

CONSISTENCY WE TRUST

MERCANTILE INVESTMENTS AND FINANCE PLC
ANNUAL REPORT 2020/21



Mercantile Investments
and Finance PLC

Even though the year under review was mired in challenges and external impacts that negatively affected Sri Lanka and the world, our team chose to focus on the positive and to fortify ourselves against the uncertainty of the future. By adapting fluidly to change and amidst it all, being a constant assurance for our stakeholders, we were able to achieve progress while many faltered. Entrenched in strength, dynamism and resilience our strategy of repeated acts of excellence, proved that our success and standards can be distilled into a simple mantra; consistency we trust.

Contents

03

CONSISTENT ENDURANCE WE TRUST



STEWARDSHIP

Board of Directors – 78-83
Corporate Management Team – 84-89

Corporate Governance Report – 90-158
Chairman's Statement – 90-91
Board Committee Overview – 102
Management Committee – 103

Risk Management Report – 159-176
Our Operating Context – 159-162
Our Statement on Risk Management – 163-176

Committee Reports – 177-183
Board Integrated Risk Management
Committee Report – 177-178
Board Remuneration Committee Report – 179
Board Nomination Committee Report – 180
Board Audit Committee Report – 181-182
Board Related Party Transaction Review
Committee Report – 183

01

CONSISTENT MOMENTUM WE TRUST



OUR JOURNEY

Our Integrated Report – 8-11
Business Overview – 12-13
Our Products and Services – 14-15
Direction and Value System – 16-17
Financial Highlights – 18-19
Operational Highlights – 20-21
Milestones for the Year under Review – 22-23
Chairman's Message – 24-28
Managing Director's Review – 29-33

02

CONSISTENT IDEAS WE TRUST



MANAGEMENT DISCUSSION AND ANALYSIS

Sustainable Value Creation Process – 36-46
Sustainable Business Model Adopted – 36-37

Stakeholder Management – 38-39
Stakeholder Matrix – 38
Stakeholder Engagement – 38
Material Matters – 39

Strategy – 40-46
Strategy Formulation – 40
Internal Environment Review – 41
External Environment Review – 42-43
Strategy Execution – 44-45
Resource Distribution – 46

Capital Management – 47-67
Financial Wealth – 48-57
Alliances – 58-59
Human Strength – 60-61
Intellect – 62-63
Infrastructure – 64-65
Nature – 66-67

GRI Standards Contents Index "In Accordance Comprehensive" – 68-74

Independent Assurance Report on Sustainability – 75



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

05

CONSISTENT INNOVATION WE TRUST



04

CONSISTENT STRATEGY WE TRUST



FINANCIAL REPORTS

- Financial Calendar – 186
- Annual Report of the Board of Directors – 187-193
- Directors' Interests in Contracts with the Company – 194-195
- Directors' Responsibility for Financial Reporting – 196
- Managing Director's and Chief Financial Officer's Statement of Responsibility – 197
- Report by the Board on Internal Control – 198-199
- Independent Assurance Report on the Directors' Statement on Internal Control – 200
- Independent Auditor's Report – 201-204
- Financial Information-Index – 205
- Statement of Comprehensive Income – 206
- Statement of Financial Position – 207
- Statement of Changes in Equity – 208
- Statement of Cash Flow – 209
- Notes to the Financial Statements – 210-299

SUPPLEMENTARY INFORMATION

- Investor Relations – 302-305
- Decade at a Glance – 306-307
- Glossary – 308-310
- List of Abbreviations – 311
- Corporate Information – 312
- Branch Network – 313-315
- Notice of Meeting – 316
- Form of Proxy – 317
- Voting at Meetings of Shareholders – 318
- Stakeholder Feedback Form – 319

Web Content



Management Discussion and Analysis

- Sustainable Value Creation Process
- Stakeholder Management – 39
- External Environment Review – 43
- Strategy Execution – 45
- Service Value Chain – 45

Capital Management Report

- Financial Wealth – 49
- Alliances – 59
- Human Strength – 61
- Intellect – 63
- Infrastructure – 65
- Nature – 67

Impact Management Report – 37

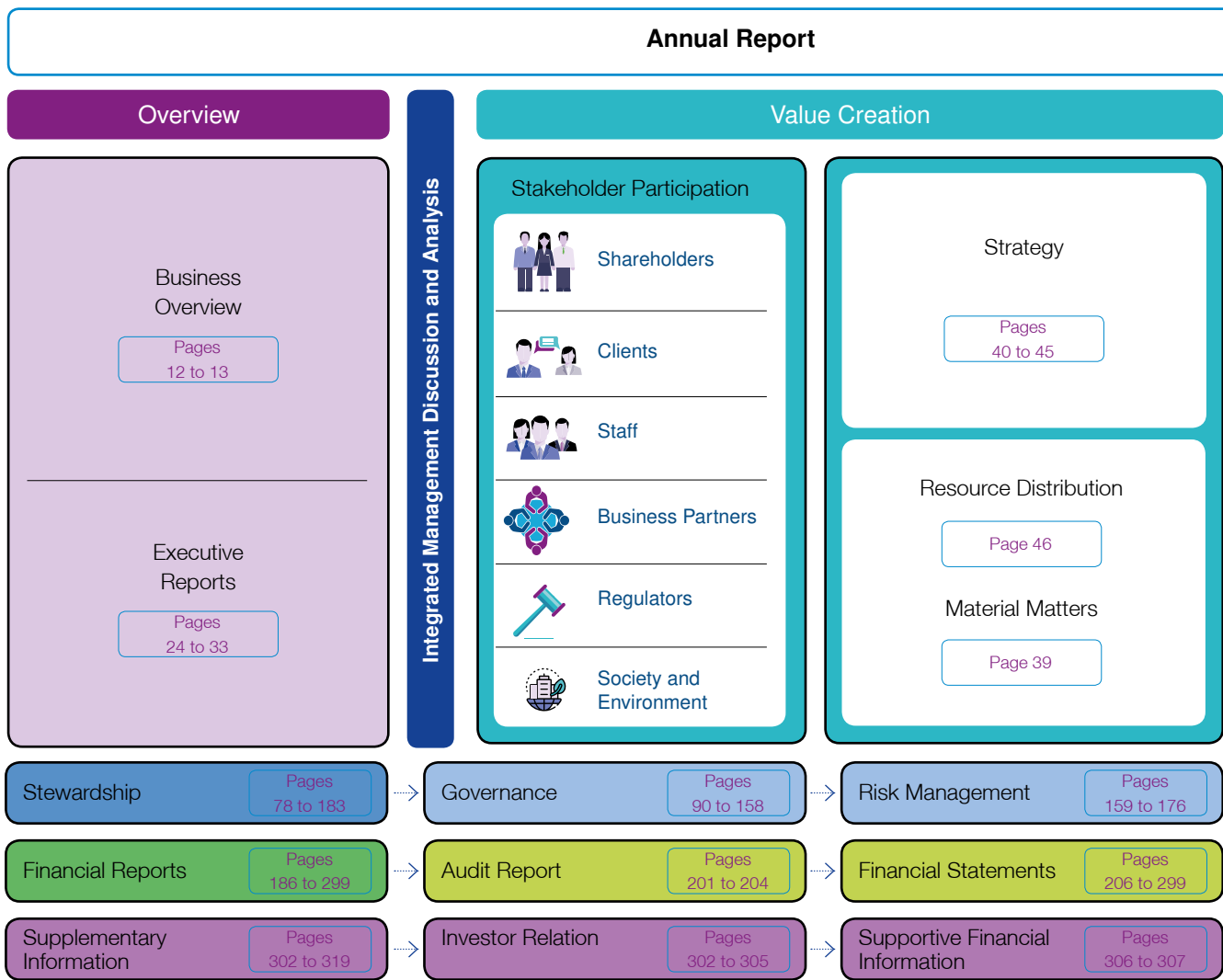
Corporate Governance Report

- Organisation Structure – 158

Risk Management Report

- Credit Risk Management – 166

Navigation



Navigation Icons

Capital Utilised

Our value creation process was driven by the following six capitals utilised 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 organisation 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 utilise in our business and the impact we create on them in return

Navigation

Capital Management Report



Financial Wealth

Pages
48 to 57



Alliances

Pages
58 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
177 to 183

→ Other Information

Pages
308 to 319



Stakeholders



Shareholders: Our equity providers



Clients: Our credit customers and depositors



Staff: Our permanent and probationary employees



Business Partners: Our suppliers, lending institutions such as banks and financial intermediaries and other business associates



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 and Environment: The local community and wider society we interact with and the nature

Consistent momentum we trust





'01

OUR JOURNEY

Our Integrated Report – 8-11

Business Overview – 12-13

Our Products and Services – 14-15

Direction and Value System – 16-17

Financial Highlights – 18-19

Operational Highlights – 20-21

Milestones for the Year under Review – 22-23


Chairman's Message – 24-28

Managing Director's Review – 29-33

Our Integrated Report

We present our eighth integrated annual report inclusive of our performance, evolving strategic business processes and operational priorities, coupled with integrated thinking, which enables us to remain strategically-aligned and responsive to stakeholder concerns. By following the international integrated reporting framework of the International Integrated Reporting Council (IIRC), our key stakeholders can peruse concise and transparent information of our ability to utilise our business resources efficiently and effectively to create sustainable value as articulated in our purpose, vision, mission and value statements.

REPORTING PHILOSOPHY

 (GRI 102-4, 102-45, 102-46, 102-50 and 102-52)

PERIOD OF REPORTING

Mercantile Investments' (MI) Integrated Report is produced and published annually. Our report covers financial and non-financial information for the financial period commencing from 1st of April 2020 to 31st March 2021 with the comparative figures of previous years to provide a holistic view to the stakeholders. The significant material concerns after the reporting period, up to the Board approval date of 31st May 2021, have also been incorporated.

SCOPE AND BOUNDARY

This report covers the primary operations of MI within local territories, including our business clusters and key support areas. MI holds a 26.12% stake in Nuwara Eliya Hotels PLC as an associate company and does not operate internationally and has no subsidiary holding relationships locally or globally.

EXTENT OF REPORTING

The report extends beyond statutory financial reporting and includes commentary on our non-financial performance, our strengths, weaknesses, opportunities, and approach adopted to manage risks and challenges within our governance framework, which have a significant influence on our value creation and preservation.

TARGET AUDIENCE

This report is primarily intended to address the information requirements of our investors, including our shareholders and other fund providers, along with potential investors. Further, the report is one of our information sources for other interested stakeholders, including our clients, staff, business partners, regulators, society and environmental groups.

Our Integrated Report

KEY CONCEPTS

INTEGRATED REPORTING FRAMEWORK

IR Framework Principles	As Applied by MI
Stakeholder Relationships	We have disclosed our key stakeholders, stakeholder engagement practices and the sustainable relationships we maintained and retained over our value creation journey.
Materiality (GRI 102-10, 102-48, 102-49 and 102-51)	<p>We exert the principal of materiality in assessing what information is to be included in our integrated report. This report focuses on addressing the concerns that materially impact Mercantile Investments and its key stakeholders while journeying towards sustainable value creation.</p> <p>There have been no significant changes to the organisation's size, structure, ownership during the reporting year. Whilst no significant changes were observed to the scope, boundary, and reporting basis since the last reporting date of 31st March 2020, except for the changes in the level of materiality from last year to this year, no restatements of opening balances have been carried out during the year.</p>
Strategic Focus and Future Orientation	We have provided our future growth strategies, integrated business philosophy and prospects in tandem with the performance results, set goals and objectives, vision, mission and value statements.
Connectivity of Information	The overall structure of the Integrated Report has been designed in a way that all information sources are inter-connected and linked through page references, navigation icons and QR codes.
Conciseness	The efforts we made to produce a concise report can be seen throughout each section of the report by providing relevant comprehensive information in a nutshell.
Reliability and Completeness	By furnishing reliable and complete financial and non-financial information which has been extracted and derived from various trustful sources, we ensured the completeness of our Integrated Report and on its reliability.
Consistency and Comparability	Whilst ensuring consistency of the information we reported throughout the Integrated Annual Report, we have further provided adequate comparable information based on availability.

VALUE CREATION

Value creation is the process of how we leveraged our capitals towards delivering financial and non-financial performance and optimising value for all stakeholders (output and outcomes). Mercantile Investments' unique sustainable value creation business process has been articulated on pages 36 to 37 in tandem with our integrated thinking and decision-making process.

PRECAUTIONARY PRINCIPLE

(GRI 102-11)

As a longstanding corporate citizen, we are immensely conscious of direct and indirect impacts of our business operations on the economy, society and environment and offer products with minimal negative impacts. As we have embedded strategic corporate sustainability into our business model, our credit lending policies and procedures and risk management practices are aligned with creating sustainable value for our stakeholders while minimising our indirect negative externalities on the environment.

FORWARD-LOOKING STATEMENTS

This report consists of forward-looking statements with respect to MI's operational results and financial position. These statements are embedded with the occurrence or non-occurrence of future events such as future opportunities, future risks and uncertainties.

Our Integrated Report

REPORTING REGULATIONS, PRINCIPLES AND PROTOCOLS

(GRI 102-5, 102-12, 102-54 and 102-56)

REGULATIONS AND FRAMEWORKS ADOPTED

Mandatory Reporting Requirements	Voluntary Frameworks and Protocols
<p>Our report was prepared in accordance with;</p> <ul style="list-style-type: none"> The Sri Lanka Accounting Standards (LKASs/SLFRSs) Central Bank of Sri Lanka's Corporate Governance Direction No. 03 of 2008 and related amendments The Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) 2017. 	<p>This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards – 'In accordance' Comprehensive option.</p> <p>This report was also prepared in accordance with the International Integrated Reporting Framework of IIRC.</p>
	
<p>We have also duly provided necessary corporate disclosures to comply with;</p> <ul style="list-style-type: none"> Colombo Stock Exchange (CSE) and Securities and Exchange Commission (SEC) listing and disclosure requirements The Companies Act No. 07 of 2007 The Finance Business Act No. 42 of 2011 	
	

ASSURANCE OBTAINED

Area Assured	External Assurance Party	External Assurance Reports/ Certifications/Assurance Statements
The Audited Financial Statements	Messrs. Ernst and Young, Chartered Accountants	Audit Report (pages 201 to 204)
Compliance with Central Bank Corporate Governance Directions	Messrs. Ernst and Young, Chartered Accountants	Assurance Statement on Corporate Governance Direction Compliance (page 158)
Directors' Statement on Internal Controls Accuracy	Messrs. Ernst and Young, Chartered Accountants	Limited Assurance Report (page 200)
Sustainability Reporting	Messrs. Ernst and Young, Chartered Accountants	Limited Sustainability Assurance Report (Page 75)

Our Integrated Report

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 the MI stock code "MERC").



CONTACT POINT

 (GRI 102-53)

Contact point for comments or queries regarding this report;

Contact and Address

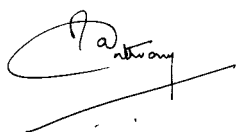
The Chief Financial Officer/
Senior General Manager,
Mercantile Investments and Finance PLC,
236, Galle Rd,
Colombo 03

E-mail: accounts@mi.com.lk

RESPONSIBILITY FOR THE INTEGRITY OF THE INTEGRATED REPORT AND SUSTAINABILITY REPORTING

 (GRI 102-32)

We acknowledge the integrity of the disclosures contained in the Integrated Report which includes coverage of our sustainability efforts and impacts. The Board, through its delegated authority to the Finance Director and the Chief Financial Officer, governed the preparation and presentation aspects of the Integrated Annual Report that include requirements on sustainability reporting. We affirm that the Integrated Annual Report presented herewith has been prepared in accordance with the International Integrated Reporting framework, issued by the International Integrated Reporting Council (IIRC), and the GRI Standards "in accordance comprehensive" reporting framework.



Deva Anthony
Chief Financial Officer/
Senior General Manager



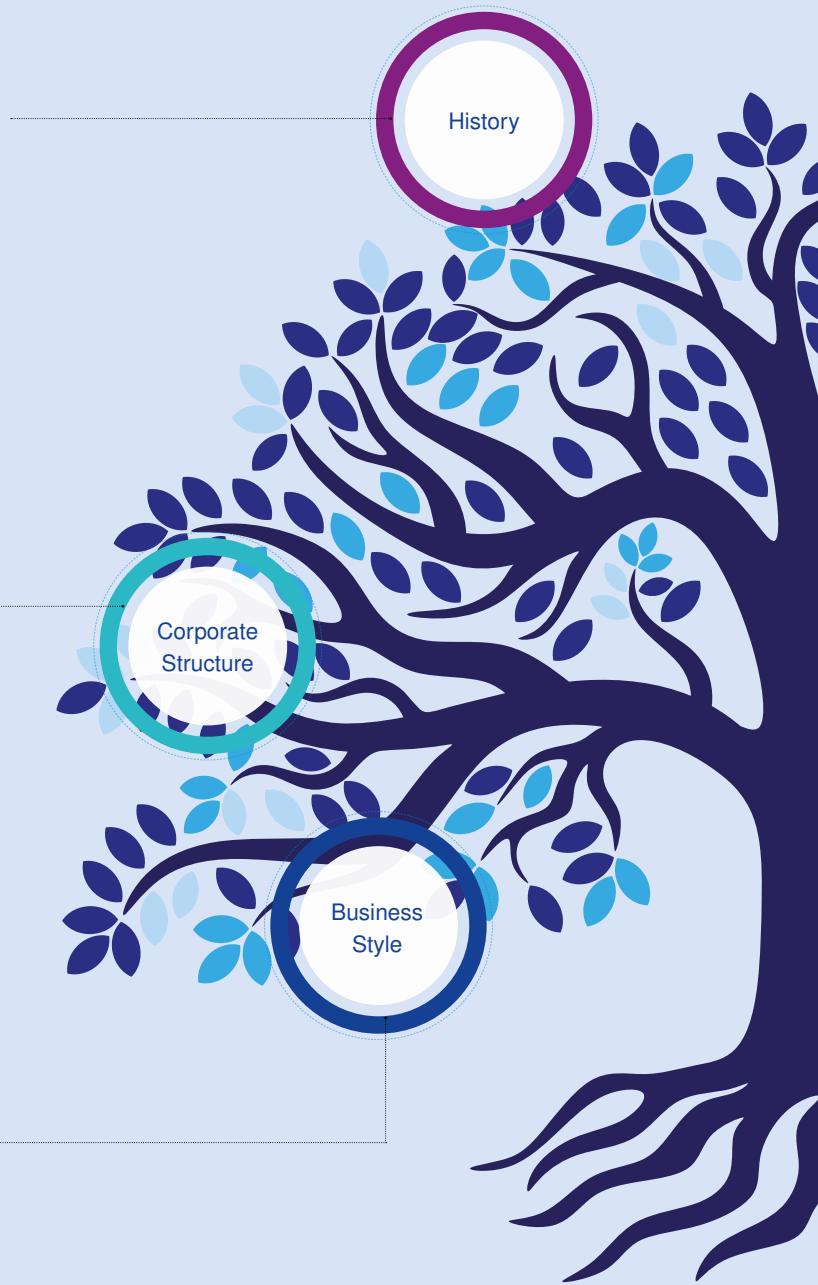
Shermal Jayasuriya
Finance Director

Business Overview

Our history begins in 1964, with the visionary leadership style of our late founder Chairman, George Ondaatjie, who extended a yeoman service to the organisation, the industry and country by catering to untapped market segments of the country through a profound legendary service. From the inception, our financial solutions, which include financing and deposit mobilisation, touched the hearts of many citizens through our personalised and innovative business solutions. In 2011, MI was listed on the Diri Savi Board of the Colombo Stock Exchange, marking another significant milestone in our journey. With this solid foundation and sound business background, today we stand strong as an 'A' grade finance company with a workforce of over 1,100, while continuing to grow in market reach, technology and innovations.

