
Other Financial Liabilities	152,426	535,243	164,975	-	-	-	25,323	877,967
Total Financial Liabilities	482,360	11,564,526	15,057,840	8,922,021	1,567,074	-	37,619,143	
Net Financial Assets/Liabilities	5,256,957	(5,432,151)	117,402	9,282,699	2,411,530	13,063	-	12,361,835

Measurement Assumptions

- ☑ Liquidity gap analysis is prepared based on the contractual maturity of assets and liabilities as at 31st March 2020.
- ☑ 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 2020 interest rate or the interest rate cap was used for calculation.

Commentary

In spite of challenging market conditions especially due to Easter Sunday events & COVID-19, MI's Treasury Division was able to mobilize funds to cater to both short term and long term funding needs with the aid of strong policies and close monitoring of market fundamentals. Since interest rates were on a downward trend throughout the financial year under review, mobilizing longer tenure deposits were challenging. As a result, funds mobilized were more of shorter tenure and lending tenure primarily remained one year or more.

Management has initiated strategy to mobilize long-term funding combined with focused recovery strategies to ease short term liquidity needs in the present covid economic environment. Management is optimistic that the future economic outlook will gradually improve with the easing of the lock down and political stability with governmental election to be held in August 2020. The regulator measures taken to ease market liquidity through the banking system will also further improve collections and provide greater fund availability to the financial system including LFCs. The company possesses a sound liquidity position & unutilized funding lines to meet emerging liabilities.

53.4.3 Performance in Statutory Liquidity Position

Finance companies are required to maintain daily cash requirements and comply to minimum statutory liquidity position as instructed by the regulator. The Board appraises of MI's liquidity position on a daily, weekly & monthly basis and periodic statutory liquid assets reports are 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.

By the balance sheet date, the Liquidity requirements were changed by the regulator to provide flexibility to the industry during the COVID crisis. Based on liquid assets direction, MI's liquidity shall not be less than the total of;

- (a) 6% of the outstanding value of the time deposits and accrued interest payable at the close of the business on such day. [Rate effective from 31.03.2020 till 30.09.2020]
- (b) 10% of outstanding value of the saving deposit and accrued interest payable at the close of the business on such day. [Rate effective from 31.03.2020 till 30.09.2020]
- (c) 5% of the total outstanding borrowing and any payable. [Rate effective from 31.03.2020 till 30.09.2020]

Further, MI maintained assets in the form of Sri Lankan government treasury bills and government securities equivalent to 6.4% 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 5% by the CBSL. [Rate effective from 31.03.2020 till 30.09.2020]

NOTES TO THE FINANCIAL STATEMENTS

53.4.4 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 [E.g. Deposits with banks (free from any charge or lien), Treasury bills and bonds etc.]
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]

Description	CBSL minimum requirement as at 31st March 2020	Actual as at 31st March 2020	CBSL minimum requirement as at 31st March 2019	Actual as at 31st March 2019
Total liquid assets [Rs.000]	1,433,617	3,793,901	2,121,522	3,129,505
Statutory liquid assets ratio [%]	6	15.99	10	14.78
Minimum approved securities [Rs.000]	1,043,806	1,697,557	1,485,822	1,691,903

Commentary

The company kept required liquid asset levels well above the regulator requirement through the year. Further, as against a lowered statutory liquid assets requirement by the balance sheet date, the Company maintained liquid assets well above the regulatory limit, especially to cater to any urgent needs of customers & to provide flexibility to the Company to pursue strategic priorities.

53.4.5 Daily Liquidity Management

Based on the on-going funding requirements, to meet ongoing financial liabilities & commitments, lending and expenditure, the treasury department managed short, medium & long term cash flows, obtaining funding lines and temporary facilities from banks and other financial intermediaries. The total unutilized funding lines stood above Rs. 2 billion as at 31st March 2020.

53.5 Market Risks

Market Risk is the likelihood of loss in earnings that could arise from the possible fall in value of investments or trading portfolios, as a direct consequence of changes in market variables such as interest rates, equity prices and foreign exchange rates. 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.

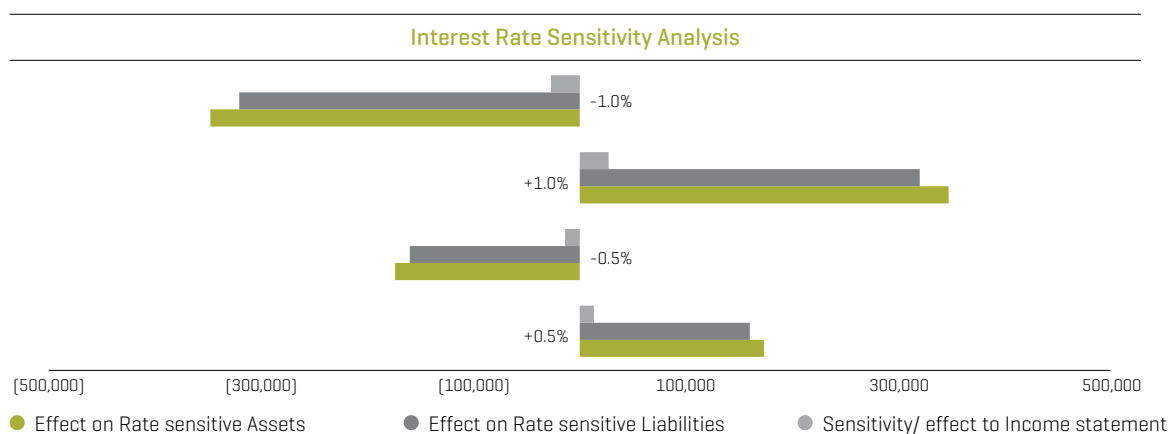
53.5.1 Interest Rate Risk

Interest Rate Risk is the potential for losses resulting from the volatility in interest rates that impact rate sensitive products and the susceptibility of the future income and expense levels of a company to change, in line with movements in market 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 managed its interest rate risk by having a balanced portfolio based on tenor and fixed and variable rate financial assets and financial liabilities.

53.5.1. A Interest Rate Sensitivity Analysis

Given below is a sensitivity analysis carried out as at 31st March 2020 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	173,745	[173,745]	347,490	[347,490]
Effect on Rate sensitive Liabilities	160,152	[160,152]	320,305	[320,305]
Sensitivity/ effect to Income statement	13,593	[13,593]	27,185	[27,185]



Commentary

MI possesses interest rate sensitive assets of Rs. 35 billion and rate sensitive liabilities of Rs. 32 billion. Currently the impact from an interest rate fluctuation of 1%+ or [1%] is moderate at Rs. 27.1 Million. In the backdrop of declining market interest rate trend, MI would stand to enjoy better core business spreads especially with cost of funding moving down with reprising effect coming into play, whereas lending rates are mostly fixed for a longer tenor.

NOTES TO THE FINANCIAL STATEMENTS

53.5.1. B Financial Assets and Financial Liabilities Exposed to Interest rate Risk

Disclosed below are the company's financial assets and financial liabilities exposed to interest rate risk as at 31st March 2020. 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	3 to 12 months	1 to 3 Years	3 to 5 Years	More than 5 Years	Non-Interest Bearing	Total
Assets	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Placement with other banks	22,151	260,208	-	-	-	-	282,359
Financial Investments -at FVOCI	368,286	1,329,271	9,929	-	-	-	1,707,486
Loan and Advances	625,561	1,817,503	6,011,967	7,479,502	-	1,473,058	17,407,591
Lease receivable	93,373	715,160	6,438,364	6,314,680	-	184,577	13,746,154
Hire Purchase receivable	29,147	175,217	1,000,058	184,893	-	216,109	1,605,424
Total Financial Assets	1,138,518	4,297,359	13,460,318	13,979,075	-	1,873,744	34,749,014
Liabilities	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Bank Overdraft	86,567	-	-	-	-	-	86,567
Deposits Due to Customers	8,271,751	10,477,828	3,503,769	561,576	-	-	22,814,923
Debt Instruments Issued and Other Borrowings	2,386,333	578,586	4,414,063	1,750,000	-	-	9,128,983
Total Financial Liabilities	10,744,652	11,056,414	7,917,832	2,311,576	-	-	32,030,474
Interest Sensitivity Gap	[9,606,134]	[6,759,055]	5,542,486	11,667,499	-	-	-

Measurement Assumptions

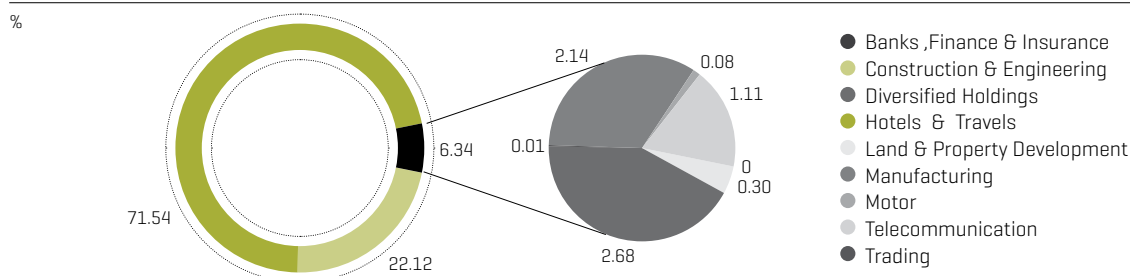
- ☑ The interest rates movements have been applied on the basis that both assets & liabilities pricing rates are on a fixed basis. i.e. Assumed minimal impact from floating rates applicable.
- ☑ The market rates are predicted with no material changes in the foreseeable future.
- ☑ The lending and deposit volumes are assumed to remain unchanged.

53.5.2 Equity Risk

Equity risk refers to the potential losses that may arise in the equity investment portfolio owing to adverse movements in value of equity prices. MI possesses a well-diversified share portfolio which was valued at a market value of Rs.1.4 billion, which has been primarily invested in large blue chips institutions mostly in the hotels and banking sector. MI conducts market-to-market calculations on a weekly, monthly and quarterly basis to identify fair value impacts caused by equity prices fluctuations.

53.5.2.A Analysis on Exposure to Equity Price Risk

Percentage of Effect by Each Sector



The table below summarises the impact on both the Other Comprehensive Income and on the equity due to Market drops to the recorded lowest market prices in last 2 years.

Investment Sector	Market Value at Lowest price [Last 2 Years]	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	6,805	227	0.30
Construction & Engineering	150,796	16,474	22.12
Diversified Holdings	208,338	1,997	2.68
Hotels & Travels	900,310	53,268	71.54
Land & Property Development	280	10	0.01
Manufacturing	29,150	1,595	2.14
Motor	6,750	60	0.08
Telecommunication	69,720	830	1.11
Trading	5,700	-	0.00
	1,377,849	74,460	100.00

Commentary

Post COVID, impact to share prices was notable, especially in the backdrop of a bearish stock market with lower foreign participation. We closely monitored the market movements and evaluated effects of price movements to ensure related risk is minimised & appropriately informed decisions are taken.

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.

	2019/20	2018/19
	Financial investments - at Fair Value through OCI	Financial investments - at Fair Value through OCI
	Rs. '000	Rs. '000
Stress Level	Impact on OCI	Impact on OCI
Shock of 10% on equity price [upward]	97,541	99,909
Shock of 10% on equity price [downward]	(97,541)	(99,909)

Commentary

Based on the risk analysis carried out on MI's equity portfolio considering possible downward market sentiments resulting especially from the COVID crisis, we expect the fall in share prices to pick up with the gradual easing of lockdown and pick up in economic activities & post election optimism expected to take place after August 2020. The maximum amount of equity risk effect to the other comprehensive statement of income (OCI) is Rs. 97.5 million as at the end of 31 March 2020.

NOTES TO THE FINANCIAL STATEMENTS

53.6 Operational Risk

Operational risk arises due to inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputational losses. [Refer Risk Management Report on page 157 operational risk section for further details].

53.6.1 Nature of Relationship between the Associate and the Company

MI has a stake of 26% in Nuwara-Eliya Hotels; and the hotel is an associate of the company. Nuwara-Eliya Hotels has recorded a 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 its impact on tourism we could expect a temporary impact to the planned growth trajectory, but management is positive of future sustainable growth as soon as there is easing of tourism lockdowns.

53.6.2 Defined benefit Plans Associated Risk

For the purpose of assessing risks associated with employee benefit plans, the Company obtains an Independent experts' analysis & guidance to identify specific risks and for actuarial valuations and then to incorporate the same in the Financial Statements.

Refer Alliance section pages 55 to 59, Financial Statements Note 3.10 which provides a detailed breakdown of defined employment benefit estimates including assumptions made.

53.7 Capital Management Risk

53.7.1 Capital Management Objectives

Capital Adequacy being a strong measure to reflect financial health and stability of finance company and is treated as a high priority KPI & critical area of focus by the MI Board. Maintaining the right level of capital is important for the Company due to 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. 8 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.

53.7.2 New Basel II Capital adequacy(CAR) frame Work

Instead of the finance companies [Risk weighted Capital Adequacy Ratio] Direction No. 02 of 2006, a more stringent 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 limit changed for the period under review and is expected to increase up until 2022 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	01.07.2021	01.07.2022
Tier 1 Capital	6	6.5	7	8.5
Total Capital	10	10.5	11	12.5

Commentary

As a relaxing measure to LFCs/SLCs under COVID pandemic, CBSL deferred the enhancements of minimum capital adequacy requirements due on 01.07.2020 and 01.07.2021, for a further period of one year until 01.07.2021 and 01.07.2022.

Salient Computational Features**Risk Weighted Assets Computation****Credit Risk**

- Loan Portfolio separation between Performing and Non Performing.
- Asset Categorization based on counter parties risk profile
- Assessment of counter party ratings.
- Level of security underlining the claims.

The risk rates weights applied vary for a) to d) 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 2020 (with comparison) and the capital adequacy ratio position is as follows;

53.7.3 Total Capital Base Computation

Item	31st March 2020	31st March 2019
Tier 1 Capital	6,899,980	6,623,858
Stated Capital/assigned capital	36,000	36,000
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	761,400	736,400
Audited retained earnings/[Losses]	2,016,150	1,765,028
[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	955,948	156,306
Goodwill [net]	-	-
Other intangible assets [net]	45,987	64,211
Other Comprehensive losses	327,238	75,529
Deferred tax assets [net]	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	579,207	10,787
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	3,516	5,779
Shortfall of capital in Financial subsidiaries	-	-
Tier 1 Capital [after adjustments]	5,944,032	6,467,552
Tier 2 Capital	742,165	742,165
Instruments qualified Qualifying Tier 2 capital	-	-
Revaluation gains	742,165	742,165
General provisions/ Collective impairment allowance	-	-
Eligible Tier 2 Capital	742,165	742,165
Total adjustment to eligible Tier 2 Capital	3,516	5,779
50% Investment in banking & financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	3,516	5,779
Eligible Tier 2 Capital after adjustments	738,649	736,386
Total Capital	6,682,681	7,203,938

NOTES TO THE FINANCIAL STATEMENTS

53.7.3.1 Capital Adequacy Ratios

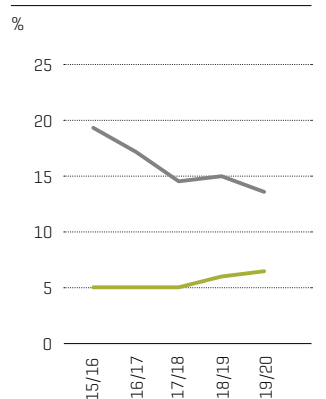
As at 31st March		Industry Average *	2020 %	2019 %
Core Capital Ratio =	Tier 1 Capital	11.1	13.56	14.98
	Risk Weighted Assets			
Total Risk Weighted capital Ratio =	Capital Base	12.5	15.25	16.69
	Risk Weighted Assets			

* Based on CBSL Annual Report 2019

Commentary

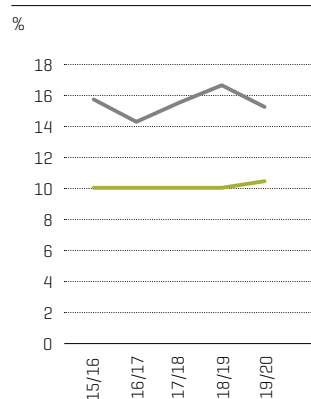
MI's sound capital adequacy levels remain a key strength when comparing Core Capital & Total Risk Weighted Capital with industry averages and regulator's minimum requirement, staying well above the expected levels. However, resulting impact of downward market conditions and its impact on internally generated funds caused marginal reduction to total capital compared to previous year.