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 companies or 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 organisation structure that makes each business function and department highly accountable for its actions.

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.



Business Overview



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.

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.

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

- Lending – Credit disbursement
- Deposits – Mobilisation of depositor funds
- Investments – Yield generating trading and strategic investments
- Other Ancillary Business – Other services to support core business clients

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.



HIRE PURCHASE FINANCING

In keeping with the Consumer Credit Act No. 29 of 1982, lending facilities are given mainly against vehicles and machines that have been registered.



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.



TERM LOANS

At MI, we provide a range of term-based funding, 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.



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.



GOLD LOANS

Newly-launched gold loan service is provided against gold held as security.

DEPOSIT PRODUCT OFFERINGS



FIXED DEPOSITS

Fixed deposits at Mercantile Investments and Finance PLC come 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.





Our Products and Services

KEY INVESTMENT PRODUCTS




<p>REGULATORY LIQUIDITY-BASED INVESTMENTS</p> <div style="background-color: #E0F0FF; padding: 5px; margin-bottom: 10px;"> <p>TREASURY BILLS AND BONDS</p> <p>Fixed-return investment in short-, medium- and long-term securities issued by the Government of Sri Lanka.</p> </div> <div style="background-color: #E0F0FF; padding: 5px; margin-bottom: 10px;"> <p>REPOS</p> <p>Short-term Government security-backed investments in banks and primary dealers.</p> </div> <div style="background-color: #E0F0FF; padding: 5px;"> <p>PLACEMENTS</p> <p>Fixed return yielding investments in short- and medium-term deposits in rated banks and financial institutions.</p> </div>	<p>EQUITY/DEBT INVESTMENTS</p> <div style="background-color: #E0F0FF; padding: 5px; margin-bottom: 10px;"> <p>EQUITY INVESTMENTS</p> <p>Primarily investments in ordinary shares of listed entities.</p> </div> <div style="background-color: #E0F0FF; padding: 5px;"> <p>CORPORATE DEBENTURES</p> <p>Investment in debt securities of listed entities.</p> </div>
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OTHER ANCILLARY BUSINESS

INSURANCE SUPPORT

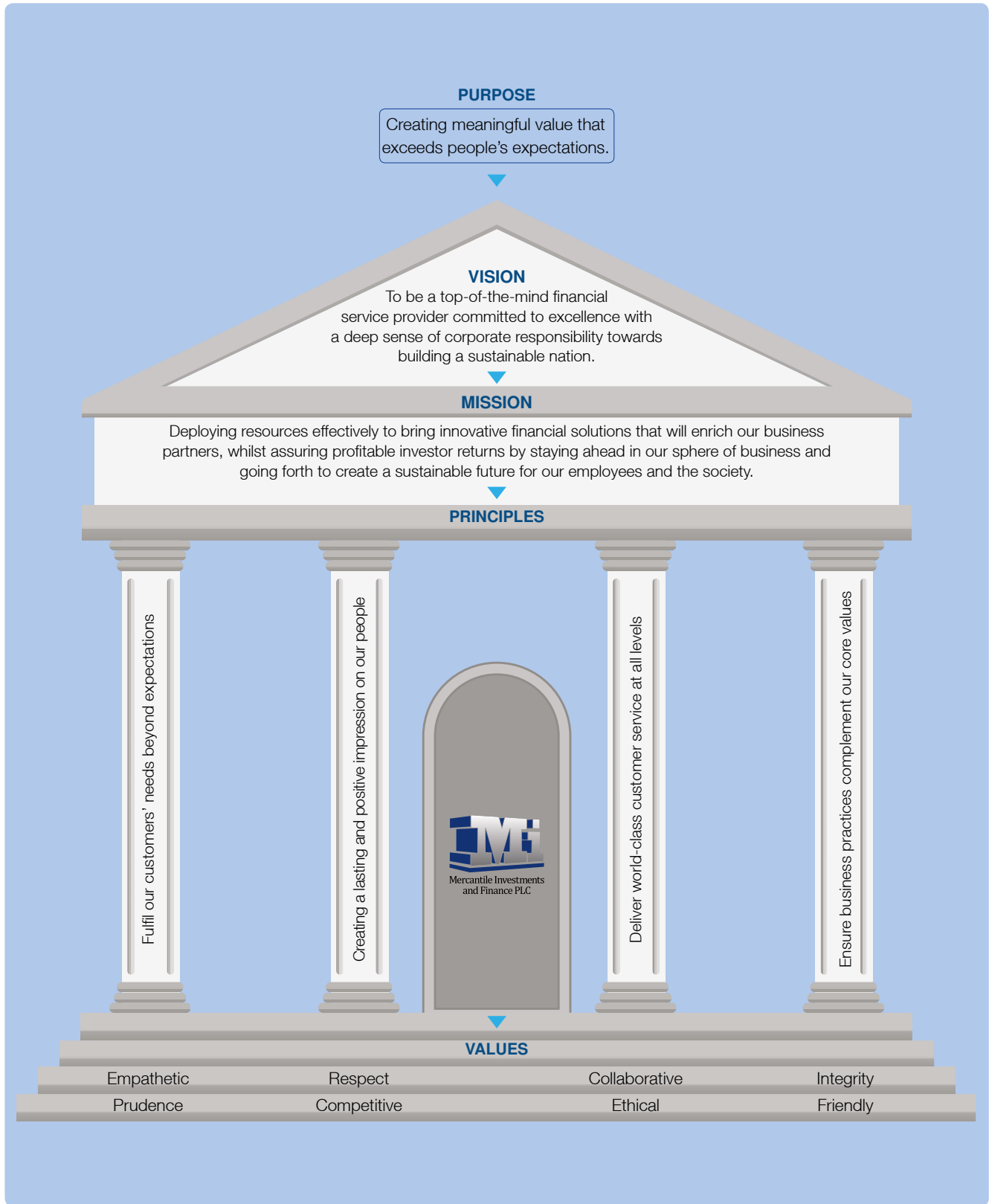
	<p>MOTOR VEHICLE INSURANCE</p> <p>Full and third party protection on motor vehicle insurance</p>
	<p>LOAN PROTECTION</p> <p>Loan recovery protection against borrower's death</p>
	<p>TITLE INSURANCE</p> <p>Protection against loss of ownership of property</p>
	<p>GENERAL INSURANCE</p> <p>All other protection including fire, burglary, etc.</p>

WORKSHOP SERVICES

	<p>VEHICLE SERVICING</p> <p>Facilitates all-inclusive motor vehicle servicing</p>
	<p>VEHICLE REPAIRING</p> <p>Facilitates varying types of automobile repairs, providing expert attention to every nook and corner of vehicles</p>
	<p>PAINT JOBS</p> <p>Provides exclusive painting solutions</p>

Direction and Value System

(GRI 102-16)



Direction and Value System

OUR SUSTAINABILITY PLEDGE

To fulfil 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 will in turn support the process of building a robust and sustainable nation.

By following UN Sustainable Development Goals, we as a responsible corporate citizen realigned our business strategy to concentrate on financial objectives while simultaneously embracing economic, social and environmental goals together with our Sustainability Pledge and ambitions for the betterment of society.

To meet a broader range of public demands, we've geared our operations to provide an exceptional service and launched corporate social initiatives. Towards this end, we've enlisted the help of our employees and declared our dedication to long-term sustainability 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.



MI OPERATIONS

We reoriented 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 wellbeing of communities, society and the environment.



Financial Highlights

 (GRI 102-7)

For the year ended 31 March	Actual 2021 Rs. '000	Actual 2020 Rs. '000	Change %	Actual 2019 Rs. '000
Results for the year				
Gross Income	6,496,631	7,610,170	-14.63	7,638,497
Interest Income	6,273,624	7,475,320	-16.08	7,436,054
Interest Expense	3,219,671	3,842,380	-16.21	3,861,878
Profit Before Tax	827,501	691,791	19.62	786,653
Provision For Taxation	213,358	320,082	-33.34	328,580
Profit After Tax	614,143	371,708	65.22	458,073
Financial Position at the year end				
Shareholders' Funds (Stated Capital and Reserves)	10,309,570	8,898,327	15.86	8,672,864
Deposit from Customers	23,060,274	22,814,923	1.08	21,176,433
Loans & Advances, Leases & Hire Purchases (Gross)	32,348,157	35,439,020	-8.72	34,204,719
Total Assets	41,749,549	43,171,119	-3.29	41,354,565
Investors				
Gross Dividend	-	60,120	-100.00	-
Earnings per Share (Rs.)	204.31	123.66	65.22	152.39
Dividends per Share (Rs.)	-	20	-100.00	-
Net Assets per Share (Rs.)	3,430	2,960	15.86	2,885
Ratios				
Return on Shareholders' Funds (%)	6.39	4.23	2.16	5.28
Return on Average Assets (%)	1.45	0.88	0.57	1.12
Interest Cover (Times)	1.26	1.18	6.53	1.20
Equity: Assets (%)	24.69	20.61	4.08	20.97
Debt: Equity (Times)	2.86	3.60	-20.50	3.50
Dividend Payout Ratio (%)	-	16.17	-16.17	-
P/E Ratio (Times)	12.73	21.03	-39.49	16.93
Non-performing Loans Ratio (%)	14.13	11.69	2.44	9.62
Total Assets Growth (%)	(3.29)	4.39	-7.68	2.47
Advance Growth (Gross) (%)	(8.72)	3.61	-12.33	3.18
Deposit Growth (%)	1.08	7.74	-6.66	5.50
Operating Profit Margin (%)	13.30	8.87	4.43	9.25
Value Added per Employee (Rs. '000)	5,820	6,971	-16.51	7,421
Statutory Ratios				
Liquid Assets (%)	17.07	15.99	1.08	14.77
Core Capital Ratios (%) – Minimum required 6.5%	15.31	13.56	1.75	14.98
Total Risk Weighted Capital Ratio (%) – Minimum required 10.5%	17.07	15.25	1.82	16.69

Financial Highlights

Rs. 614 Mn ↑

Profit After Tax grew by

65%

Well capitalised “A” Grade Finance Company

Rs. 41.7 Bn ↓

Total Asset Base

Rs. 10.3 Bn ↑

Shareholders' Funds grew by

16%

15.31% ↑

Core Capital Ratio

(Minimum 6.5%)

17.07% ↑

Total Risk Weighted Capital Ratio

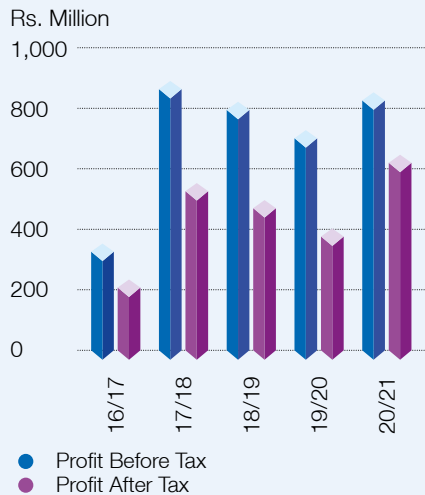
(Minimum 10.5%)

17.07% ↑

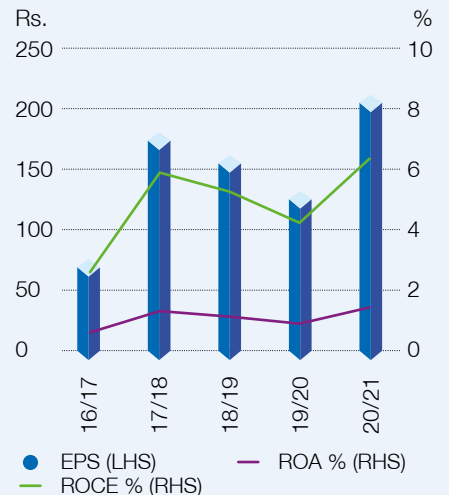
Liquid Assets Ratio

(Minimum 6%)

Profitability



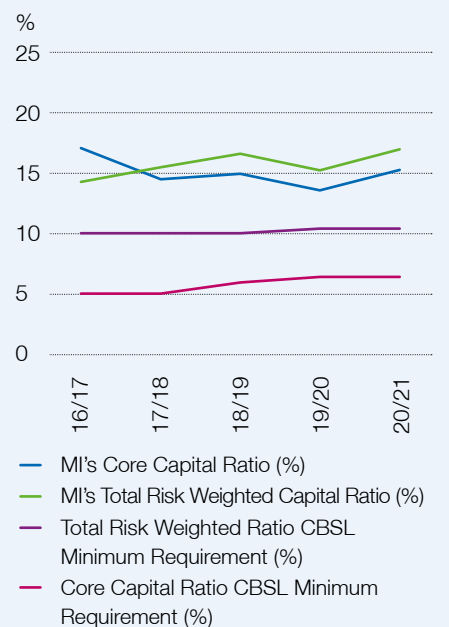
Investor Returns



Growth in Shareholder Funds and Net Assets Per Share



Capital Adequacy



Operational Highlights

 (GRI 102-7)

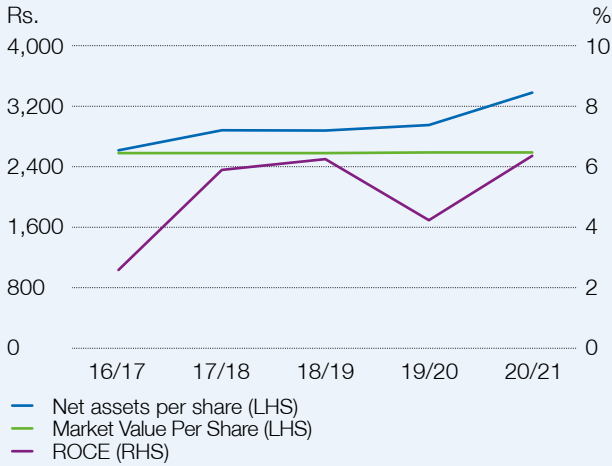
GRI Standard	For the year ended 31st March	2021	2020	Variance %	2019
Alliances					
413-1	Total clientele	> 62,000	> 65,000	Approx. -5	> 60,000
	New products launched (Number)	1	2	-50	3
204-1	Percentage of purchases from suppliers: Head office (%)	67	53	14	55
	Other locations of Sri Lanka (%)	33	47	-14	45
419-1	Significant fines for product/service (Rs. '000)	-	-	-	-
413-1	Number of CSR Beneficiaries	601	2,217	-73	113
205-2	Training on anti money laundering (Number)	60	70	-14	80
419-1	Significant fines for violation of laws/regulations (Rs. Million)	-	-	-	-
201-1	Community investment cost (Rs. '000)	1,203	2,268	-47	2,351
201-1	Staff volunteered time on CSR (Hours)	268	3,776	-93	447
Human Strength					
401-1	Total workforce (Number)	1,110	1,094	1	1,040
401-1	Female Representation (%)	22	21	1	20
401-1	Recruitments for the year (Number)	242	346	-30	436
202-2	Local hiring of senior managers (%)	88	76	12	88
401-1	Attrition rate (%)	20	27	-7	35
401-3	Retention rate after parental leave (%)	56	80	-24	67
403-2	Number of injuries	5	6	-17	11
403-2	Number of lost days	160	183	-13	257
403-2	Absenteeism in days	*	81	-	32
404-1	Training hours per participant as an average (Hours)	4	11	-64	12
404-3	Employee performance appraisal as a percentage of total workforce (%)	72	64	8	65
103-2	Employee grievances reported and resolved (Number)	-	-	-	-
201-3	Employee benefit liability (Rs. '000)	322,501	254,385	27	238,112
406-1, 408-1, 409-1, 103-2	Human rights violation	-	-	-	-
Intellect					
	Brand Expenditure (Rs. Million)	155	114	36	103
	Market Share (%)	2.9	2.9	-	2.9
Infrastructure					
201-1	Number of new business locations launched	-	-	-	3
	Investment on IT (Invested/to be invested in Rs. Million)	> 50	> 45	2	> 44
	Investment in fixed assets (Rs. Million)	108	58	86	258
Nature					
302-1	Electricity consumption (kWh)	1,266,820	1,443,926	-12	1,352,395
	Electricity consumption in value (Rs. '000)	33,008	37,736	-13	34,834
302-1	Total fuel usage (Litres)	728,245	907,174	-20	979,426
	Fuel Costs (Rs. '000)	84,501	94,424	-11	94,103
303-1	Water consumption (Units '000)	11,394	12,487	-9	12,325
	Water consumption in Value (Rs. '000)	3,068	3,433	-11	3,620
306-2	Paper recycling (Kg)	398	2,579	-85	1,394
307-1	Significant environmental fines (Rs. '000)	-	-	-	-
	Environment protection expenditure (Rs. '000)	496	442	12	1,293

* Tracking and compiling accurate absenteeism data was not possible due to frequent COVID related disruptions.