Core Capital Ratio



● CBSL Minimum Requirement [%]
● MI's Core Capital Ratio [%]

Total Risk Weighted Capital Ratio



● CBSL Minimum Requirement [%]
● MI's Total Risk Weighted Capital Ratio [%]

53.7.3.2 Impact of Covid-19 on Capital buffers

In the backdrop of the Covid crises economic sluggishness and impacts to business volume growth, the Company evaluated market impacts on revenue, costs, asset quality and profits to ascertain how MI's capital buffers may be impacted. Based on stress testing, management is confident that the challenges posed would not deplete capital buffers and to continue operation with financial strength and stability.

54. THE IMPACT OF COVID-19 PANDEMIC ON BUSINESS

With emergence of the COVID19 crisis from March 2020 and the island-wide curfew being imposed by the Government on 20th March 2020, the Company took immediate measures to manage the business impacts including day to day operations. Steps were taken to facilitate work from home measures for all employees ensuring their safety and well-being in the period of uncertainty.

Soon after curfew was lifted on 11th May 2020, the Company gradually started normal business operations but strictly adhered to social distancing guidance and established other precautionary measures to safeguard workplace health and safety.

The Central Bank of Sri Lanka [CBSL] issued directions and guidance for financial institutions to offer concessions on financial obligations to individual customers and private business operations as a result of the adverse short-term impact on their sources of income. Accordingly the company is in the process of evaluating and finalizing moratorium relief submissions made by borrowers.

The Company maintained a sufficient liquid position to meet any urgent needs of customers throughout the year which enabled the Company to meet liabilities falling due during the COVID period. Necessary measures were taken by treasury division to maintain a strong liquidity position going forward, to meet any further future needs, capitalizing on banking partnerships and strategic funding to further bolster the already solid liquidity foundation sustained over the years.

The Board took measures to control costs, to focus over the essentials during the COVID peak period. Through digitalization and other technology based enhancements coupled with ongoing business process reengineering initiatives, the Company expects to further propel business efficiencies and productivity in the immediate future.

The Board is confident of the Company's resilience, having possessed a skilled work force and resources to withstand the impacts arising from this crisis as currently foreseen. However, the exact impact on the business in the foreseeable future is still to be realized given the volatility and unexpected developments caused by COVID-19 pandemic globally. Through effective risk management practices, the Company will continue to monitor the impact to business operations and stakeholders. Proactive measures will be adopted as appropriate in times of volatility to ensure business continuity and keep losses minimal.

Following notes explain the impact of COVID 19 on the key financial statement captions of the Company

Impairment provision as per ECL methodology for Financial Assets at Amortized Cost

ECL measurement needs to incorporate forward looking reasonable and supportive information available without undue cost or effort at the reporting date. SLFRS 9 requires the application of judgement and both require and allows entities to adjust their approach to determine ECL in different circumstances. In assessing the forecast condition consideration needs to be given both to effect of COVID 19 and significant government support being undertaken. Due to insufficient relevant information and accurate information, uncertainty relating to customers payment ability, resource constraint and various government relief measures as a result of outbreak, the company decided to apply certain temporary practical expedients issued by CA Sri Lanka.

Impairment of Property Plant and Equipment

The company does not foresee any indication of impairment as at reporting date due to COVID 19 pandemic. Significant component of land and buildings were revalued as at 31.03.2020 and resulting revaluation gain has been adjusted in the financial statement as of 31.03.2020

Fair Value of Financial Asset Measured through Other Comprehensive Income

The company has continued to value FVTOCI securities based on the same valuation techniques used in prior financial year.

Impact of COVID-19 on Key Risk Management Dimensions

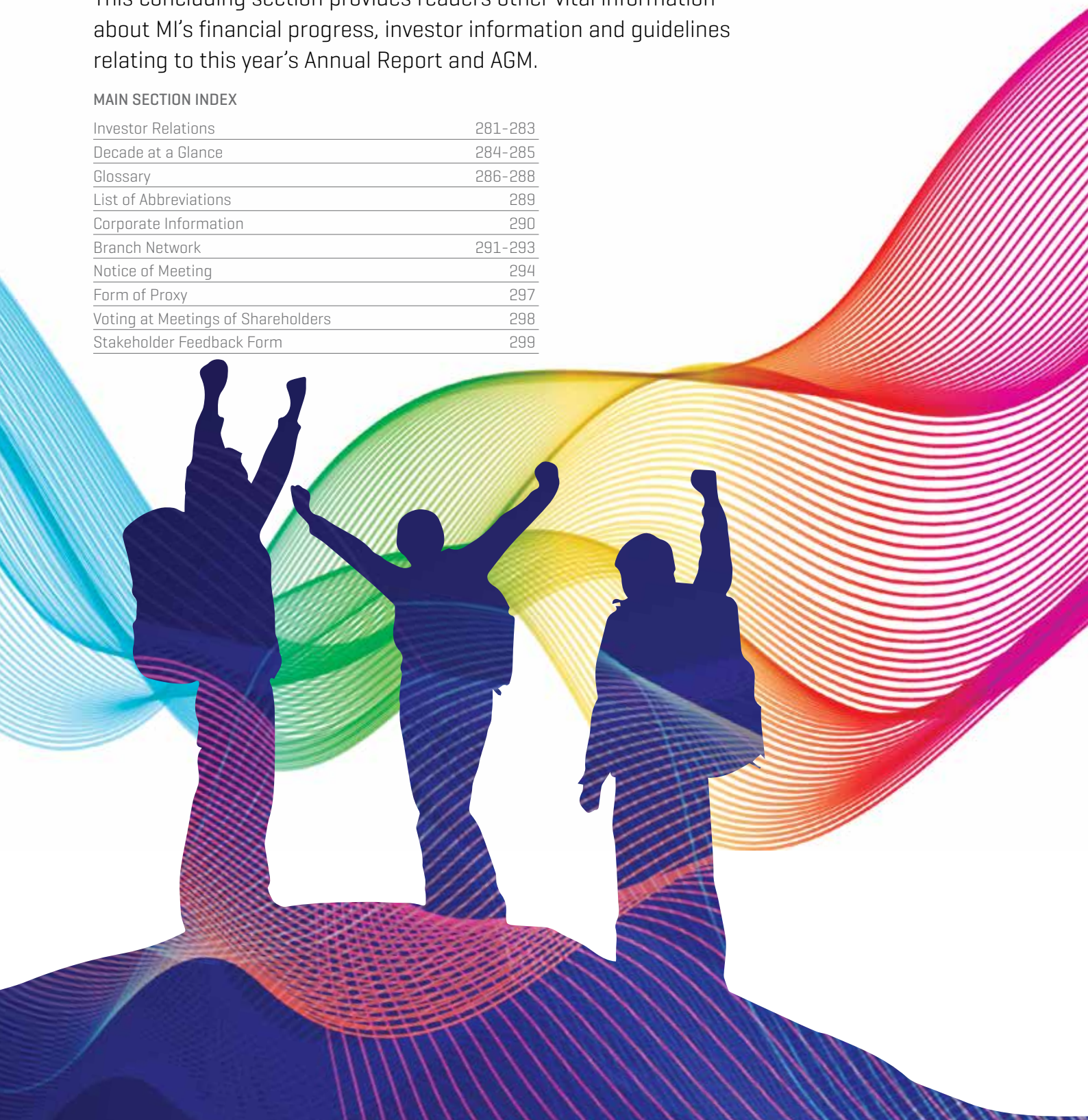
- ☑ Credit Risk [Refer pages 260 to 269 of Financial Risk Management Note No.53.3]
- ☑ Liquidity Risk [Refer Pages 270 to 272 of Financial Risk Management Note No.53.4]
- ☑ Market Risk [Refer pages 272 to 276 of Financial Risk Management Note No.53.5]
- ☑ Capital Adequacy [Refer pages 276 to 277 of Financial Risk Management Note No.53.7]

REACHING A COLLECTIVE PINNACLE

This concluding section provides readers other vital information about MI's financial progress, investor information and guidelines relating to this year's Annual Report and AGM.

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INVESTOR RELATIONS

STOCK EXCHANGE LISTING

The issued ordinary shares of Mercantile Investments and Finance PLC are listed with the Colombo Stock Exchange. The audited Income Statement for the year ended 31st March 2020 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 and 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 reduced to 15 in 2019/20, where as the previous year stood at 17. 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	2	161	0.01	-	-	-	2	161	0.01
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	2,948,725	98.09	-	-	-	7	2,948,725	98.09
Over 1,000,000	-	-	-	-	-	-	-	-	-
Total	15	3,006,000	100.00	-	-	-	15	3,006,000	100.00

Analysis of Shareholders

Resident / Non-Resident

	31st March 2020			31st March 2019		
	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
Resident	15	3,006,000	100.00	16	3,005,990	100.00
Non-Resident	-	-	-	1	10	-
Total	15	3,006,000	100.00	17	3,006,000	100.00

Individuals / Institutions

	31st March 2020			31st March 2019		
	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
Individuals	12	1,757,449	58.46	14	1,758,451	58.50
Institutions	3	1,248,551	41.54	3	1,247,549	41.50
Total	15	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 2020 was 10.51% ,comprising 08 shareholders.(2019 - 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 Capitalization Rs. 821,419,560.00

* Public Holding Percentage 10.51%

* Number of Public Shareholders 08

The Company is not fully compliant with the minimum public holding requirement as of 31/03/2020

Steps to be adopted by the company to comply with the rule will be announced in a subsequent market announcement.

INVESTOR RELATIONS

TWENTY MAJOR SHAREHOLDERS OF THE MI AS AT 31ST MARCH 2020

Name	% on total capital	No of Shares 2020	% on total capital	No of Shares 2019
Nilaveli Beach Hotels (Pvt) Ltd	20.94	629,580	20.94	629,580
A.M. Ondaatjie	15.88	477,213	15.88	477,213
G.G. Ondaatjie	15.88	477,213	15.88	477,213
T.J. Ondaatjie	15.88	477,213	15.88	477,213
Mercantile Fortunes (Pvt) Ltd	13.81	415,162	13.78	414,160
G.L.A. Ondaatjie (Deceased)	8.93	268,535	8.93	268,535
Tangerine Tours (Pvt) Ltd	6.78	203,809	6.78	203,809
P.R. Divitotawela / R.D.Madugalle	0.42	12,525	0.42	12,525
P.R. Divitotawela / A.D.Galagoda	0.42	12,525	0.42	12,525
N.H.V. Perera	0.33	10,020	0.33	10,020
J.A.S.S. Adhihetty	0.33	10,020	0.33	10,020
R.M.D. Abeygunawardena	0.33	10,020	0.33	10,020
C.A. Ondaatjie	0.07	2,004	0.07	2,004
A.D. Rajapaksha	-	-	0.02	501
A.M. Rajapaksha	-	-	0.02	501
A.M. Dominic	0.01	151	0.01	151
R.Vaseeharan	-	10	-	-
C.A.D.S Woodward	-	-	-	10
Total	100.00	3,006,000	100.00	3,006,000

DIRECTORS' SHAREHOLDINGS AS AT 31ST MARCH 2020

Name	Position	31st March 2020		31st March 2019	
		No. of Shares held	%	No. of Shares held	%
Mr. S H J Weerasuriya [Retired on 26.01.2020]	Chairman/Retired	-	-	-	-
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	Chairman/Appointed	-	-	-	-
Mr. P C Guhashanka	Director	-	-	-	-
Mr. P D D Perera [Appointed on 21.02.2020]	Director	-	-	-	-

SHARE TRADING

Since obtaining listing status under the Diri-Savi Board of the Colombo Stock Exchange and transferred to the second board on 15 November 2019, share trading has been negligible. The share trading details for the year are given below.

	2019/2020	2018/2019
Number of transactions	3	-
Number of shares traded	1,012	-
Value of Shares traded	2,631,200	-

MARKET VALUE

	Highest Rs.	Lowest Rs.	Year End Rs.
2018/2019	-	-	-
2019/2020	2,600.00	2,600.00	2,600.00

MARKET CAPITALISATION (as at 31st March)

	Capital & Reserves Rs. 000	MI Market Capitalisation Rs. 000	CSE Market Capitalisation Rs. 000	MI Market Capitalisation as a percentage of CSE Market Capitalisation
2018-2019	8,672,864	7,756,382	2,281,288,823	0.34
2019-2020	8,898,327	7,815,600	2,128,266,779	0.37

RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS

There were no any Related party transactions during the year which exceeds 10% of the equity or 5% of the total assets

Debentures

In November 2014, the company issued 2,000,000 senior unsecured, subordinated, redeemable four year debentures of Rs. 100/- each to the value of Rs. 200 million. These debentures are also listed on the Colombo Stock for which Fitch Ratings Lanka Limited has assigned BBB- [lka] rating. The proceeds were utilised to optimize the cost of the company's funding mix and to minimize the mismatches in funding exposure. The Company did not issue any debentures during the financial year ended 31 March 2020. The company redeemed its debenture holders in November 2018.

Debenture Information

	2019-2020	2018-2019
Tenure of Debenture	-	4 Years
Issue date	-	07/11/2014
Maturity Date	-	07/11/2018
Interest Rate	-	Fixed
Coupon Rate [%]	-	10.50%
Effective Annual Yield [%]	-	10.50%
Frequency of Interest Payable	-	Annually
Rating	-	BBB- by Fitch Ratings Lanka
Amount [Rs. Mn]	-	200
Yield to Maturity [%]	-	10.5

The following table presents the important disclosures made by the company to the Colombo stock exchange during the year 2019/2020

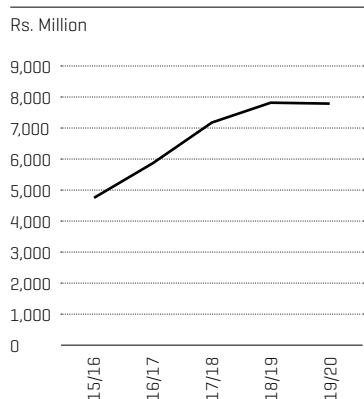
Date of Disclosure	Details of disclosures
4-Apr-19	Announcement of Non-compliance of minimum public holding
7-May-19	Announcement of Non-compliance of minimum public holding
31-May-19	Submission of unaudited interim financial statement for the quarter ended 31 March 2019
7-Jun-19	Announcement of Non-compliance of minimum public holding
26-Jun-19	Disclosure of Dealing of Directors
2-Jul-19	Disclosure on Rating
4-Jul-19	Submission of Annual Report for the period ended 31 March 2019
29-Jul-19	Announcement of Non-compliance of minimum public holding
30-Jul-19	Announcement of Non-compliance of minimum public holding
1-Aug-19	Resolution adopted in AGM
6-Aug-19	Announcement of Non-compliance of minimum public holding
15-Aug-19	Submission of unaudited interim financial statement for the quarter ended 30 June 2019
2-Sep-19	Trading Halted
2-Sep-19	Announcement of Non-compliance of minimum public holding
2-Sep-19	Trading Halted Lifted
6-Sep-19	Announcement of Non-compliance of minimum public holding
4-Oct-19	Announcement of Non-compliance of minimum public holding
13-Nov-19	Announcement of Non-compliance of minimum public holding
14-Nov-19	Submission of unaudited interim financial statement for the quarter ended 30 September 2019
26-Nov-19	Announcement of Non-compliance of minimum public holding
6-Jan-20	Announcement of Non-compliance of minimum public holding
27-Jan-20	Announcement of Retirement of Chairperson
29-Jan-19	Submission of unaudited interim financial statement for the quarter ended 31 December 2019
24-Feb-20	Announcement of Appointment of Chairperson
28-Feb-20	Announcement of Appointment of Directors