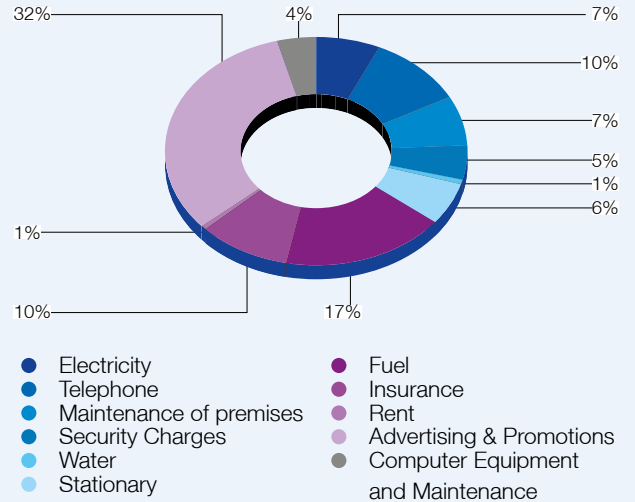
Operational Highlights

VALUE CREATED TOWARDS STAKEHOLDERS

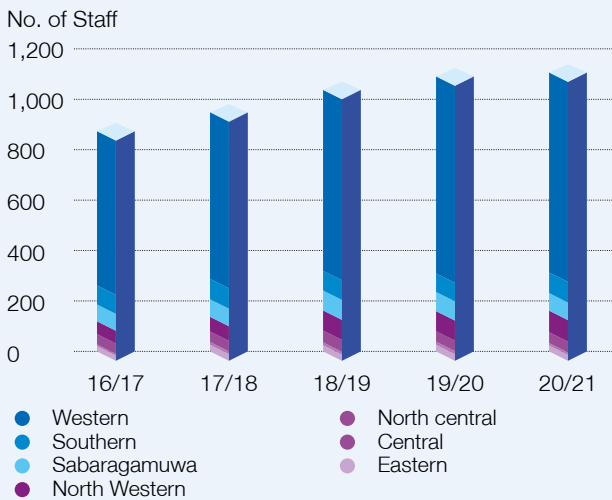
INVESTORS Investor Return



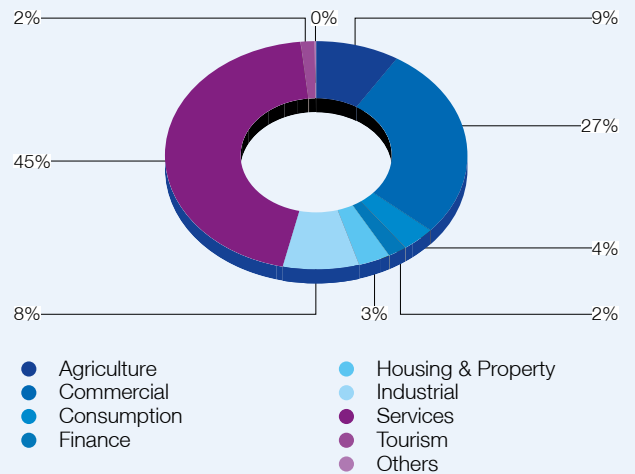
CLIENTS Spending on Suppliers



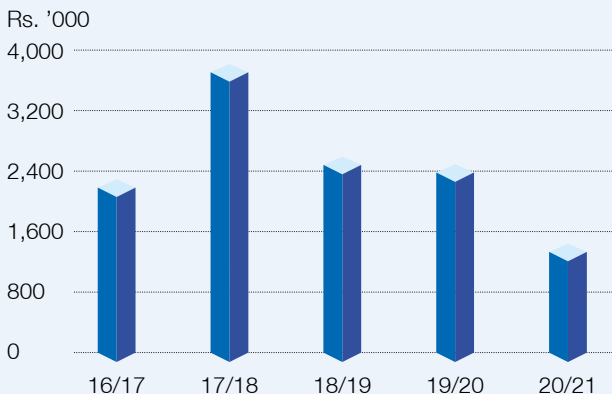
STAFF Employment Creation



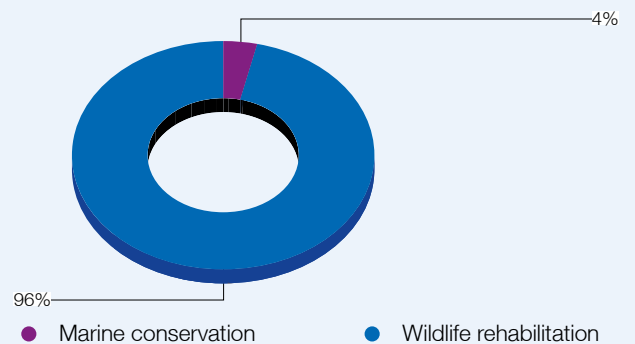
ECONOMY Credit Support to Various Sectors



SOCIETY Community Investment



ENVIRONMENT Environmental Volunteerism



Milestones for the Year under Review

**May
2020**

Introduced the Sky Save software module, improving effectiveness and efficiency of the deposits and savings operation.

**June
2020**

Launched a mobile recovery application for updating real time customer repayments, mitigating potential risk of malpractices, whilst making collection process more efficient.

**August
2020**



With a joint partnership with Mobitel, introduced the Mcash repayment platform for our customers, broad basing repayment options and enhancing customer convenience.

**January
2021**



Expanded MI's product mix by introducing "Gold Loan" services at Kotahena Branch, facilitating the emerging and urgent financing needs of our clients.

Milestones for the Year under Review

January
2021



Launched the Internet Payment Gateway (IPG) platform, broad basing digital payment options for MI customers, to transact conveniently from home.

March
2021



Was able to deploy a state-of-the-art fully-fledged call centre operations at Kohuwala, to facilitate a more effective recovery medium and a sound customer relationship management process.

Chairman's Message



“I’m proud to announce our stability and resilience with the growth in post-tax profitability by 65% and a 15.9% growth in shareholder funds, demonstrating our ability to adapt fast in response to the global pandemic and its spill-over effects.”

Chairman's Message

Dear Stakeholders,

Even though positive sentiments drove the sluggish local economy after the Presidential Election, it was evident that this year under review was one of the most challenging periods, not only for Non-Banking Financial Institutions (NBFI) but also for the local and global economy, hit by the unprecedented COVID-19 pandemic entering our shores from March 2020 even as Sri Lanka grappled with the aftermath of the 2019 Easter Sunday attacks. Nonetheless, the staunch focus and resilience of our Board and Corporate Management drove the Company through tough business conditions to eventually conclude the year on a high note.

I am proud to take over from Mr. Sanjaya Bandara, who retired after completing nine years as Chairman, extending a yeoman service. His constant guidance and direction helped the Company through the challenging years to sustain a commendable financial position with steady upward movement in pre- and post-tax profits.

I'm proud to announce our stability and resilience with the growth in post-tax profitability by 65% and a 15.9% growth in shareholder funds, demonstrating our ability to adapt fast in response to the global pandemic and its adverse effects of the global pandemic.

During the pandemic, we extended our unmatched service without any interruptions even during the lockdown period, well adhering to all the health and precautionary guidelines, whilst expanding our reach by bringing business to customers doorsteps through online solutions, to assist them to feel confident during a time of uncertainty. Thus, without merely focusing on our profitability targets, we as a team stood shoulder-to-shoulder with our valued customers and stakeholders to support them during these unprecedented times.

Despite the adverse challenges faced during this pandemic, we continuously focused on developing core competencies, skills and attitudes of our employees to improve staff productivity amidst a challenging operating environment, whilst safeguarding their job security.

VOLATILE GLOBAL AND LOCAL OPERATING ENVIRONMENT

Isolated negative policy measures taken by the Governments of the USA, UK and India being Sri Lanka's top export destinations, had painful consequences on the Sri Lankan economy. On the other hand, China's economic slowdown severely affected Foreign Direct Investments (FDI) as well as local businesses as China remains one of the major raw material providers for Sri Lankan business entities.

Moreover, the COVID-impacted economic crisis affected the country's tourism sector, which is a major component of the Service sector contributing more than 58% of the GDP. The industry was severely impacted with the closing of Sri Lankan airports to foreign passenger arrivals from mid-March 2020, combined with global travel restrictions. This in turn relentlessly affected the performance of the corporate sector and caused a decline in household income. As such, the economy could not reap the benefits of the massive tax reliefs and positive policy stimuli provided towards the end of 2019, recording a 3.6% drop in GDP in 2020.

The effects of the second wave of the pandemic started in October 2020, along with the latest nation rating downgrade by Fitch Ratings, added further pressure on the exchange rate, causing the depreciation of the Sri Lankan Rupee against the US Dollar, which rose to 2.6% by December 2020. The sluggish economic conditions adversely affected the repayment capacity of corporates and individuals and had a negative impact on the asset quality of the industry.

The Central Bank, having maintained an eased monetary policy with low interest rates, brought down industry-offered deposit interest rates and thereby lowered the expansion of deposit mobilisation. This, however, benefited the sector in terms of borrowings as cost of funds fell to one-digit levels as the year unfolded.

However as of December 2020, the asset base of the NBFI sector contracted by 2.2% to Rs.1,401.6 billion, with the reduction of the loan book by 5.7%. Despite the debt moratoriums freezing the age classification, which prevented loans from being classified as Non-Performing Loans (NPL) for companies and individuals impacted by COVID-19, the sector's NPL ratio nevertheless increased from 10.6% to 13.9% by December 2020, fuelled by the below-par performance of the primary business sectors, including tourism, agriculture, and construction.

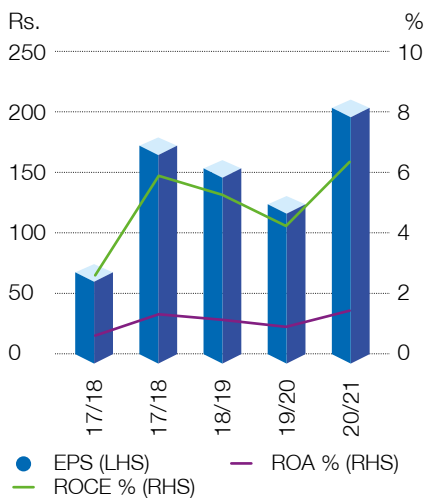
The immediate challenge that our sector faced was maintaining its short- and medium-term liquidity, which were negatively impacted by the constant lockdowns and collection challenges. As the year unfolded, with the contracted revenue from the first half of the year, COVID- driven sluggish economy pegged back industry profits by 6.1% by December 2020, which was further aggravated with the second wave's hit on business.

FINANCIAL RESULTS

With the gamut of challenges and unfavourable economic conditions, which hampered our business activities, revenue, and asset growth, we managed to conclude the financial year with a commendable pre- and post-tax profit of Rs. 827.5 million and Rs. 614.1 million, which reflected a noteworthy 19.6% and 65.2% year-on-year growth respectively. This performance was further amplified by the solid liquidity position we maintained throughout and a higher provision cover than most peers, reflecting our attention to basics and resilience. With this impressive profitability level, we were able to uphold our stakeholder trust and confidence by recording satisfactory growth in Return on Assets which increased from 0.88% to 1.45 % while ROCE rose from 4.23% to 6.39% despite remaining below planned thresholds. The increased profitability levels also boosted Earnings Per Share by 65% to Rs. 204, reaffirming our strong earning potential, even in unprecedented times.

Chairman's Message

ROCE, EPS & ROA



Although lending volumes steadily picked up in the second half of the year, our gross loan book contracted by 8.7% compared to the previous year from Rs. 35.44 billion to Rs. 32.34 billion amidst the COVID-19 first and second wave disruptions to businesses. This negative loan book growth coupled with reduced interest yields, and moratorium reliefs granted resulted in our core lending interest income dropping by 16.8% while Net Interest Income (NII) contracted by 15.9% against the previous year. This led to a 14.6% decline in total gross revenue despite the 65% growth in Non-Fund Based Income.

I am pleased to place on record, that we were able to generate Rs. 6,274 million as interest income and enjoyed improved core business margins due to the repricing of shorter tenor deposits and keeping borrowings to single digit, while keeping an effective equilibrium of long-term funding to match our longer tenor loan book, reducing the one-year Assets and Liability maturity gap by over Rs. 3 billion Year-on-Year.

We also recorded a 186.3% growth in other operating income, mainly due to fair value and trading gains recorded from share investments, reaping the benefits of the increase in stock market indices.

Nevertheless, insurance commission income derived from insurance referrals dropped by 10.3% in comparison to the previous year, as the insurance arm too was hit by the sluggish market environment, resulting from the industry-wide negative credit growth.

Although the loan book asset quality remained adversely affected by the deterioration in borrower repayment capacity that hampered collections amidst COVID-19 economic disruptions, we controlled the increase in 180-day NPLs, which stood at 14.13% in 2021 as against 11.69% recorded in the previous year while successfully managing to reduce the 90-day NPL from 17.5% to 16.29% by the balance sheet date. This was attributable to the effective and prompt actions, close monitoring, and tactical and customised recovery approaches adopted, including setting up of a fully-fledged call center, further aided by bold technological initiations explored to expand digital payment platforms to ease collections. While these efforts improved collections, the moratorium relief extended afforded breathing space for borrowers to recover from the impacts to their businesses and livelihoods. The freezing of the aging of arrears clients contributed in bringing down the impairment charge along with the staunch recovery efforts in collecting the non- moratorium client collections, which kept impairment of loans minimal at Rs. 42.13 million indicating a significant 91.3% reduction year-on-year.

To manage during this unprecedented period, special emphasis was placed on keeping overhead costs minimal, deploying cost optimisation strategies and curtailing of non-essential expenses and benefits, which led to operating expenses contracting by 3% year-on-year. The removal of Nation Building Tax (NBT) and Debt Repayment Levy (DRL) with effect from December 2019 and January 2020 respectively and the 4% reduction in corporate tax rate to 24% brought down tax expenses by almost 35.7% year-on-year, contributing to the bolstering of post-tax profits, in comparison to previous year.

Furthermore, as an A grade LFC, our efforts in securing sound post-tax profits helped further solidify our strong capital adequacy position with the industry, with a core capital ratio of 15.31% and total risk weighted capital adequacy ratio of 17.07% well above the regulatory 6.5% and 10.5% minimum limit.

UNLEASHING OUR GROWTH POTENTIAL

Having identified the importance of creating a performance-driven culture, we continued to enhance our core competencies, building knowledge, attitudes, and skills of our employees to gain a competitive edge in the market, while enhancing productivity and efficiency levels, amidst a challenging operating environment. We embedded our vision, mission and purpose in our employee mindset and introduced a value-driven performance management culture, which enabled us to enhance employee motivation and satisfaction while attracting and retaining the best employees.

In spite of the economic downturn, where downsizing was prevalent across industries as a response to surviving COVID-19 challenges, we in contrast adopted an opposing view, strengthening our workforce to drive our strategic goals by recruiting 242 employees, and observing a net 1% increase in workforce, while assuring their health, job security and benefits. We focused on creating a unique and inclusive employee culture that encouraged employees to bring their best and enabled us to drive our goals and objectives towards our visionary aspirations. During the year, we refreshed our Technology Strategy to accelerate our efforts in our digitisation journey to improve customer convenience and power new experiences for our customers, while enhancing our productivity. Accordingly, we expanded our payment platforms by introducing innovative payment methods such as mobile repayments and an internet payment gateway solution, safeguarding customer health and safety and affording convenience.

Chairman's Message

Furthermore, the customer surveys we conducted in the face of the current challenging environment enabled us to identify customers' financial distresses and expectations and then uncover business opportunities to provide them with better financial solutions to extend our unparalleled service, even in difficult times.

With these aspirations in mind, we launched our first gold loan operations in Kotahena, which kicked off in 2021, with a new wave of hope and encouragement.

TOWARDS A SUSTAINABLE AND INCLUSIVE TOMORROW

While we have embedded strategic corporate sustainability into our business model, we remained committed towards creating a more sustainable and inclusive tomorrow for the communities we engage in and the society as a whole, offering shared growth opportunities wherever possible. We geared our business strategies with our wider aspiration of supporting in the building of a greater sustainable nation, through greater financial empowerment and social assistance, while serving it as a way of brand building and strategic driver for sustaining business growth.

This year too, through our microfinance arm, we helped customers expand their entrepreneurial skills and instilled their savings habit through our micro savings product, whilst assisting them to maintain and strive to uplift living standards during burdened COVID times. These moratorium reliefs extended to ease borrowers' debt burdens compelled us to stay true to our ideologies of helping people when they are really in need.

Eventhough the pandemic barricaded us from extending our social and environmental supporting initiatives more actively, we continued to sponsor environment protection initiatives and stayed committed to improve the social wellbeing of people especially at the grassroots, while safeguarding the health and safety of our employees and customers.

GOVERNANCE AND REGULATORY ENVIRONMENT

We made certain that MI's activities were always supported by a strong governance structure that complied with applicable regulations. During these unprecedented times, we emphasised on strong risk controls and improving risk management review in order to curtail any negative spill-over effects stemming from the pandemic-hit business environment, especially to manage asset quality, liquidity and people safety, which remained as top priority areas. The Board stayed committed to all key regulatory corporate governance standards and voluntarily continued to adopt the CA Sri Lanka's Corporate Governance recommended best practices.

The Board embraced policy directions and guidelines issued by the regulator, which included a stream of regulations to navigate through the pandemic, which included the debt moratorium for COVID-19 affected businesses and individuals, and took positive actions to fulfil its duties and obligations during these unprecedented times.