DECADE AT A GLANCE

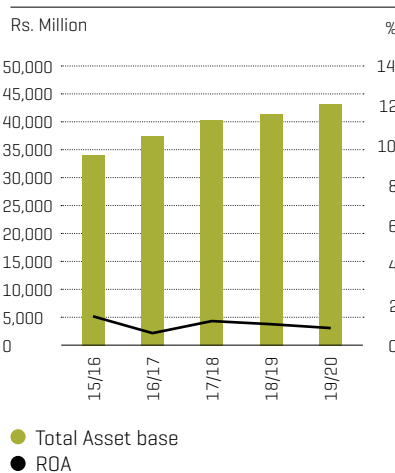
Based On
SLAS

For the year ended 31st March	Based on SLFRS/LKAS									
	2020 Rs.000	2019 Rs.000	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000
Operating Results										
Income	7,610,170	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
Interest expense	3,842,380	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
Non Interest expenses	3,075,999	2,989,966	2,441,730	2,299,829	1,690,927	1,540,416	1,055,997	770,317	726,397	485,795
Profit before tax	691,791	786,653	858,771	313,679	802,645	911,884	824,331	732,069	625,755	1,048,597
Provision for taxation	320,082	328,580	344,706	111,664	297,626	280,612	148,969	101,278	15,667	142,699
Net profit for the year	371,708	458,073	514,065	202,015	505,019	631,272	675,362	630,791	610,088	905,898
Dividends	60,120	-	45,090	-	21,042	88,677	30,060	82,665	66,132	30,000
As at 31st March										
Assets										
Liquid assets	3,793,902	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
Investments	1,055,767	2,339,992	1,509,192	3,319,973	3,559,791	4,202,760	2,892,173	2,980,019	3,390,331	4,779,213
Debentures	-	-	-	10,200	10,400	10,700	10,700	10,773	-	-
Advances	32,759,173	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
Other assets	640,205	619,565	638,866	656,452	226,532	157,544	419,479	718,304	741,769	271,242
Property, plant & equipment	3,105,781	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
Right-of-use assets	223,255	-	-	-	-	-	-	-	-	-
Leasehold Property	40,739	41,207	41,672	42,140	42,609	43,076	43,545	44,013	44,481	44,950
Intangible Assets	45,987	64,211	48,979	12,578	12,386	3,344	3,714	4,681	2,855	6,521
Investment Property	246,166	198,431	172,795	158,340	448,234	198,769	-	-	-	-
Investment in Associates	1,260,144	1,267,430	1,006,506	995,977	927,318	794,381	777,127	695,670	628,397	493,555
Total Assets	43,171,119	41,354,567	40,355,948	37,492,664	33,964,707	28,408,825	23,499,218	21,222,946	17,607,235	13,748,687
Liabilities										
Bank overdraft	86,567	186,276	254,238	1,092,434	412,472	272,634	279,269	999,036	505,815	397,246
Borrowings	9,128,983	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
Deposits from customers	22,814,923	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
Other liabilities	2,242,319	2,361,516	2,017,656	1,349,453	1,555,245	953,057	618,694	860,501	850,274	442,081
	34,272,792	32,681,703	31,672,862	29,625,399	26,310,476	20,629,060	17,232,833	15,516,588	12,132,629	7,455,609
Share Holder's Fund										
Share Capital	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000
Reserves	8,862,327	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
	8,898,327	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
Total Share holder's Funds & total liabilities	43,171,119	41,354,567	40,355,948	37,492,664	33,964,707	28,408,825	23,499,218	21,222,946	17,607,235	13,748,687

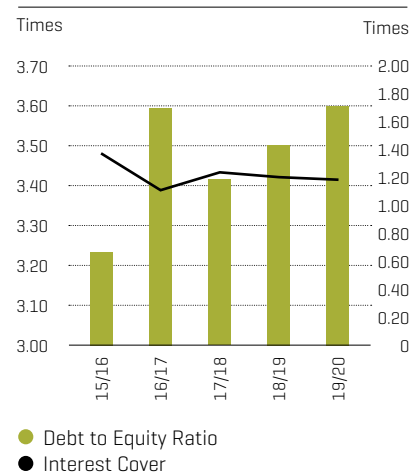
Gross Revenue



Total Asset Base & ROA

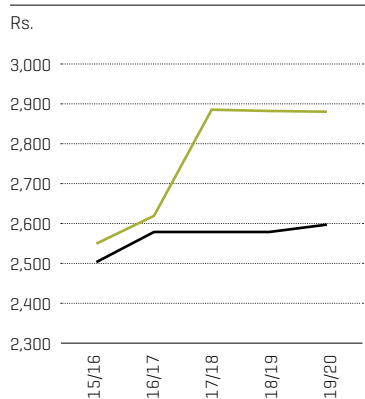


Debt to Equity & Interest Cover



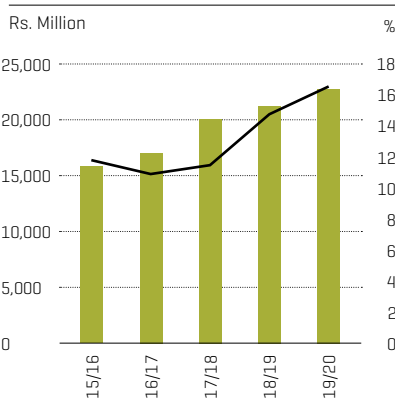
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Financial Position										
Total Assets to Shareholders funds - (Times)	4.85	4.77	4.65	4.77	4.44	3.65	3.75	3.72	3.22	2.18
Debt to Equity - (Times)	3.60	3.50	3.42	3.59	3.23	2.53	2.65	2.57	2.06	1.11
Liquid assets as a % of deposits	16.63	9.59	11.51	10.94	11.89	12.93	12.75	17.00	13.00	12.00
Investor										
Return on shareholders' funds - [%]	4.18	5.28	5.92	2.57	6.60	8.11	10.78	11.05	11.14	14.40
Return on Average Assets-[%]	0.88	1.12	1.32	0.57	1.62	2.43	3.02	3.25	3.89	8.13
Assets per share - (Rs.)	2883.00	2885.00	2889.00	2616.87	2546.32	2588.08	2084.63	1898.32	1821.23	2093.51
Earnings per Share - (Rs.)	120.69	152.39	171.01	67.20	168.00	210.00	224.67	209.84	202.96	301.36
Dividend per Share - (Rs.)	20.00	-	15.00	-	7.00	29.50	20.00	27.50	22.00	9.98
Dividend Cover - (Times)	6.18	-	11.40	-	24.00	7.12	11.23	7.63	9.23	30.20
Dividend Payout-[%]	16.17	-	8.77	-	4.17	14.05	8.90	13.10	10.84	3.31
Interest Cover - (Times)	1.18	1.20	1.24	1.10	1.38	1.47	1.37	1.39	1.62	2.54
Growth										
Growth in income -[%]	0.37	9.37	23.71	25.45	4.99	4.65	21.53	40.76	8.13	22.53
Growth in Interest Expenses-[%]	0.50	4.27	18.10	49.46	7.73	(12.08)	18.62	84.99	48.57	(14.10)
Growth in Other Expenses-[%]	2.88	22.45	8.55	36.01	9.77	45.87	37.09	6.05	49.53	(15.46)
Growth In Profit before Tax-[%]	12.06	(8.40)	180.21	(60.92)	(11.98)	10.62	12.60	16.99	(40.32)	137.76
Growth in Profit after Tax - [%]	18.85	(10.89)	154.47	(60.00)	(20.00)	(6.53)	7.07	3.39	(32.65)	175.68
Growth In Total Assets-[%]	4.39	2.47	7.64	10.39	19.56	20.89	10.73	20.54	28.06	61.30
Growth in advances- (Net) [%]	2.55	0.03	11.48	14.34	28.69	20.27	16.92	32.53	62.82	44.82
Growth in Deposit Base-[%]	7.74	5.50	17.95	7.60	15.27	20.17	35.53	37.26	42.81	23.53
Growth in Shareholders Funds-[%]	2.60	(0.12)	10.37	2.78	(1.61)	24.15	9.81	4.23	13.01	66.66
Statutory ratios										
Core Capital Ratio - (Minimum 5%)	13.56	14.98	16.24	17.17	19.35	21.70	22.52	20.83	22.40	28.5
Risk Weighted Capital Ratio - (Minimum 10%)	15.25	16.69	17.36	14.26	15.75	15.27	17.32	22.40	27.17	34.69
Liquid assets %	16.63	14.77	11.40	10.81	11.73	12.45	12.78	17.11	12.86	12.78

Net Assets per Share & Market Value per Share



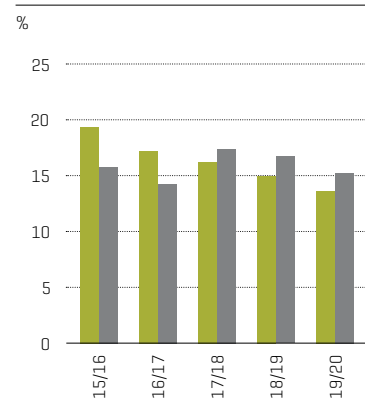
- Net Assets per Share
- Market Value per Share

Deposits & Liquid Asset Ratio



- Deposit Base
- Liquid Assets Ratio

Core Capital Ratio & risk Weighted Capital ratio



- Core Capital Ratio
- Risk Weighted Capital Ratio

GLOSSARY

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment.

Associate

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in joint venture.

Available-for-Sale

All assets not in any of the three categories, namely, Held to Maturity, Fair Value through Profit or Loss and Loans & Receivable. It is a residual category. It does not mean that the entity stands ready to sell these all the time.

C

Capital Adequacy ratios

The relationship between capital and the risk weighted assets as prescribed by the Central Bank of Sri Lanka developed by modifying International best practices on maintenance of Capital for financial Institutions, to suit the local requirements.

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Corporate governance

The process by which Corporate Institutions are governed. It involves the way in which authority is exercised over the management and the direction of the company, the supervisions of executive roles and the responsibility and accountability towards owners and other parties.

Cost Method

This is a method of accounting for an investment whereby the investment is initially recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distribution from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery

of investment and are recognised as a reduction of the cost of the investment.

Cost to Income ratio

Total operating expenses excluding impairment charge/ [reversed] for loans and advances expressed as a percentage of operating Income.

Credit Rating

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and banks and investment debt securities.

D

Debt to equity

Total Borrowings expressed as a percentage of equity.

Deferred Tax

Sum set aside in the financial statements for taxation that would become payable/ receivable in a financial year other than the current financial year.

Derecognition

The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position

Dividend cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividends is covered by the current year's distributable profits.

Dividend Yield

Dividend earned per share as a percentage of its market value.

E

Earnings per share

Net profit after tax and after dividend on Preference shares divided by the number of ordinary shares in issue.

Economic Value added

A measure to assess productivity of a business that takes into consideration cost of total invested equity.

Effective Income Tax Rate

Provision for taxation divided by the net profit before taxation.

Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee

F**Fair Value**

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in other entity.

I**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired Loans

Loans where identified impairment provisions have been raised and also include loans which are collateralized or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment allowances

Impairment allowances are a provision held as a result of the rising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual [specific] or collective [portfolio].

Impairment Provision Cover

Total impairment provision expressed as a percentage of non-performing loans.

Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Intangible Asset

An Intangible Asset is an identifiable non-monetary asset without physical substance.

Interest Cover

Profits before interest and taxes divided by the interest cost. This ratio measures the number of times Interest is covered by the current year's profits before interest and taxes.

K**Key Management Personnel [KMP]**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L**Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with banks free from any charge or lien and Treasury Bills and Bonds.

Liquid Assets ratio

Assets that are held in cash or in a form that can be converted to cash readily [as prescribed by the Central Bank of Sri Lanka] divided by the total deposits and outstanding borrowings excluding secured borrowings and borrowings considered as capital funds.

Loans and Receivables

Conventional loan assets that are unquoted [originated].

Loss Given Default [LGD]

LGD is the percentage of an exposure that a lender expects to loss in the event of obligor default

Loan to Value Ratio

LTV ratio is a computation that expresses the amount of a first disbursement as a percentage of the total appraised value of assets kept as security.

M**Market Risk**

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Market Value Added [MVA]

The difference between the current market value of a firm and the capital contributed by investors. Market value added represents the wealth generated by a company for its shareholders since inception. Since the main goal of a for-profit organization is to maximize shareholders' wealth, market value added is an important measure to analyze how much value a company has added to the wealth of its shareholders. Higher market value added indicates higher wealth generation.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N**Net assets per share**

Shareholders' funds excluding preference shares divided by the number of ordinary shares in issue.

Net Interest Income [NII]

The difference between the amount a Financial Institution earns on assets such as Loans and securities and what it incurs on liabilities such as deposits and borrowings.

Net Interest Margin

Net interest income expressed as a percentage of average assets.

GLOSSARY

Non-performing Loans

A loan placed on a cash basis [i.e. Interest Income is only recognized when cash is actually collected] after when six installments or more are overdue, as there is reasonable doubt regarding the collectability of its installments of capital and interest.

Non Performing Ratio

Total non-performing loans expressed as a percentage of the total loans and advances.

O

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, peoples and systems or from external events.

P

Price earnings ratio

Market price of an ordinary share divided by earnings per share.

R

Related parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Return on average assets

Net profit after tax divided by the average assets.

Return on shareholders' funds

Net profit after tax divided by the shareholders' funds.

Risk Weighted Assets

On-Balance Sheet assets and the credit equivalent of off-Balance Sheet assets multiplied by the relevant risk weighting factors prescribed by the Central Bank of Sri Lanka.

S

Segmental Analysis

Analysis of financial information by segments of an organization specifically, the different Industries and the different business lines in which it operates.

Shareholders' funds

Total of stated capital plus capital and revenue reserves.

Sustainability report

Sustainability reporting is a practice of measuring, disclosing, and being accountable for organizational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organization.

T

Tier I capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II 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.

LIST OF ABBREVIATIONS

AFS	Available for Sale	KMP	Key Management Personnel
AGM	Annual General Meeting	KPIs	Key Performance Indicators
ALCO	Assets and Liabilities Management Committee	KRIs	Key Risk Indicators
AML	Anti-Money Laundering	KYC	Know Your Customer
ASPI	All Share Price Index	L&R	Loans and Receivables
ATM	Automated Teller Machine	LCB	Licensed Commercial Bank
AWPLR	Average Weighted Prime Lending Rate	LGD	Loss Given Default
BCP	Business Continuity Plan	LFC	Licensed Finance Company
BN	Billion	LKAS	Sri Lanka Accounting Standards
BOD	Board of Directors	LKR	Sri Lankan Rupees
BPS	Basis Points	LTV	Loan to Value
BRA	Budget Related Allowances	MI	Mercantile Investments and Finance PLC
CAR	Capital Adequacy Ratio	MIS	Management Information System
CASL	The Institute of Chartered Accountants of Sri Lanka	MN	Million
CBSL	Central Bank of Sri Lanka	NBT	Nation Building Tax
CCTV	Closed-Circuit Television	NPA	Non-Performing Advances
CEO	Chief Executive Officer	NII	Net Interest Income
CFO	Chief Financial Officer	NIM	Net Interest Margin
CGU	Cash Generating Unit	NO.	Number Of
CRO	Chief Risk Officer	NOx	Nitrogen Oxide
CSE	Colombo Stock Exchange	NPL	Non-Performing Loans
CSR	Corporate Social Responsibility	OCI	Other Comprehensive Income
DPS	Dividend Per Share	ODS	Ozone Depleting Substances
DR	Disaster Recovery	PAT	Profit after Tax
DRL	Debt Repayment Levy	PAYE	Pay As You Earn
ECL	Expected Credit Loss	PD	Probability of Default
EIR	Effective Interest Rate	PER	Price Earnings Ratio
EPF	Employees' Provident Fund	PLC	Public Limited Company
EPS	Earnings per Share	PR	Personnel Relationship
ESC	Economic Service Charge	PVT	Private Limited Company
ETF	Employees' Trust Fund	ROA	Return on Assets
EVA	Economic Value Addition	ROCE	Return on Capital Employed
EY	Ernst and Young	ROE	Return on Equity
FTRA	Financial Transaction Reporting Act	ROU	Right-of-Use-Assets
FY	For the Year	RWA	Risk-Weighted Assets
GDP	Gross Domestic Product	SBUs	Strategic Business Units
GHG	Green House Gas	SEC	Securities and Exchange Commission
GRI	Global Reporting Initiative	SLC	Specialized Leasing Company
HFT	Held for Trading	SLA	Statutory Liquid Assets
HODs	Head of Departments	SLAS	Sri Lanka Accounting Standard
HP	Hire Purchase	SLFRS	Sri Lanka Financial Reporting Standard
HR	Human Resource	SME	Small and Medium Enterprises
HRIS	Human Resource Information System	SOx	Sulfur oxide
HTM	Held to Maturity	UN	United Nations
IFRS	International Financial Reporting Standard	UNGC	United Nations Global Compact
IIRC	International Integrated Reporting Council	USD	US Dollar
IMF	International Monetary Fund	VAT	Value Added Tax
IRMC	Integrated Risk Management Committee	WHT	Withholding Tax
IS	Information Systems	YoY	Year on Year
IT	Information Technology	YTM	Yield to Maturity
IUCN	International Union for Conservation of Nature		