FUTURE OUTLOOK

We are optimistic about the prospects posed by the country's anticipated economic growth, and the year 2021 has brought with it a renewed sense of hope as implementation of the COVID-19 vaccination process has brightened the global economic outlook. In addition, we believe the decision of the Government to open Sri Lanka's borders will thrust the local economy onto an upward growth trend. The anticipated local economic growth of 6% in 2021 and 5.2% in 2022 and the continuation of the accommodative monetary policy together with expected lower inflation is bound to generate positive sentiments relating to the country's economic revival. However, the recent volatile movements in the exchange rate and stock market reflected the current fragility and continue to create much uncertainty for the business community.

Nonetheless, the finance company sector will forge ahead with increasing demand for financing compared to 2020 and will undergo further transformations through the sector consolidation plan that is driven by the regulator, to further strengthen the sector. The prevailing low interest regime will pose challenges in mobilising deposits, but a more resilient and financially-stable sector platform will ensure a greater influx of business especially for the top-tier "A" grade LFCs in the years to come.

Despite this uncertain environment, we remain hopeful of growing business, riding on the positive profitably growth trajectory that we have managed to maintain, even in trying times. As the pandemic gradually recedes, there would be a greater ease of doing business, including vehicle imports being allowed, on which we will forge ahead in accelerating our development plans, which include branch expansion and a regional consolidation strategy. To achieve the said targets, we will continue to strengthen our technology initiatives, which include widening of digital platforms and security measures. Further emphasis will be placed on broad basing the product mix, service standards and operational processors towards affording our customers greater choice and experience.

Chairman's Message

ACKNOWLEDGEMENTS

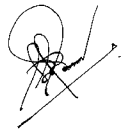
As the acting Chairman, I take this opportunity to express my heartfelt gratitude and thanks to those who have made significant contributions towards this year's commendable results, toward long-term value development.

I would like to thank former Chairman, Mr. Sanjaya Bandara, for his invaluable contribution towards MI's success and wish him well for his future. Further, I express my gratitude and wishes to the retired Deputy Managing Director, Mr. Mahes Amarasekara, who left his imprint on MI, for his immense contribution to MI's successful journey. On behalf of the Board, I would also like to welcome our new Non-Executive Directors, Mr. Anil Dias, Mrs. Deepthie Wickramasuriya and Mr. Kanchana Pieris, who joined the board in 2021.

I express my gratitude to my Board colleagues for their contributions, unwavering support and dedicated efforts in steering MI through a tough year. I also take this opportunity to thank Mr. Gerard Ondaatjie, the Managing Director, for his strategic and tactical leadership, and at the same time all members of the Corporate Management and their teams for their relentless commitment, dedication and understanding amidst an array of challenges and hardships, to eventually accomplish the goals & targets we set forth.

I would also like to take this opportunity to thank the Governor of the Central Bank and his able staff for the support and cooperation extended to us during this financial year. I extend my gratitude further to our valued customers who had faith in us although the times were rough. A special mention of gratitude to all our agents and other business partners who worked closely with the organisation.

Finally, I'd like to express my gratitude to all of our investors for their unwavering faith in the Board of Directors. As the acting Chairman, let me also reaffirm to all MI stakeholders that your Board will stay resilient and committed in executing its plans, to bring greater value to you, however tough the headwinds may be wishing all our stakeholders protection and prosperity.




Dinuka Perera
Acting Chairman

31st May 2021

Managing Director's Review

 (GRI 102-14)



“Though faced with unprecedented challenges and tough business conditions, MI was able to successfully steer through these times of turmoil by implementing effective corporate strategy, guided by our purpose and values through a dedicated team that was unwavering. I am incredibly proud of how we responded to enrich the lives of our customers, communities and colleagues, demonstrating our ability to adapt with speed in the face of the global pandemic.”

Managing Director's Review

As the first wave of COVID-19 infections surged in late March 2020, we embarked on the financial year under review with bold uncertainty saddled by the island-wide lockdown imposed by the Government to combat the first wave of the pandemic. Its implications on economies extended far beyond the health-related concerns, testing the resilience of the global and local economy. As nations struggled to contain rising infections, the inevitable economic fallout of extended lockdowns and border closures were devastating.

The global economy encountered one of its deepest recessions due to the pandemic, with global output contracting by 3.3% and millions facing unemployment following business disruptions and closures. These negative developments unfolding globally cascaded to the domestic economy, bringing in unprecedented socio-economic problems.

Despite these global uncertainties and adverse impacts with persistent economic headwinds, Mercantile Investment and Finance PLC manifested strong resilience, recording robust profits and strong investor wealth accretion though witnessing negative impacts to core business volumes, asset growth and asset quality.

By staying receptive to our customer needs in times of crisis, and forging further ahead with right strategy and adaptability, we were able to go beyond commercial boundaries to fulfil our obligations to our key stakeholders, industry and society, similar to pre-COVID times.

ECONOMIC CHALLENGES AND OPPORTUNITIES

Despite the positive sentiments created with the appointment of the new President and the introduction of numerous monetary and fiscal stimuli aimed at reviving the economy, the COVID-19 pandemic exerted pressure on the Sri Lankan economy, contracting GDP growth to a negative 3.6% for 2020 calendar year. The downgrading of the country rating by Fitch Ratings in November 2020 together with the impact of the second wave of the COVID-19

pandemic that emerged in the latter half of FY 2020/21, exerted pressure with the Sri Lankan Rupee depreciating against the US Dollar by a notable 5.5% year-on-year.

Global travel restrictions, disruptions to international trade and the continued global economic meltdown took its toll on the Sri Lankan economy, with lowered tourism earnings, export earnings and migrant worker remittances, while recording cash outflows from financial markets. Moreover, the measures taken to curtail the spread of the COVID-19 virus, with continued lockdown across the country for over two months, mobility restrictions and social distancing protocols adversely affected production and productivity. This in turn relentlessly affected the performance of the corporate sector and spending power of people due to pay cuts and job losses.

However, with the proactive and timely measures of the Government to revive the economy, it was noteworthy to observe financial system stability being maintained with greater precision. Thus, the accommodative monetary policy, aimed at stimulating the economy through multiple reductions in Policy Rates and the Statutory Reserves Ratio, led to sustained reductions in market interest rates and facilitated credit growth. Similarly, macro prudential measures introduced in response to the crisis, which included the lowering of the liquidity reserve ratios of LFCs, deferment of minimum capital regulations and even liquidity support to the distressed, helped financial institutions steer through the turbulent period.

The Government also provided policy stimulus to the export and local manufacturing sectors, with the aim of bolstering foreign exchange income whilst preserving FOREX outflows with import restrictions imposed on nonessential items. These measures augured well in reviving the economy and sustaining the wellbeing of the communities.

Reflecting the positive sentiments of the accommodative monetary policy and other fiscal stimulus, the Colombo Stock Exchange (CSE) became one of the fast-growing capital markets,

showing quick recovery from the impact of the COVID-19 pandemic in the Asian region with improved market indices and high turnover for the year, though dipping somewhat in the face of negative international sentiments and foreign investor participation.

NBFI SECTOR'S RESILIENCE

Caught amidst the pandemic-induced economic slowdown, the LFC sector like most industries experienced an exceptionally tough year, marked by sluggish credit demand, elevated credit risk and declining earnings. The COVID-19 outbreak further exacerbated the asset quality of the sector, which was slowly recovering from the previous financial year's challenges in the aftermath of the Easter Sunday attacks. Although the sector was allowed to freeze the age classification on loans granted to debt moratorium clients, the nonperforming loan percentages of the sector continued to rise as a result of the drop in repayment capacity of borrowers amidst deteriorating economic activities, contracting loan books and spill over effects of the debt moratorium relief programs extended.

Furthermore, import restrictions imposed on motor vehicles had immediate repercussions, with the sector recording negative credit growth in spite of the decline in interest rates. However, eased monetary policy measures introduced by the Central Bank with a view to providing adequate liquidity to the market and the introduction of regulatory forbearances during the pandemic, particularly the reduction of minimum liquid assets requirements, supported the LFC sector as a whole in maintaining stable liquidity levels during the period under review.

MI'S RESILIENCE AMIDST UNPRECEDENTED CHALLENGES

Though faced with unprecedented challenges and tough business conditions, MI was able to successfully steer through these times of turmoil by implementing effective corporate strategy, guided by our purpose and values through a dedicated team that was unwavering. I am incredibly proud of how we responded to enrich the lives of our customers, communities and

Managing Director's Review

colleagues, demonstrating our ability to adapt with speed in the face of the global pandemic.

We forged ahead in our journey of transformation and value creation despite the numerous challenges that prevailed in this extraordinary year. Thus, with the surge of COVID-19 infections and lockdowns that ensued, we moved swiftly into action, implementing a range of measures to operate without disruptions, facilitating work from home arrangements, splitting teams and setting up protocols for working at alternate sites, while providing Personal Protective Equipment to ensure the safety of all our staff; and outfitting our branches with partitions and sanitisers and instituting other best practices for social distancing and hygiene to safeguard our customers.

While pursuing all these precautionary measures to combat COVID-19 challenges, we devised our strategic efforts in building a solid foundation for future growth, nurturing a high performance-driven culture, while embracing technology to take MI to new frontiers and creating a more financially-inclusive environment. The demand for digital transacting during the pandemic acted as a catalyst in keeping business momentum, spurring our digital transformation to new heights. Thus we expedited our digital journey, re-imagining the customer experience and driving engagement across our digital platforms to better meet our customers' needs and expectations, especially affording accessibility and agility while enhancing customer convenience and satisfaction.

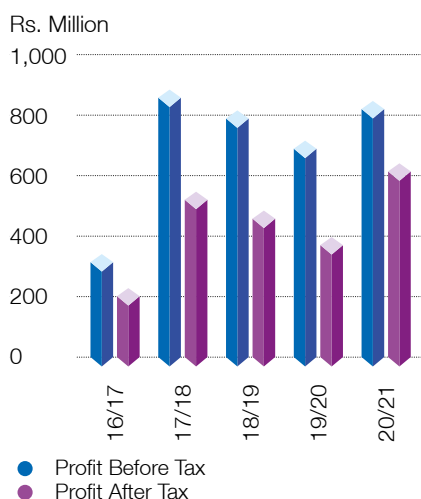
During the year, we introduced an Internet Payment Gateway (IPG) to facilitate online payments and launched a mobile cash and mobile payment applications, augmenting our digital capability, thus affording our customers safe and secure transacting in this pandemic time. We also extended our services by offering relief and support to those in urgent need of financial assistance whilst upholding customer trust by making interest payments for our depositors even before the due date. While extending moratorium relief to eligible customers which exceeded 20% of the loan book exposure,

we offered flexible payment options going beyond regulatory reliefs. Furthermore, we consolidated our efforts under the umbrella of 'Sihina Panaganwamu' to find ways to assist our customers to resolve their financial issues and revive their businesses in this challenging operating environment.

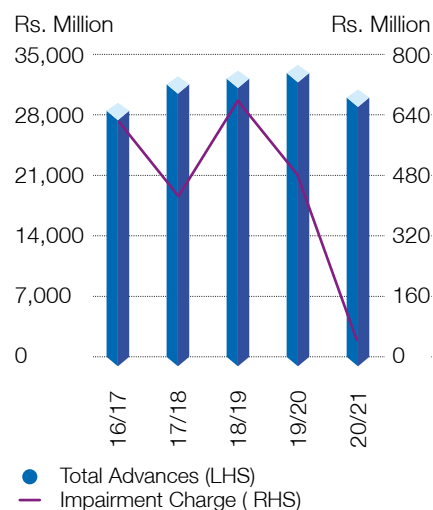
FINANCIAL RESULTS IN BRIEF

In spite of these taxing and unfavourable conditions, which hindered operations, income and asset growth, we maneuvered our way through right strategy to record a commendable pre and post-tax profit of Rs. 827 million and Rs. 614 million, reflecting a 19.6% and 65.2% year-on-year growth respectively whilst maintaining a solid liquidity position and higher provision cover compared to most peers, demonstrating our strong resilience. However, amidst island-wide lockdowns, subsequent isolations and the resultant deceleration in economic activities and demand for credit, our loan book growth contracted by 8.7% year-on-year, compared to the recorded 3.6% marginal growth of last financial year. Accordingly our total assets also declined marginally by 3.3%, reflecting a similar trend as the industry average.

Earnings Performance



Total Advances and Impairment Charge



Accordingly, this negative loan book, coupled with reduced interest yields and high moratorium reliefs granted, resulted in our core lending interest income dropping by 16.8% while Net Interest Income (NII) contracted by 15.9% against the previous year (1.6% in FY 2019/20), though core interest margins remained somewhat intact on account of the rapid fall in cost of funding. The decline in interest income resulted in a 14.6% drop in total gross revenue despite the 65.4% growth in Non-Fund Based Income.

Deterioration in borrower repayment capacity and hampered collections due to COVID-19 lockdowns directly affected asset quality, with Non-Performing Loan (NPL) levels (past due 180 days) rising to 14.13% at the end of the year, up 2.44% year-on-year. Nonetheless, a substantial portion of this NPL was made up of a few large customers that were entirely collateralised with prime collateral and appropriate prudential provisions made in recent years. Close monitoring and tactical and customised recovery approaches including setting up of a fully-fledged call centre and expanding of digital payment platforms, enabled us to improve collection and bring down NPLs during the latter part of the year. Accordingly, total impairment charges significantly declined year on year by 91.3% to Rs. 42.1 million, by the recovery efforts in managing the 90 days' arrears borrower segment and by the freezing of age of arrears for moratorium granted borrowers. Thus, I'm pleased to observe the 90 day NPL percentage dropping from 17.5% to 16.29% by the balance sheet date.

Managing Director's Review

We also managed to control our total overhead cost which was reduced by 3%, compared to the 8.2% escalation recorded last year, as we expanded our cost optimisation programme through business process reengineering initiatives, to eliminate waste and move towards automation and online solutions. Measures also were taken to control unwanted costs to withstand resultant impacts to the bottom line from drop in revenue during tight lockdown phases. Furthermore, the removal of the Nation Building Tax (NBT) and Debt Repayment Levy (DRL) with effect from December 2019 and January 2020 respectively and 4% reduction in corporate tax rate to 24% brought down total tax expenses by almost 35.7% year-on-year, improving the post-tax profits further, in comparison to previous year.

SYNOPSIS OF CORE BUSINESS PERFORMANCE LENDING

Though our lending gradually picked during the latter part of the year, surpassing volumes much higher than pre-COVID times, total loan book (gross) remained contracted by 8.7% year-on-year to Rs. 32.3 billion, mainly attributable to the decline in vehicle loans to Rs. 10.5 billion, which recorded a 23% drop against the last year, despite the lease portfolio recording a marginal increase of 3.6% in this financial year to Rs. 15,093 million. The hire purchase portfolio continued to rapidly decline in this year as well to Rs. 907 million by 52.6% as other financing options remained more attractive for borrowers.

In the backdrop of the prevailing local economic challenges, our Net Interest Margin (NIM) contracted by 1.55% to 8.16% against the previous year. Despite this challenging environment, we continued to deploy strategy to sustain lending volumes and took steps to expand our product mix by introducing 'Gold Loans' in 2021 to meet urgent financing needs of our customers.

DEPOSIT MOBILISATION

Mobilisation of deposits became a challenging proposition in the backdrop of volatile investor sentiments during lockdown times and due to emerging stock market and property purchase options. Whilst the industry average reflected a negative deposit growth for 2020, we too observed a slowdown in deposit mobilisation with the deposit base growing marginally by 1%, compared to a 7.7% pickup in deposits during the year. As a trusted financial partner, we extended our unparalleled service to our deposit customers through our deposit marketing and operational teams even during the lockdown period, building strong relationships with our customers to serve them beyond their expectations.

TREASURY MANAGEMENT

We continued to prioritise effective fund management, 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 the recovery delays and moratorium measures introduced during the year, our Treasury Division was able to sustain a solid liquidity level balancing the short-term and long-term funding needs of the Company, while optimising funding cost. We were able to bridge less than one year assets and liabilities mismatches with longer tenor borrowings. With the collaboration of our funding partners, we secured Rs. 3,465 billion of long-term borrowings, while bring down the average cost of borrowing, noteworthy by 3.5% year-on-year.

Furthermore, we were able to reap the benefits from the revival of the equity market and accordingly, recorded Rs. 36.3 million as share trading capital gains and Rs. 8.7 million as unrealised fair value gain for the year, from the investments accounted under Fair Value through Profit and Loss (FVPL). Moreover, with the increase in market prices and the investments made during the year, the value of equity investments recorded under Other Comprehensive Income increased by 76%, which bolstered the OCI reserve significantly from a negative Rs. 327 million to a positive Rs. 78 million.

INSURANCE REFERRALS

By extending our 'one store service' concept, we facilitated our credit clienteles' insurance requests under one roof, through our insurance brokering arm housed in the same premises in Kollupitiya. However, our ability to generate insurance fee-based income too was impacted by the weak economic environment, which caused the loan book to contract. Thus, we recorded Rs. 74.4 million in insurance commissions, which reflected a YOY decline of 10.3%. Yet we were not deterred by the market challenges, delivering a comprehensive value-added solution for our vehicle-based borrowers, focusing on customer convenience, personal attention and promptness, creating synergies for all parties.

OUR WINNING TEAM

It was a year which truly tested the mettle of our team and I am extremely proud of the passion, commitment and agility they demonstrated during the year. Despite the COVID-19 challenges, we continued to work tirelessly to build a conducive workplace, an environment in which we all can thrive. We focused on creating a unique and inclusive employee culture that encourages employees to bring their best and enables us to drive our goals and objectives towards our vision. We embedded our vision, mission and purpose in our employee mindset and introduced a value-driven performance management system in achieving our goals and objectives.