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: 2343720 – 7
Fax: 2434524
Email: mercantile@mi.com.lk
Website: <http://www.mi.com.lk>

Board of Directors

Singappuli Mudiyansele Susantha Sanjaya Bandara
[Chairman]
Gerard George Ondaatjie
[Managing Director]
Pathirana Mahes Amarasekera
[Deputy Managing Director]
Shermal Hemaka Jayasuriya
[Finance Director]
Angeline Myrese Ondaatjie
Travice John Ondaatjie
Punyakanthi Tikiri Kumari Navaratne
Nawagamuwage Hasantha Viraj Perera
Pathmanathan Cumarasamy Guhashanka
Pandithasundara Dinuka Dilhan Perera

Company Secretary

Sonali Pethiyagoda

Audit Committee

Singappuli Mudiyansele Susantha Sanjaya Bandara - *[Chairman of the Committee]*
Nawagamuwage Hasantha Viraj Perera
Pandithasundara Dinuka Dilhan Perera
Sonali Pethiyagoda - Company Secretary
- *[Secretary to the Committee]*

Credit Committee

Gerard George Ondaatjie - *[Chairman of the Committee]*
Pathirana Mahes Amarasekera *[Deputy Managing Director]*
Shermal Hemaka Jayasuriya *[Finance Director]*
Dhanushka Fonseka - *Chief Operating Officer / Director [non-board] - [Secretary to the Committee]*

Remuneration Committee

Singappuli Mudiyansele Susantha Sanjaya Bandara - *[Chairman of the Committee]*
Nawagamuwage Hasantha Viraj Perera
Punyakanthi Tikiri Kumari Navaratne
Sonali Pethiyagoda - *Company Secretary*
- *[Secretary to the Committee]*

Nominations Committee

Singappuli Mudiyansele Susantha Sanjaya Bandara - *[Chairman of the Committee]*
Gerard George Ondaatjie *[Managing Director]*
Nawagamuwage Hasantha Viraj Perera
Punyakanthi Tikiri Kumari Navaratne
Sonali Pethiyagoda - *Company Secretary*
- *[Secretary to the Committee]*

Integrated Risk Management Committee

Nawagamuwage Hasantha Viraj Perera - *[Chairman of the Committee]*
Gerard George Ondaatjie *[Managing Director]*
Pathirana Mahes Amarasekera *[Deputy Managing Director]*
Shermal Hemaka Jayasuriya *[Finance Director]*
Ramidu Costa - *Head of Compliance & Risk Management*
- *[Secretary to the Committee]*

Assets & Liability Committee

Gerard George Ondaatjie *[Chairman of the committee]*
Pathirana Mahes Amarasekera *[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 Mudiyansele Susantha Sanjaya Bandara
- *[Chairman of the Committee]*
Nawagamuwage Hasantha Viraj Perera
Shermal Hemaka Jayasuriya *[Finance Director]*
Pandithasundara Dinuka Dilhan Perera
Sonali Pethiyagoda - *Company Secretary*
- *[Secretary to the Committee]*

External Auditors

Messrs. 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 PLC
Public Bank
DFCC

Credit Rating

Long-term Financial Institution Rating at BBB-[lka] [negative outlook] by Fitch Ratings.

BRANCH NETWORK

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	Address	Telephone	Fax	Branch Email	Details of Branch Head
1.	Head Office No. 236, Galle Road, Colombo 03, Sri Lanka.	+94-11-2343720-7	+94-11-2390113	mercantile@mi.com.lk	
	Micro Unit No. 15, Mosque lane, Colombo 03, Sri Lanka.	+94-11-2339895	+94-11-2339896		Tharanga Peiris tharanga.d@mi.com.lk 0717327978
2.	Anuradhapura Branch No. 521/6, Maithreepala Senanayake Mawatha, Anuradhapura, Sri Lanka.	+94-25-2224886	+94-25-2224887	mianuradhapura@mi.com.lk	Prabhath Weerasinghe prabhath.w@mi.com.lk 0712498597
3.	Akuressa Branch. No. 124, Matara Road, Akuressa, Sri Lanka.	+94-41-2284722	+94-41-2284752	miakuressa@mi.com.lk	Gihan Ganganath gihan.g@mi.com.lk 0712498336
4.	Ampara Branch No. 975, Browns Junction, D.S.Senanayake Street, Ampara, Sri Lanka.	+94-63-2224282	+94-63-2224255	miampara@mi.com.lk	Kelum Priyankara kelum.s@mi.com.lk 0712498330
5.	Awissawella Branch No. 93/1, Colombo Road, Ukwatta, Awissawella, Sri Lanka.	+94-36-2235722	+94-36-2235733	miawissawella@mi.com.lk	Dharshana Piyaratne dharshana.p@mi.com.lk 0702594852
6.	Balangoda Branch No. 27, Haputhale Road, Balangoda, Sri Lanka.	+94-45-2287605	+94-45-2287606	mibalangoda@mi.com.lk	Danthika Amarasinghe danthika.a@mi.com.lk 0710577104
7.	Bentota Branch No. 149 1/2, Colombo Road, Bentota, Sri Lanka.	+94-34-2275402	+94-34-2275403	mibentota@mi.com.lk	Shakthi De Silva shakthi.d@mi.com.lk 0712498362
8.	Chilaw Branch No. 86, Puttalam Road, Chilaw, Sri Lanka.	+94-32-2224244	+94-32-2224245	michilaw@mi.com.lk	Nandana Pradeep nandana.p@mi.com.lk 0712498393
9.	Embilipitiya Branch No. 127 C, New Town, Embilipitiya, Sri Lanka.	+94-47-2261351	+94-47-2261352	miembilipitiya@mi.com.lk	Dimuthu Mahesh dimuthu.m@mi.com.lk 0712498353
10.	Galle Branch No. 12, Park Road, Kaluwela, Galle, Sri Lanka.	+94-91-2246387	+94-91-2246388	migalle@mi.com.lk	Sumudu Jayasinghe sumudu.j@mi.com.lk 0712498386
11.	Gampaha Branch No. 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 No. 190, Kandy Road, Gampola, Sri Lanka.	+94-81-2076561/2	+94-81-2076563	migampola@mi.com.lk	Chinthaka Gamanayake chinthaka.g@mi.com.lk 0702579972
13.	Godagama Branch No. 27/B, Dikhathapma, Highlevel Road, Meegoda. Sri Lanka.	+94-11-2752923	+94-11-2752924	migodagama@mi.com.lk	Amila Edirisinghe amila.e@mi.com.lk 0717837507
14.	Horana Branch No. 439 A, Panadura Road, Galledandugoda, Horana.	+94-34-2265411	+94-34-2265412	mihorana@mi.com.lk	Thilina Sampath thilina.w@mi.com.lk 0712498371