GOVERNANCE HIGHLIGHTS

We ensured that MI's operations are underpinned by a solid governance framework at all times that complies strictly with governing regulations. We focused on strengthening risk management mechanisms to minimise adverse impacts of economic and political volatilities. Responding to the formidable challenge of controlling the rise of non-performing advances, the Board engaged extensively with the management to formulate and implement strategies to strengthen recovery measures and lending practices. I am pleased to observe the guidance given by the Board to the corporate management during this

Managing Director's Review

challenging phase to remain resilient and sound in all endeavours. We adopted a prudent approach and took proactive measures to secure the interest of all stakeholders towards sustainable growth and development.

FUTURE OUTLOOK

Already the gradual introduction of the vaccine to counter the pandemic in Sri Lanka, global headway made by developed nations to fast-track revival of economies and renewed optimism and hope of speedy revival by the second half of 2021 is bound to create optimism and greater opportunities for the corporate sector domestically. Though another COVID wave threatens the economy, the prevailing political stability backed by a clear macro-economic policy in bolstering domestic industries and reducing reliance on imports is bound to set the tone for Sri Lanka's economic revival in the medium term.

In the backdrop of projected global economic growth of 6% in 2021 and 4.4% in 2022, we can expect the Sri Lankan economy to rebound in 2021, supported by the continuing fiscal and monetary policy stimulus measures introduced by the Government and the opening of borders for tourist arrivals. Furthermore, it is expected that inflation will be kept lower and extended tax reliefs will continue to create a favourable economic platform, for the ease of doing business, contributing towards positive growth momentum.

Although the easing of restrictions on vehicle importation is still under discussion, MI is optimistic regarding the country's growth trajectory and hopeful of future credit growth backed by the increase in Loan to Value Ratio (LTV) and sustained low interest rates. Although lowered interest rates will keep costs of borrowings minimal, the growing competition will pose a challenge in terms of retaining depositors, acquiring new depositors and maintaining long-term deposits. However, we are confident that our agile and responsive business model along with our aligned strategic focus will enable us to rapidly adapt to the new normal and embrace the changing financial landscape, impacted by technology and fresh parameters.

Furthermore, as an 'A Grade' finance company, we will leverage on our solid foundation, our longstanding reputation and our core competencies as one of the nation's leading finance companies to offer holistic, seamless and innovative solutions across our business verticals, gaining competitive edge in the market place while augmenting our stakeholder value proposition. Having embarked on our digital journey, we wish to accelerate our digitisation infrastructure to offer greater online solutions, while embracing digital platforms to enhance operational efficiency, productivity and customer convenience. Furthermore, as the finance sector will be compelled to adjust to the low-interest rate regime, we will seek to drive increased operational efficiencies to build a leaner and more responsive organisation while optimising our resources.

Moreover, we will continue to differentiate our service by uplifting the skills, knowledge and attitude of our employees, which will enable us to stay competitive with the right agility to remain in the forefront of the industry. While reiterating our desire to enhance the value we create for our stakeholders, we believe our core strategies will deliver sustainable returns and value in line with our visionary aspirations, enriching our stakeholder expectations.

WORDS OF APPRECIATION

In a year marked by a global health crisis and fraught with many challenges, MI steered commendably and I would like to pause a moment to recognise all our employees who contributed from all fronts working tirelessly towards achieving our desired goals and targets in spite of the unprecedented challenges faced.

Let me express my heartfelt gratitude to the outgoing Chairman, Mr. Sanjaya Bandara, who extended sound stewardship and guidance over the past nine years, a period during which MI underwent radical expansion, going from strength to strength. While extending my profound thanks to him, I would also like to express my sincere gratitude to the retired Deputy Managing Director Mr. Mahes Amarasekara, who was a strong pillar in our successful business

journey. His unwavering commitment and dedication with an over 40 year service, propelled us to stay competitive in the market.

I also take the opportunity to welcome our new Chairman, Mr. Dinuka Perera, who joined our Board in February 2020 as a Non-Executive Director. Furthermore, I would also like to welcome the new Non-Executive Directors, Mr. Anil Dias, Mrs. Deepthie Wickramasuriya and Mr. Kanchana Pieris, while extending my gratitude to the outgoing Non-Executive Directors, Mr. Hasantha Perera and Ms. Punyakanthi Navaratna. Their direction, guidance and expertise assisted us to remain resilient and in the forefront within this challenging period.

I also wish 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 would also like to extend my gratitude to our valued customers, agents and business partners, for upholding their trust and loyalty, during these unprecedented times. Your continued loyalty is a source of strength and inspiration for us to strive for excellence and to go beyond boundaries.

I would like to extend my gratitude to all our investors for constantly placing their confidence with MI, especially keeping the faith in myself and the board even when the times were challenging. As the Managing Director, I reassure you that MI is well geared in all aspects to meet our ambitious targets as we pursue new frontiers for growth and to solidify our position as a sustainable corporate leader in Sri Lanka's financial services sector. I reserve my last words of tribute to all our stakeholders and wish to convey our sincere well wishes to everyone as we look forward to your continued support in our future endeavours.



Gerard G. Ondaatjie
Managing Director
31st May 2021

Consistent ideas we trust





02

MANAGEMENT DISCUSSION AND ANALYSIS

Sustainable Value Creation Process – 36-46
Sustainable Business Model Adopted – 36-37

Stakeholder Management – 38-39
Stakeholder Matrix – 38
Stakeholder Engagement – 38
Material Matters – 39

Strategy – 40-46
Strategy Formulation – 40
Internal Environment Review – 41
External Environment Review – 42-43
Strategy Execution – 44-45
Resource Distribution – 46

Capital Management – 47-67
Financial Wealth – 48-57
Alliances – 58-59
Human Strength – 60-61
Intellect – 62-63
Infrastructure – 64-65
Nature – 66-67

GRI Standards Contents Index “In Accordance
Comprehensive” – 68-74

Independent Assurance Report on Sustainability – 75

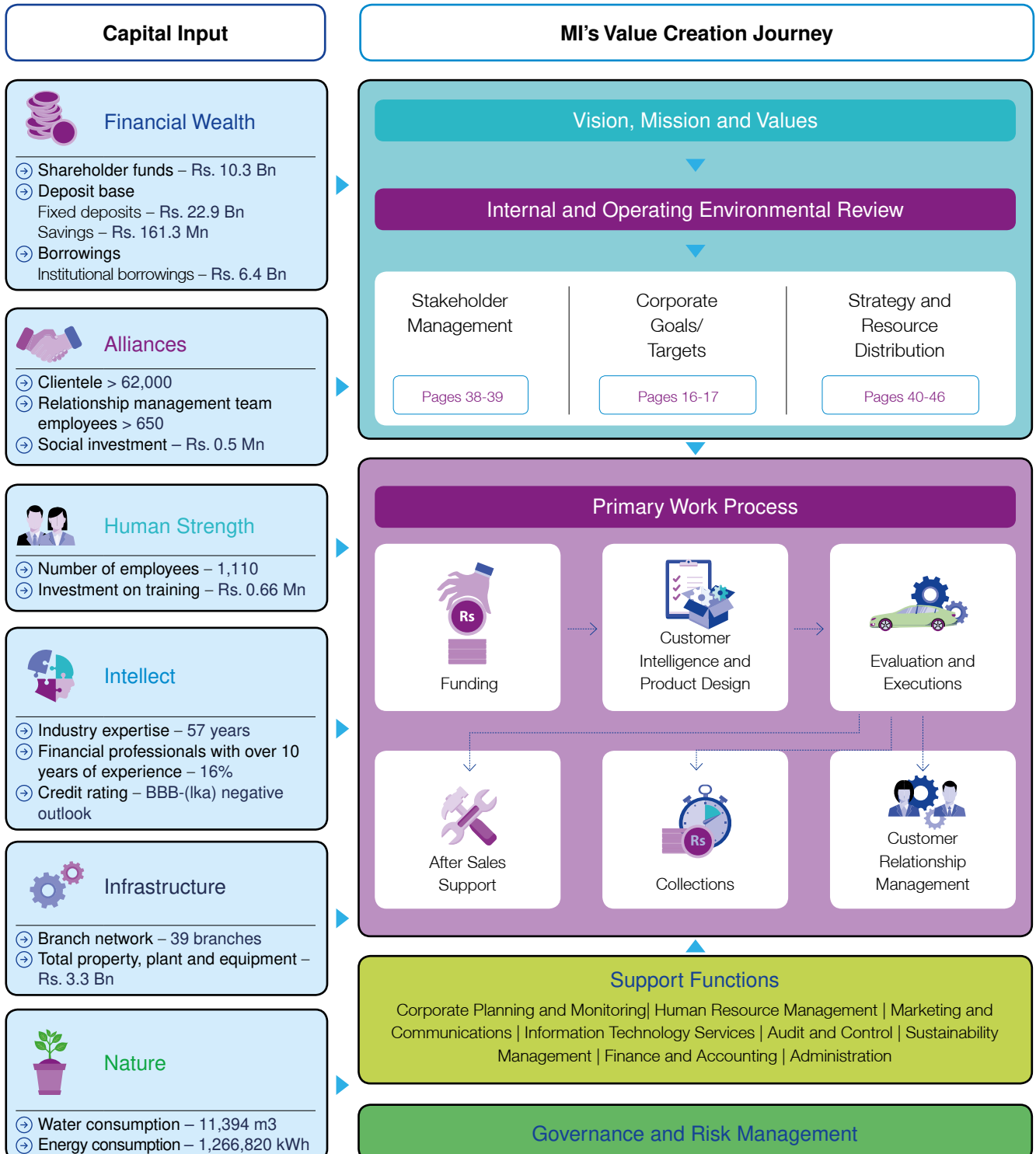
Sustainable Value Creation Process

MI is driven by an underpinning purpose of creating meaningful value that exceeds stakeholder expectations. Our vision, mission and principles coupled with our values support our strategy in creating sustainable value for our stakeholders while contributing to the country's economic, social and environmental wellbeing. The integrated business model we adopt is unique to us and has evolved encompassing mechanisms to achieve the gamut of corporate goals we aspire to and also wider responsibilities towards society, while continuing to be influenced by trends and challenges in our business environment as well as widening stakeholder expectations.

We utilise our resources in the form of capitals which encompass financial wealth, infrastructure and the skilled and diverse workforce we possess, along with our brand strength, ability to innovate, initiate and adapt to change, trusted and longstanding relationships with our clients and society and a favourable natural environment in maximising our output and creating sustainable outcomes.

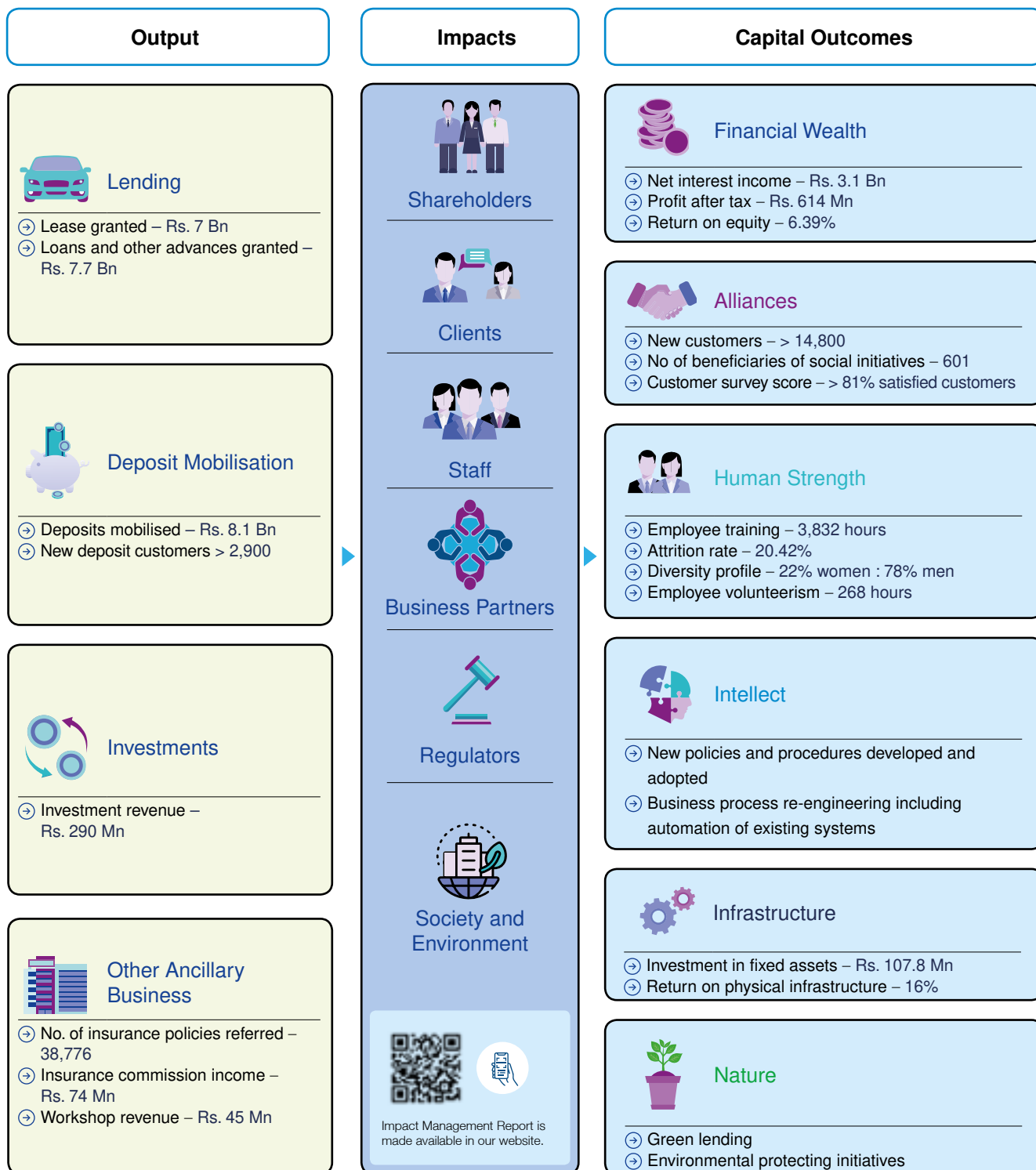
SUSTAINABLE BUSINESS MODEL ADOPTED

(GRI 102-16)



Sustainable Value Creation Process

Our value creation process ensures that we offer superior service to our clients in meeting their financial requirements through a customer-centric business approach while generating consistent returns to our stakeholders. Towards this endeavour, our workforce plays a foremost role in better understanding our clientele, which include our depositors as well as our borrowers and business partners, promoting shared growth propositions to fortify the mutual bonds that we have enjoyed for decades, during this successful value creating journey. Going beyond mere compliance with laws and regulations, we uphold sustainable value creation by minimising our negative impacts and optimising our positive impacts in line with the United Nations Sustainable Development Goals (UNSDG) through our products and services, business operations and social initiatives.



Sustainable Value Creation Process

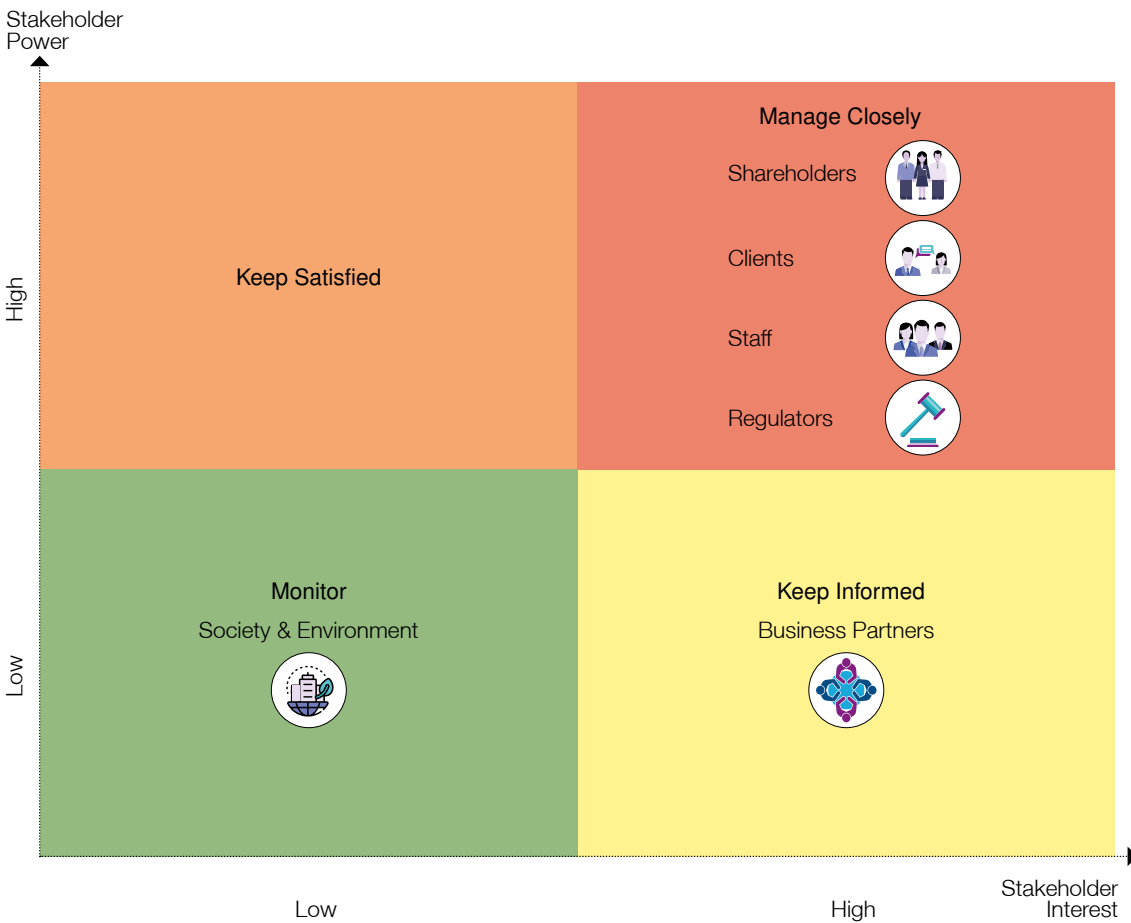
STAKEHOLDER MANAGEMENT

At the core of our value creation journey and at the outset we capture our stakeholders' expectations and concerns and strive to create and sustain value towards those ends. Therefore, stakeholder participation is a vital and ongoing process that shapes our business strategies.