BRANCH NETWORK

	Address	Telephone	Fax	Branch Email	Details of Branch Head
15.	Ja-Ela Branch No. 108, Old Negombo Road, Ja-Ela, Sri Lanka.	+94-11-2247937	+94-11-2247954	mijaela@mi.com.lk	Methsiri Padmakumara methsiri.p@mi.com.lk 0711204888
16.	Kadawatha Branch No. 381/C, Kandy Road, Mahara, Kadawatha, Sri Lanka.	+94-11-2921205	+94-11-2921207	mikadawatha@mi.com.lk	Madush Ratnasena madusha.r@mi.com.lk 0712498349
17.	Kaduwela No. 516/2, Awissawella Road Kaduwela, Sri Lanka.	+94-11-2538231	+94-11-2538232	mikaduwela@mi.com.lk	Nishantha Deshapriya Nishantha.d@mi.com.lk 0713217290
18.	Kegalle Branch No. 450 A, Kandy Road, Meepitiya, Kegalle, Sri Lanka.	+94-35-2053998	+94-35-2053997	mikegalle@mi.com.lk	Jayantha Kumara jayantha.k@mi.com.lk 0712439446
19.	Kohuwala Branch No. 28A, Sunethradevi Road, Kohuwala, Sri Lanka.	+94-11-2814181	+94-11-2814182	mikohuwala@mi.com.lk	Anushka Perera anushka.p@mi.com.lk 0712498410
20.	Kotahena No. 377/G, George R De Silva Mw, Kotahena, Colombo 13, Sri Lanka.	+94-11-2339306	+94-11-2339307	mikotahena@com.lk	Ksithijaya Gunathilake ksithijaya.g@mi.com.lk 0719709044
21.	Kottawa No. 341, High Level Road, Kottawa, Pannipitiya, Sri Lanka.	+94-11-2838145	+94-11-2838146	mikottawa@mi.com.lk	Gayan Wanninayake gayan.w@mi.com.lk 0712498315
22.	Kuliyapitiya Branch No. 286, Madampe Road, Kuliyapitiya, Sri Lanka.	+94-37-2282464	+94-37-2282465	mikuliyapitiya@mi.com.lk	Chanakya Nawarathna chanakya.n@mi.com.lk 0710122782
23.	Kurunegala Branch No. 257, Negombo Road, Kurunegala, Sri Lanka.	+94-37-2222027	+94-37-2222021	mikurunegala@mi.com.lk	Hasintha Chandima Hettige chandima.h@mi.com.lk 0716781626
24.	Maharagama Branch No. 176, Lake Road, Maharagama, Sri Lanka.	+94-11-2849979	+94-11-2848925	mimaharagama@mi.com.lk	Dinesh Seneviratne dinesh.s@mi.com.lk 0712498430
25.	Matara Branch No. 531, Pamburana, Matara, Sri Lanka.	+94-41-2235377	+94-41-2235378	mimatara@mi.com.lk	Bimal Prasanthika bimal.p@mi.com.lk 0712498331
26.	Minuwangoda No. 52 E, Negombo Road, Minuwangoda, Sri Lanka.	+94-11-2294008	+94-11-2294009	miminuwangoda@mi.com.lk	Gihan Mathew gihan.a@mi.com.lk 0712498395
27.	Moratuwa No. 408, Rawathawaththa, Galle road, Moratuwa, Sri Lanka.	+94-11-2647525	+94-11-2647526	mimoratuwa@mi.com.lk	Nayanapriya Galanga galanga.d@mi.com.lk 0712498411

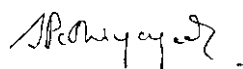
	Address	Telephone	Fax	Branch Email	Details of Branch Head
28.	Malambe Branch No.742 B, Thalangama North, Malabe. Sri Lanka.	+94-11-2790369		mimalambe@mi.com.lk	Sameera Jayasooriya Sameera.j@mi.com.lk 0703312896
29.	Negombo Branch No. 28, Keells Super Building, Colombo Road, Negombo, Sri Lanka.	+94-31-2221160	+94-31-2221161	minegombo@mi.com.lk	Ranjeewa Perera ranjeewa.p@mi.com.lk 0702579958
30.	Nittambuwa No. 550/1/12, Colombo Road, Nittambuwa, Sri Lanka	+94-33-2298788	+94-33-2298789	minittambuwa@mi.com.lk	Lasantha Perera lasantha.p@mi.com.lk 0713602413
31.	Polonnaruwa Branch No. 142/05, Tamasha Place, Polonnaruwa, Sri Lanka	+94-27-2227011	+94-27-2227022	mipolonnaruwa@mi.com.lk	Darshana Weerakkody darshana.w@mi.com.lk 0711204864
32.	Puttlam Branch No. 146, Kurunegala Road, Puttalam, Sri Lanka.	+94-32-2265490	+94-32-2265491	miputtlam@mi.com.lk	Poopalarama Sinthusan sinthusan.p@mi.com.lk 0712359841
33.	Premier Centre No. 219, Dr. N. M. Perera Mw, Colombo 08, Sri Lanka.	+94-11-2683445/6	+94-11-2683478	mipremiercentre@mi.com.lk	Srinath Rabel srinath.r@mi.com.lk 0712498240
34.	Rathnapura Branch No. 654/A, Colombo road, Rathnapura, Sri Lanka.	+94-45-2233187	+94-45-2233188	miratnapura@mi.com.lk	Chinthaka L Seram chinthaka.s@mi.com.lk 0712498350
35.	Tissamaharama Branch No. 19/6, Sagara Building, Palliyawatta, Tissamaharama, Sri Lanka.	+94-47-2239341	+94-47-2239342	mitissa@mi.com.lk	Gayana Priyankara priyankara.g@mi.com.lk 0714207100
36.	Thambuttegama Branch Rajina Junction, Thambuttegama, Sri Lanka.	+94-25-2275276		mithambuttegama@mi.com.lk	Malaka Bandara malaka.b@mi.com.lk 0703303236
37.	Trincomalee Branch No. 266, Anuradhapura Junction, Kandy Road, Trincomalee, Sri Lanka.	+94-26-2226456	+94-26-2226457	mitrinco@mi.com.lk	Prasanna Kumara prasanna.k@mi.com.lk 0712498259
38.	Veyangoda Branch No.41, Nittambuwa Road, Veyangoda, Sri Lanka.	+94-33-2246586	+94-33-2246589	miveyangoda@mi.com.lk	Nalin Siriwardene nalini.s@mi.com.lk 0712498312
39.	Wattala Branch No. 120, Old Negombo Road, Wattala, Sri Lanka.	+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-seventh (57) Annual General Meeting of MERCANTILE INVESTMENTS AND FINANCE PLC will be held at No 236, Galle Road, Colombo 3, on 31st August 2020 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 2020 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 re-elect Mr. P D D Perera retiring in terms of Article 23(3) of the Articles of Association as a Director of the Company.
- ☑ To re-appoint Messrs. Ernst & Young who are deemed to be re-appointed as Auditors of the Company in terms of Section 158 of the Companies Act No.7 of 2007 and to authorize the Directors to determine their remuneration.
- ☑ To authorize the Board of Directors to determine donations.
- ☑ In terms of Rule 17.3.2 (g) of the Colombo Stock Exchange [CSE] the Directors wish to inform that the Company has been transferred to the Second Board with effect from 15th November 2019 due to non-compliance with the minimum public holding requirement as required by the said Listing Rules. The Directors wish to further state that the Company intends to remedy the non-compliance and is taking steps to comply with the minimum number of public shareholders as required.

By Order of the Board,



Ms. Sonali Pethiyagoda
Company Secretary

Colombo
26 June 2020

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.

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. Singappuli Mudiyanseleage Susantha Sanjaya Bandara	or failing him
Mr. Gerard George Ondaatjie	or failing him
Mr. Pathiranage Mahes Amarasekera	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. Pathmanathan Cumarasamy Guhashanka	or failing him
Mr. Pandithasundara Dinuka Dilhan Perera	

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 31st August 2020 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 2020, with the Report of the Auditors there on.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2) To elect Ms. A. M. Ondaatjie retiring in terms of Article 23 [7] of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3) To elect Mr. T. J. Ondaatjie retiring in terms of Article 23 [7] of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4) To elect Mr. P. M. Amarasekera retiring in terms of Article 23 [7] of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5) To elect Mr. P. D. D. Perera as a Director retiring in terms of Article 23 [3] of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6) To re-appoint Messrs. Ernst & Young who are deemed to be re-appointed as Auditors of the Company in terms of Section 158 of the Companies Act No.7 of 2007 and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7) To authorize the Directors to determine contributions for charities and other donations for the year 2020/2021	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our* hand thisday of2020.

.....
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 scrutiner 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	<input type="checkbox"/>	Shareholder	<input type="checkbox"/>	Regulators/Government	<input type="checkbox"/>
Customer	<input type="checkbox"/>	Business Partner	<input type="checkbox"/>	Society	<input type="checkbox"/>

Share your views about the Integrated Annual Report 2019/20 (Please scale from Excellent to Poor)

Theme & Layout		Content & Disclosures		Directness & Transparency	
Excellent	<input type="checkbox"/>	Excellent	<input type="checkbox"/>	Excellent	<input type="checkbox"/>
Good	<input type="checkbox"/>	Good	<input type="checkbox"/>	Good	<input type="checkbox"/>
Average	<input type="checkbox"/>	Average	<input type="checkbox"/>	Average	<input type="checkbox"/>
Poor	<input type="checkbox"/>	Poor	<input type="checkbox"/>	Poor	<input type="checkbox"/>

Feedback and any suggestions to improve content:

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.....

As a stakeholder any other suggestions, improvements and concerns to be addressed:

.....

.....

.....

.....

Your Name :

Your Tel/Email :

Your Organization & Designation (If Applicable) :

Finance Director,

Mercantile Investments & Finance PLC,
 No.236,
 Galle Road,
 Colombo 03.
 Tel: +94 11 2343720-7

Minimize waste by informing the Company Secretary to email a soft copy of the Annual Report 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