STAKEHOLDER MATRIX

(GRI 102-40, 102-42)

While the stakeholders expand in parallel to the expansion of business operations of MI, our formal process supports categorising of stakeholders into key stakeholder groups based on the impact of power and importance of interest of a stakeholder in shaping strategy. Stakeholder classification consequently enriches the decision-making process and cements the underlying fundamentals revolving around MI's sustainable value creation process in producing enhanced value to stakeholders.



STAKEHOLDER ENGAGEMENT

(GRI 102-43, 102-44)

Stakeholder priorities drive the corporate planning process and eventually our decision making. Thus, stakeholder engagement and addressing their needs are vital ingredients in building a sustainable business platform for both the company and the respective stakeholders. Different styles and methodologies are practiced in engaging with key stakeholders to uphold clarity, transparency and consistency of the involvement. However, with the emergence of the COVID-19 pandemic, most engagement modes were transformed from physical to virtual between many stakeholders of the company while delivering expected value without interruptions.

Sustainable Value Creation Process

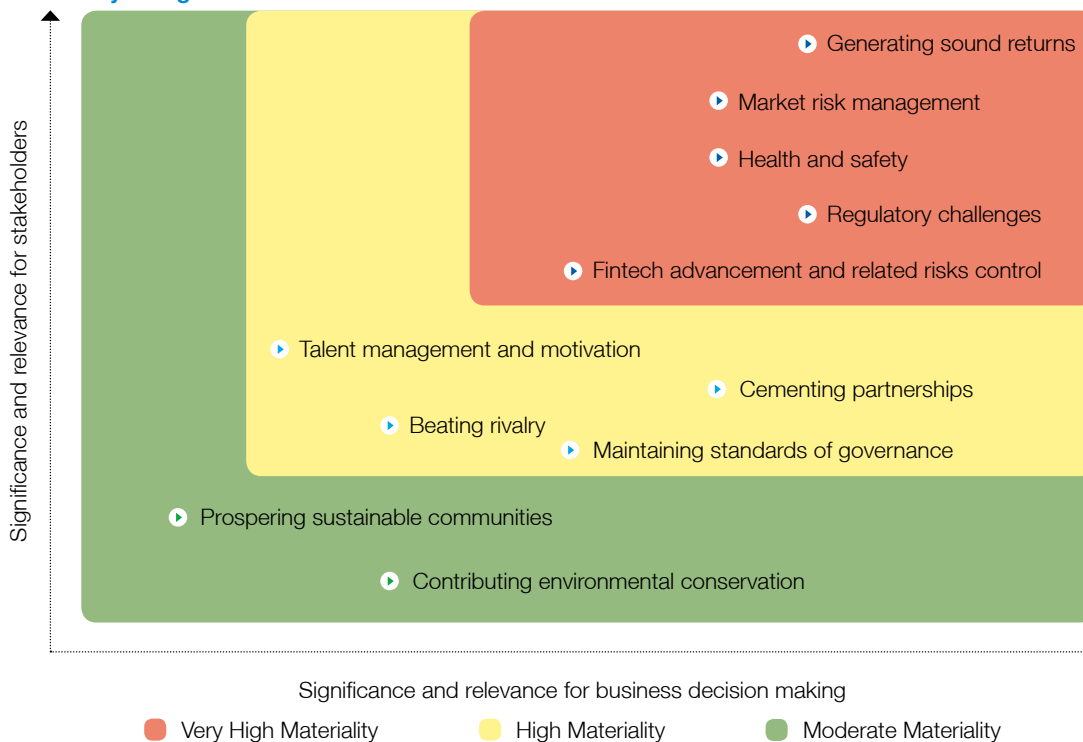
MATERIAL MATTERS



(GRI 102-46, 102-47, 103-1, 103-2, 103-3)

In deciding material matters relevant to our business operations, all stakeholder engagement feedback received is considered in addition to economic, social and environmental hot topics related to the industry. We followed the guidelines of the IIRC (International Integrated Reporting Council) and the GRI (Global Reporting Initiative) standards in identifying, managing and reporting material matters, highlighting our approach to addressing concerns and linked SDGs and GRI topics while emphasising also on matters specific to MI.

As a result of the COVID-19 impact on business and stakeholder expectations, we observed special attention areas emerging and certain matters becoming less important. Emerging risks of cyber-attacks with the increase in e-based transactions and moreover the direct business impact hitting industry revenue and collections on account of constant lockdowns in key cities of the Western Province brought about higher risk levels and hence greater focus on 'red zone' material matters.

Materiality Gauge Matrix



Detailed disclosures about Stakeholder Management are made available in the "Value Creation" web content pages 4 to 12.

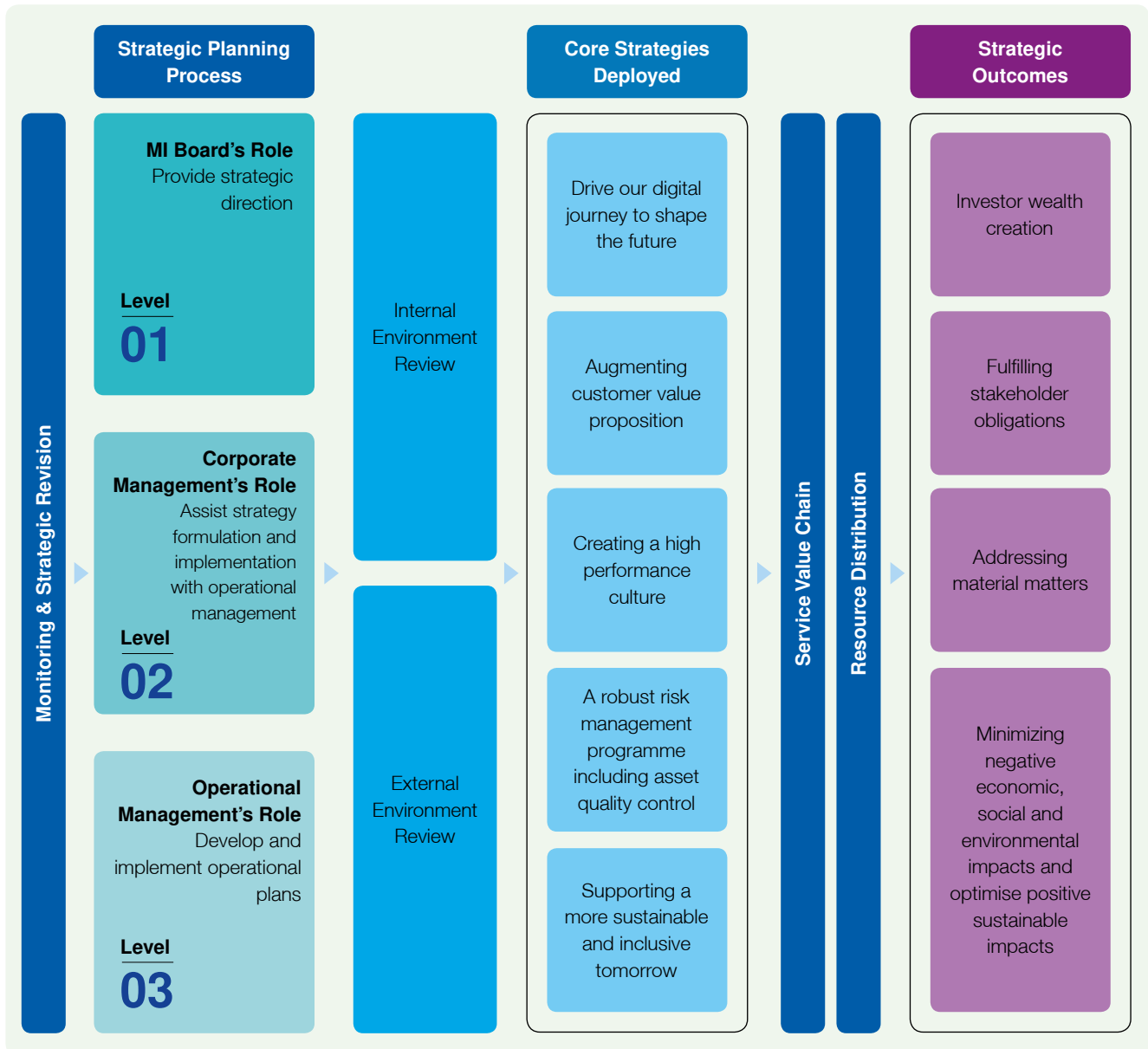
Sustainable Value Creation Process

STRATEGY

MI's business model has remained robust and resilient even during these unprecedented times, encompassing an effective corporate strategy that is well-aligned to its visionary aspirations while creating a sustainable platform for future growth prospects. The strategy we embraced reiterated our efforts in building a solid foundation for future growth and nurturing a high performance-driven culture, while embracing technology to take MI to new frontiers and create a more financially-inclusive environment for those who patronise us.

In pursuing our vision, we were mindful of the governing principles and stakeholder expectations which form the foundation of all our strategic initiatives. We have devised our strategy considering our strengths, weaknesses and operating environmental challenges while focusing on emerging business opportunities. When formulating strategy, we were forced to revisit our business challenges to cope with emerging COVID-based challenges. Accordingly, we addressed material matters (Refer page 39) that stemmed by setting short-, medium- and long-term objectives whilst placing our main focus on shareholder value. In achieving our strategic outcomes, we prioritised our critical activities during this pandemic situation and allocated resources effectively among our service value chain activities to derive optimum results. Thus, despite global uncertainty and the adverse impacts of persistent economic headwinds, our strategy execution demonstrated our ability to adapt with speed in response to the global pandemic, while extending our support to enrich the lives of our stakeholders. Accordingly, in a year marked by a global health crisis, we manifested strong resilience by recording a noteworthy Rs. 614 million post tax profit with a 65% year-on-year growth, thus yet again satisfying investor expectations.

STRATEGY FORMULATION



Sustainable Value Creation Process

INTERNAL ENVIRONMENT REVIEW

Our Strengths

Key Strengths of MI	How We Leveraged Our Strengths
Over five decades of business excellence and a reputation gained as a well capitalised "A" Grade finance company	<ul style="list-style-type: none"> ➔ Enhanced brand image assisted us in widening our customer base and gaining trust and confidence among depositors and other customers. ➔ Accessed low cost funding, capitalising on financial strength and longstanding reputation. ➔ Demonstrated strong resilience despite the adverse impacts of the COVID-19 outbreak, recording strong and steady financial returns.
Over 1,100 skilled employees	<ul style="list-style-type: none"> ➔ Offered a personalised and legendary customer service, going beyond expectations, enhancing customer satisfaction and loyalty. ➔ Through personal visits, extended financial assistance and guidance for customers who were adversely affected by the COVID-19 outbreak, to overcome their issues. ➔ Increased productivity through effective employee engagement and innovative solutions. ➔ Intensified internal infrastructure to accelerate future business expansion. ➔ Heightened governance and risk and review framework.
Recognised as one of the top 100 brands and top 15 companies to work for in Sri Lanka	<ul style="list-style-type: none"> ➔ Attracted and retained experienced and skilled individuals. ➔ Enhanced productivity through increased employee motivation and value proposition. ➔ Establishing good bargaining power in employee negotiations.
Widespread branch network	<ul style="list-style-type: none"> ➔ Expanded the retail customer base through the wider reach and convenience. ➔ Higher branch volumes contributed to sustained competitive position, while retaining market share.
Maintained strong liquidity position	<ul style="list-style-type: none"> ➔ Reinforced customer trust and confidence. ➔ Maintained solid deposit retention levels.
Use of state-of-the-art technologies and advancements to keep pace with the technological boom	<ul style="list-style-type: none"> ➔ Utilised technology in gaining operational excellence and value enhancement. ➔ Increased productivity and customer convenience.


Our Weaknesses


Key Weaknesses of MI	How We Overcame Our Weaknesses
Higher lease financing business contribution to revenue	<ul style="list-style-type: none"> ➔ Diversified product portfolio to maintain yields while controlling credit risks. ➔ Newly-introduced gold loan business operations targeted at entering new markets while broad basing the product mix.
Fixed deposit remained as the primary deposit product	<ul style="list-style-type: none"> ➔ Promoted savings products which included micro savings whilst migrating to a new system solution with the ability to couple ATM services to promote savings products.
Funding mismatches due to the inherent nature of lending and deposit mobilisation	<ul style="list-style-type: none"> ➔ Promoted long-term deposits and encouraged deposit retention. ➔ Eased the external funding composition by maintaining higher long-term borrowings.
Centralised core operations	<ul style="list-style-type: none"> ➔ Enhanced use of digital platforms in decentralising key processes. ➔ Introduced wider payment platform choices to enhance customer convenience.


Sustainable Value Creation Process

EXTERNAL ENVIRONMENT REVIEW





PESTEEL Analysis

 <p>Political</p>	Impact on the LFC Sector	<ul style="list-style-type: none"> ➔ Political stability being established set the tone for a steady operating climate, but was pegged back due to past bottlenecks and COVID crises. ➔ Heightened political pressure impacted macro-economic policy and increased regulations on LFCs. ➔ Tax concessions and various new initiatives towards an efficient and effective operating platform uplifted market sentiments and ease of doing business.
	MI's Approach	<ul style="list-style-type: none"> ➔ Despite the challenging and volatile business context, MI's proactive strategic approach enabled the Company to stay resilient, while adhering to heightened regulatory requirements.

 <p>Economic</p>	Impact on the LFC Sector	<ul style="list-style-type: none"> ➔ Economic slowdown and increased deterioration in borrower repayment capacity resulting from the adverse effect of the COVID-19 outbreak led to industry-wide negative credit growth. ➔ Curtailing imports of vehicles adversely affected the vehicle financing market with the increase in vehicle prices. ➔ Downgrading of the Sovereign rating and its cascading effect on the financial sector. ➔ Decline in worker remittances adversely affected demand for vehicle financing and borrower repayments. ➔ Reduction in market interest rates stimulated modest credit growth from the third quarter onwards. ➔ Upward revision in Loan to Value (LTV) ratio for specific motor vehicle categories assisted in uplifting demand for vehicle financing. ➔ Liquidity reliefs and other concessions offered with the COVID-19 outbreak enabled managing of recovery delays and enhanced market liquidity levels. ➔ Increased competition from the banking sector adversely affected the credit growth of the finance sector.
	MI's Approach	<ul style="list-style-type: none"> ➔ MI continued to pursue a conservative lending approach to minimise credit risk by curtailing riskier products and strengthening the credit evaluation process to mitigate the impact from deterioration in asset quality. ➔ Introduced the 'Peer Review' system as a proactive measure of evaluating changes in credit risk profile while following up other early warning indicators. ➔ Reinforced the recovery process by setting short-, medium- and long-term targets to reduce the 90-day arrears contracts and expediting collections through a fully-fledged Call Centre, Special Recovery Force (SFR) and legal teams. ➔ Introduced 'Gold Loans' as a low risk product to meet urgent finance needs of customers.

 <p>Social</p>	Impact on the LFC Sector	<ul style="list-style-type: none"> ➔ Increased demand for strategic corporate sustainability. ➔ A few LFC failures continued to impact investor confidence and trust. ➔ Threat of COVID-19 pandemic influenced health, job security and living standards. ➔ Increased demand for more transparency and accountability. ➔ Evolving customer demand and increased financial literacy heightened market competition.
	MI's Approach	<ul style="list-style-type: none"> ➔ MI has embedded strategic corporate sustainability into its business model with the aim of creating a more sustainable and inclusive future for its stakeholders. ➔ MI continued to cement trust and confidence among customers and the general public by maintaining a strong capital base, sound liquidity position and steady profitability level while complying with all the regulatory needs even in these challenging conditions. ➔ In the backdrop of the COVID-19 pandemic, MI stayed committed in extending its legendary service to its customers, paying interest in advance during the lockdown period and providing uninterrupted service, adhering to all health precautionary guidelines. Similarly, we safeguarded the job security of our employees without any curtailments while ensuring their wellbeing.

Sustainable Value Creation Process

 <p>Technological</p>	<p>Impact on the LFC Sector</p> <p>MI's Approach</p>	<ul style="list-style-type: none"> → Increased demand for online platforms with the COVID-19 outbreak. → Increased risk of cyber security threats with technological sophistication and increased usage of online platforms due to COVID-19. → Increased emphasis on capitalising on Artificial Intelligence, Robotic Process Automation (RPA) and smart financing as a competitive advantage to enhance customer convenience and efficiency. → Increased expenditure on ICT-based investments to stay competitive in the industry. → Higher dependency on technology increased risk of confidentiality. → Use of Artificial Intelligence (AI) for better decision making. → Automated several core business and operational functions through Digitisation Committee along with a Business Process Reengineering drive. → Arranged remote access support to facilitate the 'working from home' mechanism to successfully face pandemic challenges. → Broad-based the payment platform by introducing Mobile cash and IPG (Internet Payment Gateway) solutions to enhance customer convenience and to stay ahead of the competition. → Expedited the migration process of selected core functions to a new IT system, which supported the expansion of payment platforms, improving process efficiency and overall productivity. → Upgraded IT security systems and reduced the risk of cyber security threats. → Transformed meetings and trainings to a virtual platform, enhancing convenience and productivity.
 <p>Ethical</p>	<p>Impact on the LFC Sector</p> <p>MI's Approach</p>	<ul style="list-style-type: none"> → Increasing demand for ethical corporate practices to build customer trust and confidence. → Additional cost, effort and structural changes needed to comply with evolving governance requirements. → MI's operations are underpinned by a solid governance framework and voluntarily embraced Corporate Governance Guidelines issued by CA Sri Lanka.
 <p>Environmental</p>	<p>Impact on the LFC Sector</p> <p>MI's Approach</p>	<ul style="list-style-type: none"> → Creates new business opportunities through environmentally-friendly initiatives. → Surging need for environment protecting business practices due to climate emergency. → Continuous attention on financial and non-financial disclosures of environmental impacts. → Greener environment practices build customer bond and loyalty. → Continued to reduce GHG emissions to minimise adverse effects of operations on the environment while focusing on becoming a carbon neutral entity in the medium term. → Carried out CSR activities towards environmental conservation, including beach cleaning.
 <p>Legal</p>	<p>Impact on the LFC Sector</p> <p>MI's Approach</p>	<ul style="list-style-type: none"> → Regulatory concessions given to companies with respect to minimum capital, liquidity and other compliance requirements with the COVID-19 outbreak. → Tax concessions given with the reduction of Income Tax rates, VAT and removal of Nation Building Tax (NBT) and Defence Regulatory Levy (DRL). → New direction on classification and measurement of advances to be introduced soon demands stringent controls in monitoring and controlling of non-performing assets. → Tighter regulatory controls over risk weighted regulatory capital driving LFCs to gradually increase their capital base towards meeting the minimum regulatory capital adequacy ratio limits by 2022. → We continued to upgrade our risk management framework, while establishing goals and eventual plans to meet higher capital requirements and embrace regulatory and statutory changes. → With the introduction of the risk register for core departments, we maintained focused, proactive measures towards risk mitigation. → We revised our corporate plan considering the pandemic challenges and incorporated necessary operational requisites to meet new and enhanced regulatory requirements.



Detailed disclosures about the External Environment Review are made available in the "Value Creation" web content pages 17 to 30.

Sustainable Value Creation Process

STRATEGY EXECUTION

(GRI 102-15)

Key Financial Achievements

	Short-Term Target		Medium-Term Objective			Long-Term Goals	
	Net Interest Margin (NIM) > 8%	Cost to Income Ratio < 65%	Asset Quality (NPL) < 10%	Net Profit After Tax > 600 Million	Growth in Customer Base > 15%	Market Share > 3%	Growth in Asset Base > 10%
FY 2020/21	8.16%	72%	14.13%	Rs. 614 Mn	-5%	2.9%	-3%
Past 3 Year Average	9.55%	65%	9.63%	Rs. 448 Mn	Approx 6%	2.9%	4.8%

Core Strategy 1: Drive Our Digital Journey to Shape the Future

We expedited our digital journey in the backdrop of the COVID-19 outbreak, reimagining the customer experience and driving engagement across our digital and physical platforms to better meet our customers' needs and expectations, especially affording accessibility. As a result, we refreshed our Technology Strategy to accelerate our efforts to improve infrastructure and power new experiences for our customers. The strategy is rooted in the principles of accessibility and agility and adopts a good enterprise approach which is focused on outcomes. It also played a key role in our pandemic response embracing greater online features to transact leisurely, enhancing customer experience and convenience, while supporting social distancing and COVID-19 health guidelines.

KPIs Achievement Status

	Actual FY 20/21	Planned FY 20/21	Past FY 19/20
Online solutions introduced	3	>2	1
New processes automated	8	>5	6
Planned investment in automation and digitisation	> Rs. 30 million	> Rs. 20 million	> Rs. 40 million

Core Strategy 2: Augmenting the Customer Value Proposition

We stayed committed in enhancing the customer value proposition, relentlessly focusing our efforts on satisfying their emerging expectations and needs. During the pandemic, we extended our legendary service without any interruptions even during the lockdown period, adhering to all the health and precautionary guidelines to assist our customers to feel confident during a time of uncertainty by facilitating access to finance and at the same time affording investment opportunities. We expanded our reach by bringing business to the doorstep of our customers without them having to enter our branches to minimise COVID health risks, investing in technology solutions to enhance the customer experience via digital solutions. We transformed our internal mind-set and processes to remain agile and relevant in a rapidly-changing environment. Thus, having identified the customer preferences and evolving needs, we strategised our efforts in augmenting a value accretive customer proposition, while differentiating our service among the peers.

KPIs Achievement Status

	Actual FY 20/21	Planned FY 20/21	Past FY 19/20
Portfolio growth			
- Lending	-8.7%	>5%	3.6%
- Deposits	1%	>5%	7.7%
Total customer base	>62,000	>65,000	>65,000
New branches opened/expansions	1	1	-
New product innovation	1	1	2

Sustainable Value Creation Process

Core Strategy 3: Creating A High Performance Culture

We continued to work tirelessly to build a conducive workplace, an environment where all can thrive. We focused on creating a unique and inclusive employee culture that encourages employees to bring their best and enables the Company to drive its goals and objectives towards its vision. We embedded our vision, mission and purpose in our employee mindset and introduced a value-driven performance management system in achieving our goals and objectives. Despite the adverse challenges faced during the COVID-19 outbreak, MI continuously focused on developing the core competencies, skills and attitudes of its employees to improve staff productivity amidst a challenging operating environment. Similarly, we focused more on cost optimisation initiatives, inculcating the importance of cost consciousness in the employee mindset to overcome pandemic challenges and improve our bottom-line.

KPIs Achievement Status

	Actual FY 20/21	Planned FY 20/21	Past FY 19/20
Training hours per employee	4 hours	>10 hours	8 hours
Attrition rate	20%	<25%	27%
Profit after tax	Rs. 614 Mn	>Rs. 300 Mn	Rs. 372 Mn
Return on assets	1.45%	>1%	0.88%
Cost to income ratio	72%	<65%	69%

Core Strategy 4: A Robust Risk Management Programme Including Asset Quality Control

We devised a proactive approach in countering the unprecedented challenges of the COVID-19 outbreak and the adverse impacts of the economic downturn by strengthening the existing risk management controls, prioritising the asset quality sustenance in the backdrop of industry-wide credit quality deterioration. Our Risk Management Framework reinforces our risk culture, which emphasises transparency and accountability and supports a common understanding among stakeholders of how we manage risk. Thus, despite the increase in overall risk level due to the pandemic, with our solid capital base, proven business model, good governance and risk management framework, we were able to remain resilient, by recording a steady financial performance whilst adhering to an array of regulatory guidelines.

KPIs Achievement Status

	Actual FY 20/21	Planned FY 20/21	Past FY 19/20
New initiatives on risk management	8	>5	7
One-year maturity mismatch	Rs. (3.8) billion	Rs. < (6) billion	Rs. (6.8) billion
Collection ratio	>70%	> 80%	>70%
NPL ratio	14.13%	<10%	11.69%
Repossessions	<500	<1,000	<1,200

Core Strategy 5: Supporting A More Sustainable and Inclusive Tomorrow

As a purpose-driven organisation, we understand the role of business in enriching the lives of our customers, colleagues and the communities we serve. Thus, while we have embedded strategic corporate sustainability into our business model, we remained committed to creating a more sustainable and inclusive tomorrow for people, offering shared growth opportunities in the course of our journey. Moreover, to fulfil stakeholder obligations, we have integrated our Environmental, Social and Governance (ESG) principles into our business model and practices over time, whilst continuing to report on our triple bottom efforts annually.

KPIs Achievement Status

	Actual FY 20/21	Planned FY 20/21	Past FY 19/20
Social investment	Rs. 0.5 million	Rs. 0.5 million	Rs. 1.8 million
No. of beneficiaries	601	>500	2,217
Green lending	82 loans	>100 loans	70 loans



Detailed disclosures about Strategy Execution and Service Value Chain are made available in the "Value Creation" web content pages 34 to 46.

Sustainable Value Creation Process

RESOURCE DISTRIBUTION

We utilise and distribute key resources through the sustainable business process to all our business lines. The aerial perspective in understanding importance, relevance and dependency of each business activity supports in optimal allocation of the key resources and thereby generates expected value and impacts.



● Critical ● Moderate ● Not Significant

Capital Management

CAPITAL MANAGEMENT TOWARDS VALUE CREATION

In our value creation process, we used a variety of tangible and intangible assets which we call capitals. Our capitals consist of financial wealth, human strength, alliances, intellect, infrastructure, and nature. We leveraged these capitals towards achieving our strategic goals and objectives while delivering positive impacts to the economy, society, and environment. These capitals deployed in the business may be increased, decreased or transformed through capital management activities while balancing negative impacts and capital trade-offs.

In this integrated report, we have clearly defined, measured and reported how we deployed these capitals, and how we transformed them in the process of creating meaningful value for our stakeholders.

As a responsible corporate citizen, MI's visionary aspirations, supported by integrated thinking, enabled the MI Board and the management team to drive its sustainable business journey while optimising these resources effectively to achieve the short, medium, and long term corporate goals, upholding the trust and confidence among the stakeholders.

Thus, through effective management of these capitals, we forged ahead our journey of transformation and value creation despite the numerous challenges that prevailed in this extraordinary year, recording a commendable performance, with a growth in post-tax profits and same time maintaining a solid liquidity position and a strong capital base.

Six Capitals Deployed

Financial Wealth



Alliances



Human Strength



Intellect



Infrastructure



Nature



CAPITAL MANAGEMENT APPROACH

We use a systematic approach that optimises the use of each resource in our value creation process. We sourced capitals and distributed them in an optimum way in order to maximise stakeholder value, while we strive to preserve these capitals to fulfil our future growth aspirations and for the betterment of society.

Phases of Capital Management

Capital Sourcing

- Major Stakeholder Resources Management
- Credit Rating
- Brand Management
- Untarnished Reputation

Capital Development and Balancing Trade-Offs

- Cost Benefit Assessment
- Resource Distribution
- Systems and Technological Innovations
- Business Process Re-engineering
- Learning and Development
- Operational Excellence
- Automations to Minimise Lead Times

Capital Preservation

- Governance, Ethics and Culture
- Stakeholder Prioritisation and Satisfaction
- Risk Management
- Grievance Handling
- Audits and Controls

Financial Wealth



Material Focal Points



Improved Bottom Line



Cost optimisation



Optimal fund management



Budgetary Controls



Securing Asset Quality

Performance Highlights



Robust Pre and Post Tax Profits Growth of **20%** and **65%** respectively



Increased ROA to **1.45%**



Solid Capital Adequacy Tier I: **15.31%** & Tier II : **17.07%** (Statutory limit 6.5% and 10.5%)



Strong Liquidity Position **17.07%** (Statutory limit 6%)



Effective Asset Quality Management: 90 day arrears reduction by **1.21%**

Financial Wealth



Financial Wealth

(GRI 103-2 and 103-3)

The strength of our financial wealth has been the driving force in our value creation journey towards our visionary aspirations. Despite the gamut of challenges the industry underwent in the last two years, especially hit by the spill over effects of the COVID-19 pandemic, our relentless resilience, displayed through careful planning, prioritisation and encompassing of effective corporate strategies, led us steadily towards our goals and objectives. Thus, our effort brought forth anticipated financial results in terms of commendable growth in pre- and post-tax profits, strong liquidity position and bridging of maturity gaps while accumulating a strong capital base towards the organisation’s future growth and financial solidity. In achieving these impressive results, we successfully deployed our financial resources effectively, while balancing growth and risk considerations towards core business expansion, performance excellence and stability, safeguarding shareholder wealth and confidence.



Detailed disclosures about financial wealth are made available in our website.

Challenges



Managing Asset Quality deterioration amidst COVID Environment



Sustaining healthy Loan Portfolio revenue



Deposit mobilisation within a low interest regime

Sphere of Impacts

Enhanced Investor Wealth



Increased Public Trust through Financial Stability



Asset Quality Control and Operational Efficiency



Widened Product Mix



Secured Employee Benefits and Job Security



Financial Wealth

FINANCIAL MANAGEMENT

We aligned our core business strategies with the clear direction given by the Board to enhance profitability levels by deriving steady lending volumes and satisfactory yields, acceptable asset quality despite COVID-led credit quality deterioration and improved investment returns, whilst deploying feasible actions to keep costs minimal through the sourcing of lower cost of funding and focused management of overhead expenses.

Our key financial management activities revolved around:

- ➔ Treasury management
- ➔ Cost optimisation
- ➔ Budgetary control

TREASURY MANAGEMENT

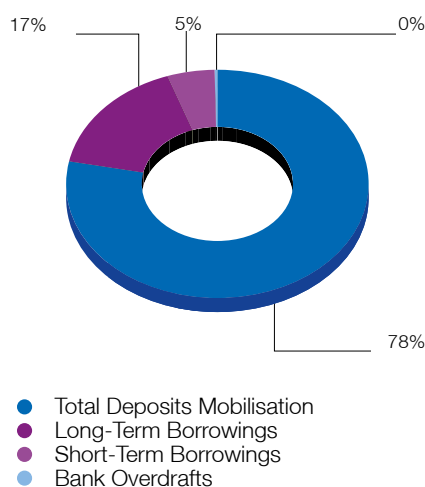
With the sustained reduction in market interest rates and liquidity reliefs extended by the Government, we continued to deploy effective fund management strategies, focusing on minimising our funding costs, bridging existing assets and liability maturity mismatches and by enhancing treasury control mechanisms, to manage our yields and investment risks in enhancing financial wealth. Despite the recovery delays and moratorium measures introduced 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	Actual	Status
Generate sound investment yields and optimise cost of funding to boost NIM	> 8%	8.16%	Achieved
Maintain optimum liquidity levels whilst bridging maturity mismatches	Strong liquidity level > Staying above minimum requirement of 6%	17.07%	Achieved
	1 year assets and liability mismatch < Staying below threshold level of Rs. 6 billion	3.93 billion	Achieved

FUNDING MIX

With the aim of minimising our weighted average cost of funding and reducing our maturity gaps, we maintained the right funding blend between deposits and borrowings. The Deposits business remained the largest contributor to the funding mix, amounting to 78%, contributing Rs. 23,060 million in funding, while the balance stemmed from borrowings.

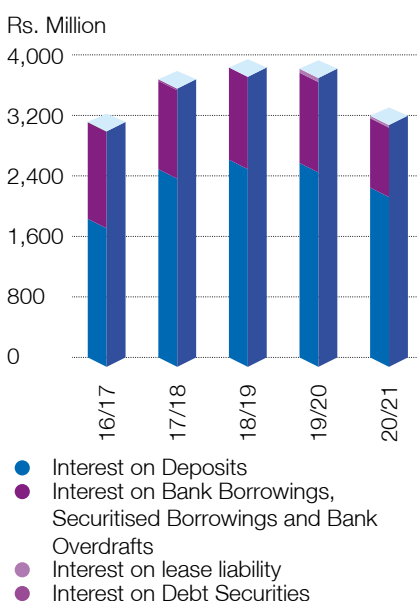
Funding Mix



FUNDING COST

Multiple reductions in policy rates and the sustained low interest regime enabled us to minimise our funding cost, which declined by 16% year-on-year, whereas the total funding comprising of deposits and borrowings reduced by 8% owing to the contraction in the asset base. The downward revision of deposit rates by more than 2.5%, together with the reprising effect, resulted in deposit interest expenses falling by 13% year-on-year. Similarly, borrowing cost also declined by 23% given the downward trend in AWPLR by more than 3.5%, whereas total borrowings contracted from Rs. 9.2 billion to Rs. 6.4 billion as at the balance sheet date, brought down by the negative loan book growth.

Analysis of Interest Expense



Financial Wealth

DEPOSIT FUNDING

Although mobilisation of deposits became a challenging proposition in the backdrop of the low interest regime with volatile investor sentiments arising from COVID-led liquidity fears and, as the year unfolded, emergence of other investment options such as the stock market, we yet managed to mobilise deposits steadily surpassing the Rs. 23 billion mark in our deposit base with a marginal 1% growth (8% in 2019/20), despite the industry average being reflective of a negative growth for the 2020 calendar year.

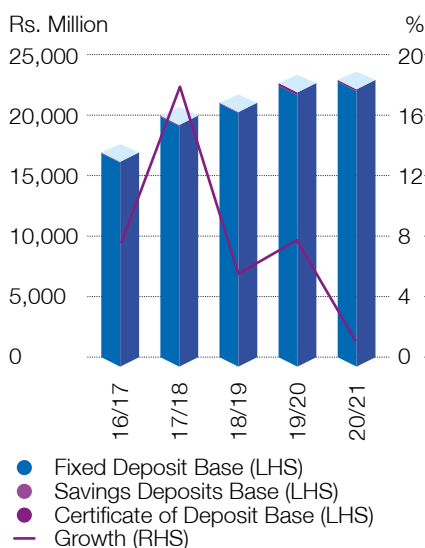
FIXED DEPOSITS

Fixed Deposits, being 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 1% growth, reaching Rs. 22,899 million. Although we did not deploy aggressive Fixed Deposit campaigns during the year, we continued to build our retail deposit base by improving service standards and customer convenience through a greater branch operational decentralisation programme coupled with higher investment in technology and IT infrastructure to propel digital transactions.

SAVINGS DEPOSITS

Amidst the unprecedented challenges, in contrast, MI's savings base dipped from Rs. 243 million to Rs. 161 million with a year-on-year drop of 34%, mainly due to the decline in micro savings being a main contributor for the MI's savings base.

Deposit Mix & Growth



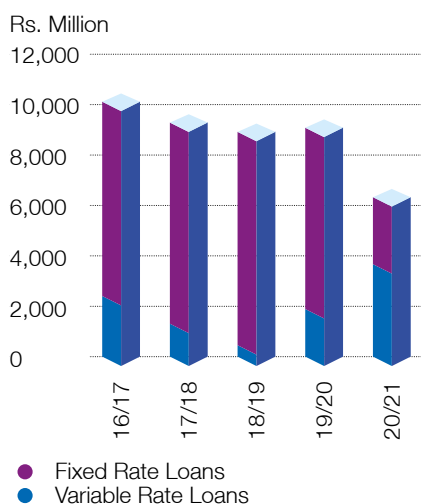
During numerous lockdown periods, we extended our services without interruption, while arranging depositor interest payments even before the due date. We concentrated on improving the overall service standards of our branch network through a focused marketing drive. While our Head Office premises located in the Western Province remained the primary mobilisation point, we continued to drive greater deposit flow from branch level, with a 2% increase year-on-year contributing 14% of the deposit base.

With the planned enhancement of systems and extending of ATM facilities to our depositors by end 2021 coupled with the ongoing decentralisation efforts, we expect robust growth in our depositor base across the branch network in the near future.

BORROWINGS AND DEBT FUNDING

Though borrowings declined from Rs. 9,215 million to Rs. 6,444 million by the balance sheet date, a total of Rs. 6.3 billion was yet sourced during the year from MI's longstanding banking partners and by way of securitisations to manage immediate and future funding requirements, while taking measures to optimally manage cost of funding.

Total Borrowing Analysis (Variable vs. Fixed Rate)



COST OPTIMISATION

During the year, we placed more emphasis on the cost optimisation programme started a few years ago and also adopted bold temporary cost control measures to face the unprecedented challenges to revenue and bottom line. While inculcating a cost-conscious mindset amongst our employees, we encouraged them to come up with innovative ideas to boost productivity levels whilst helping to control wastage. Accordingly, several changes were made to internal processes and procedures through the business process reengineering 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 costs. Furthermore, we deployed our limited resources effectively, prioritising the core activities while cutting down on non-essential activities and events. 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 versus budgeted, based on the Board-approved annual budget and periodic variance reporting. However, considering the spill-over effect of the unprecedented COVID-19 challenges and the subsequent moratorium measures introduced by the Government, we were compelled to revise our budgets and forecasts to provide more realistic targets. Moreover, we strengthened our MIS reporting enabling Corporate Management and branch heads to closely monitor their business unit revenues, costs and key KPIs and identify better strategic initiatives and 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

Our unwavering commitment towards stakeholder wealth enhancement took us to the very edge of our limits, enabling us to conclude the year with commendable growth in profits while maintaining a strong liquidity and capital position to withstand any shocks from the unprecedented challenges posed by COVID-19. To manage the escalating non-performing advances, fuelled by the rapid deterioration in borrower repayment capacity, we stood firm and deployed tactical and customised recovery approaches with close monitoring, while following a conservative lending approach.

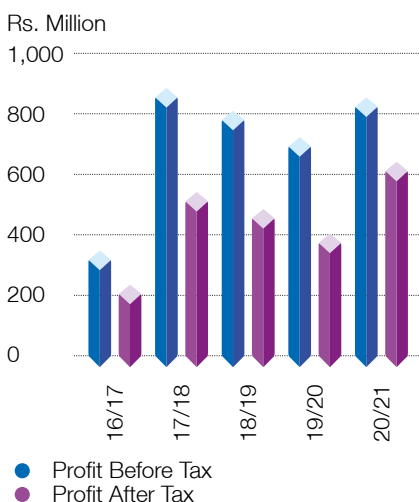
As an 'A' grade finance company, our financial strength, underscored by our capital strength, afforded us access to cost-effective funding, enabling us to offer competitive pricing, whilst instilling trust and confidence in our depositors. By driving upward accumulated financial wealth being our main capital input, we increased investor returns with a satisfactory growth in Earning Per Share and Return on Assets, whilst continuing to maintain a strong balance sheet towards the best interest of all our stakeholders.

PROFITABILITY

While the year was impacted by the global health crisis and fraught with many challenges, MI steered commendably, recording robust pre- and post-tax profits of Rs. 864 million and Rs. 614 million, which reflected a sound year-on-year growth of 19.6% and 65.2% respectively. While we experienced a hit on core business revenue, mainly because of the moratorium relief granted that resulted in lowered core margins, further aggravated by the declining yields and subdued lending volumes generated compared to the last few years, a combination of other factors nonetheless helped boost profitability by year end.

Profitability was primarily driven by the direct recovery efforts in controlling 90 days' arrears contracts which brought down impairment charges on loans, while the reprising of the deposit funding cost on a downward trajectory helped ease the prevailing core margin pressure. Moreover, our immediate measures to manage overheads more sparingly coupled with tax reliefs enjoyed on a reduced corporate tax rate of 24% and the elimination of the Nation Building Tax (NBT) and Debt Repayment Levy (DRL) helped boost post-tax profits significantly compared to a year before.

Earnings Performance

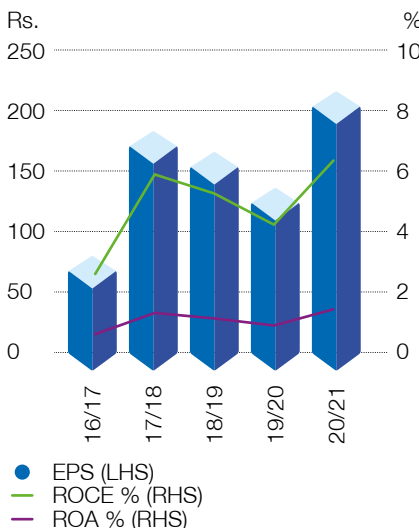


INVESTOR RETURNS

The growth in profitability levels boosted the Return on Assets from 0.88% to 1.45% and Return on Capital Employed from 4.23% to 6.39%, securing investor trust and confidence, during the tough pandemic times. These impressive profitability levels pushed our Earnings per share up by 65% from Rs. 124 to Rs. 204, reaffirming our earning potential, even during unprecedented times.

Moreover, our investors over the years have enjoyed sound returns in terms of dividends and have seen their investments grow through a constant accumulation of shareholder funds which steadily increased by 15.86%, surpassing the Rs. 10 billion mark and reaching Rs. 10.3 billion as at 31st March 2021. (Refer 'Investor Relations' section on pages 302 to 305, on sound investor returns and capital accumulation trajectory).

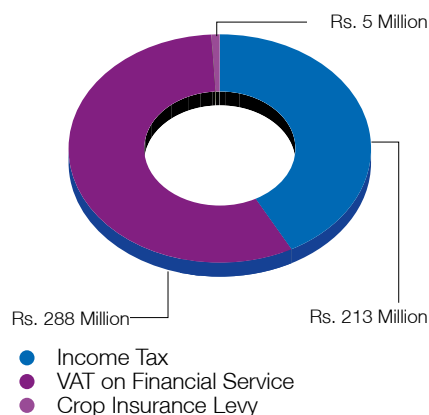
ROCE, EPS & ROA



TAX IMPACT ON PROFITABILITY

Despite the growth in profitability level, with the downward revision in tax rates, our total tax expense declined by 35.7% to Rs. 502 million during the year, whilst the effective tax rate reduced from 42% to 30%. Corporate Income Tax rate being revised downward from 1st January 2020 by 4% resulted in a 33.3% dip in corporation tax to Rs. 213 million, while same time VAT on Financial Services, marginally reduced by 5.9% from Rs. 307 million to Rs. 288 million. Moreover, the removal of Nations Building Tax (NBT) and Debt Repayment Levy (DRL) with effect from December 2019 and January 2020 respectively significantly contributed to the decline in overall tax expense for the year. (Refer Financial Statement Note 15.)

Total Tax Payments



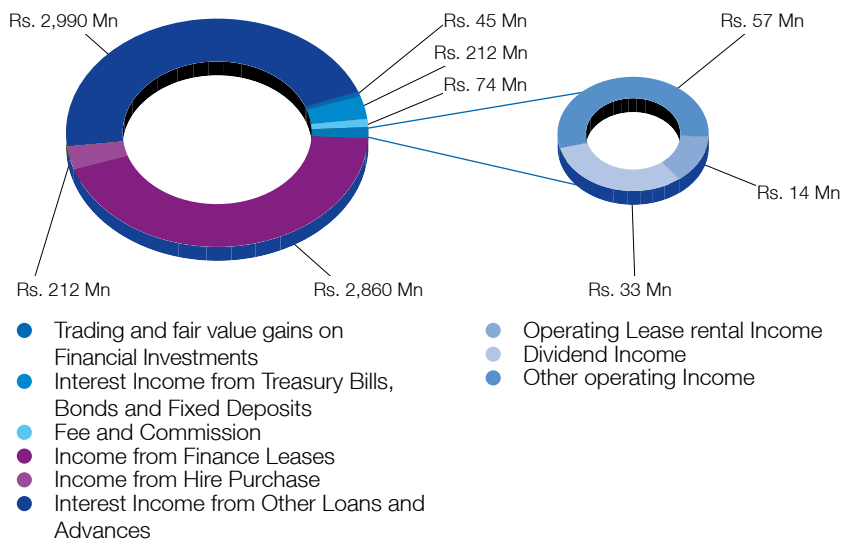
GROSS REVENUE

In the backdrop of the sluggish economic conditions, deteriorating credit growth, low interest regime and the moratorium reliefs granted, company's gross revenue declined by 14.6%, to Rs. 6,497 million for the year, reflecting a similar industry-wide hit that stemmed from the drop in core lending business. With the 8.7% contraction observed in our lending portfolio coupled with the interest impact resulting from the lower effective rate applied on moratorium clients, total interest income dipped by 16.1% year-on-year. In contrast, Non-Fund Based Income grew handsomely by 65.3%, mainly on account of the share trading and fair value gains enjoyed from the stock market pick up, despite the 10.3% decline observed in fee and commission income derived from referring insurance needs of core business clients.

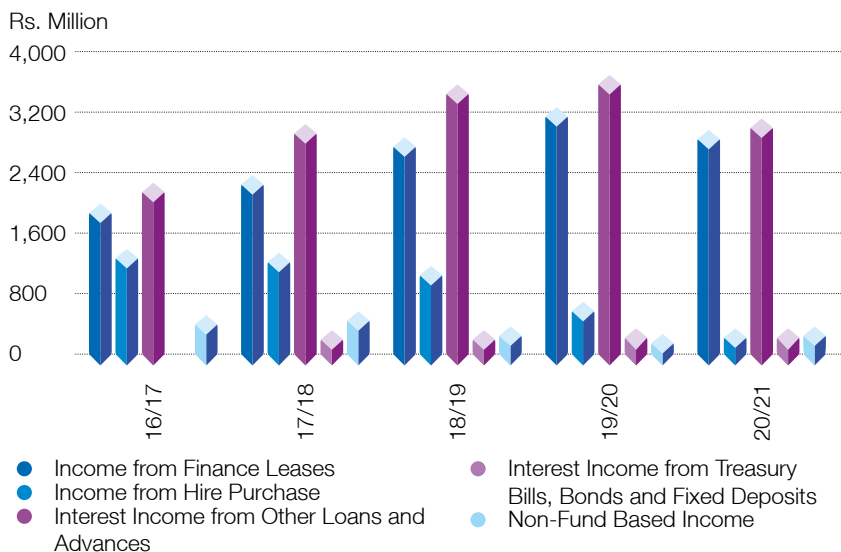
Financial Wealth

In terms of gross revenue, 93% of the contribution arose from our core lending business, while investment income from Treasury activities contributed 4.5%. Non-fee based income derived from insurance, workshop and other fee-based revenue contributed to the balance 2.5%.

Composition of Gross Revenue



Composition of Gross Income



CORE LENDING REVENUE PERFORMANCE

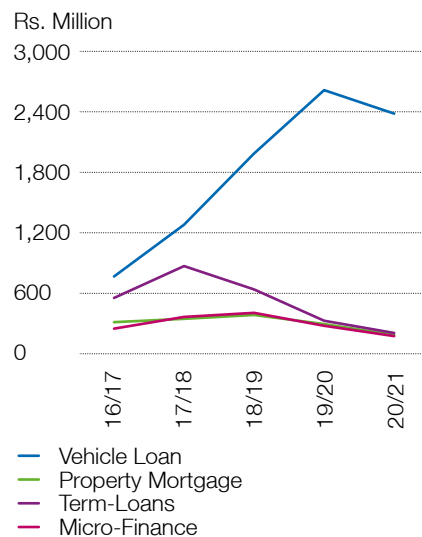
LEASE FINANCING VS. HIRE PURCHASE REVENUE

Leases, being our traditional and most popular product, contributed 47% to the core lending revenue though reflecting a 9% dip against the previous year's growth of 14%. Consequent to the tax changes introduced in 2015, Hire Purchase revenue contributed only 3.5% of the lending income with a YOY decline of 62% and remained low in demand.

TERM-BASED LENDING REVENUE

Term-based lending, which mainly revolved around vehicle loans, property mortgage loans, term loans, pledged loans and micro finance loans categorised under loans and advances portfolio, remained key to MI's product mix, contributing 49% to the core lending revenue. The sluggish credit demand nonetheless contracted the term based lending revenue by 17% compared to the 2% growth recorded for the previous year. Vehicle loans being the primary term-based lending product with a 81% contribution to related revenue also was impacted from lower credit demand reflecting a 9% decline against the previous year.

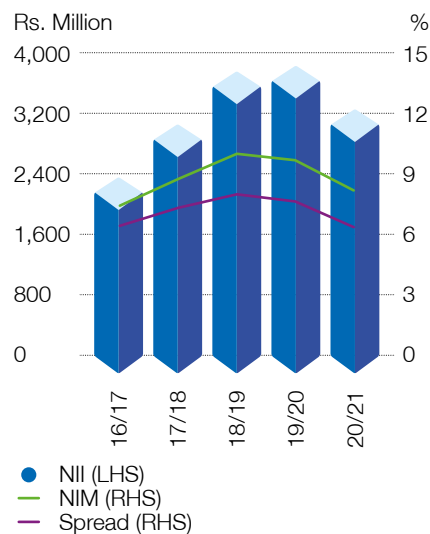
Term Based Lending Revenue



NET INTEREST INCOME (NII), NET INTEREST MARGIN (NIM) AND CORE SPREAD

The combined impact of the contraction in the loan book, modest margins and the debt moratorium reliefs of both COVID waves that encompassed concessionary interest rates and extension of repayment periods, drove down net interest income, which reflected a 15.9% dip against the previous year. The downward reprising of deposits and lower cost borrowings kept intact the Net Interest Margin (NIM) at 8.16%, above the industry average of 7.3% recorded in December 2020, though marginally dipping by 1.55% against the previous year, and remaining below anticipated levels.

Spread, NIM & NII



Financial Wealth

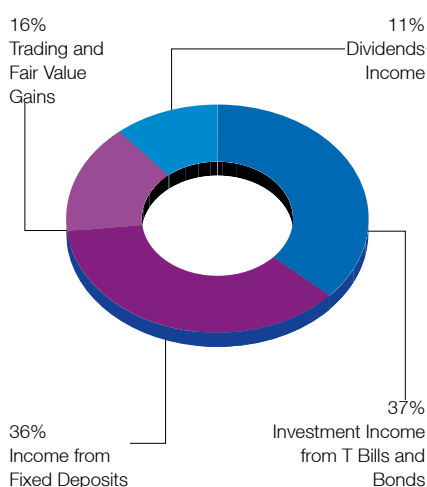
INVESTMENT INCOME

Investment income contributed 4.5% to gross revenue, driven primarily by returns on Government securities and placements with banks, while the company also enjoying increased dividend income, trading capital gains and increases in equity investment fair values from the uptick in the stock market.

We invested Rs. 3,401 million in Government securities and bank deposits to maintain our regulatory liquidity levels and to park excess funds, which generated Rs. 212 million, contributing 73% to investment income, while earning Rs. 32.6 million as dividend income which reflected a 57% growth against the previous year. We derived Rs. 36.3 million as share trading gains and Rs. 8.7 million as unrealised fair value gain for the year, from the investments accounted under Fair Value through Profit and Loss (FVPL).

Moreover, we recorded Rs 102 million as share trading gain from investments recorded through Other Comprehensive Income (OCI) and with the gradual upward movement in the share prices, we recorded a staggering Rs. 557 million fair value gain for the financial year which was accounted for under the Statement of Other Comprehensive Income reflective of a phenomenal 321% increase year-on-year which bolstered the OCI reserve from a negative Rs. 327 million recorded last year to a positive Rs.78 million by the balance sheet date.

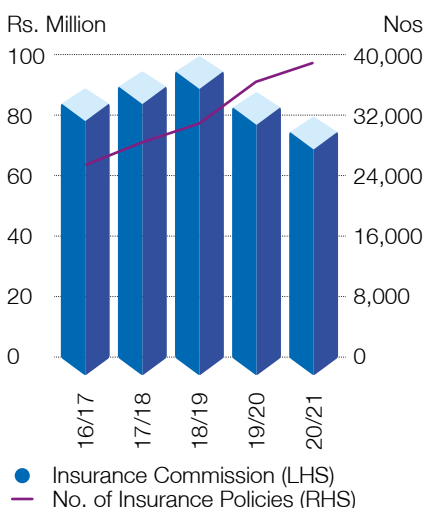
Investment Income Composition



INSURANCE SERVICES

Insurance referred business income contributed Rs. 74 million to gross revenue, recording a dip of 10.3% compared to the previous year, given the contraction in core lending business and economic slowdown. Nevertheless, through the satisfactory track record in recovering insurance claims which stood at Rs. 103 million (Rs. 183 million for 2019/20), MI was able to sustain sound customer retention levels, whilst attracting new clientele to take up effective insurance covers through the brokering company housed in the Head Office building.

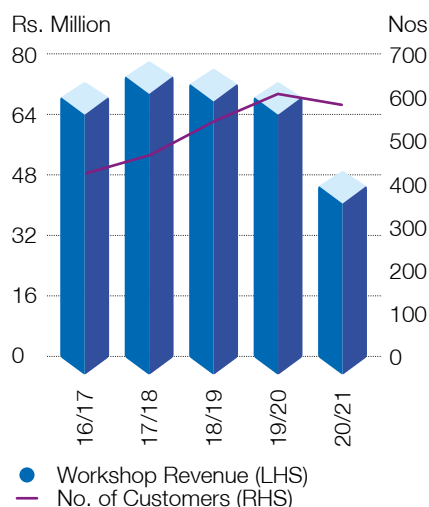
Insurance Commission vs No of Insurance Policies



WORKSHOP SERVICES

We generated total revenue of Rs. 45 million, through our special workshop servicing and repair unit, though recording a 34% decline against the previous year mainly due to closure of business operations during the lockdown period and hampered demand for motor vehicle repairs and servicing resulting from the transportation disruptions and restrictions stemming from the COVID regulations and dull business conditions.

Workshop Revenue and Customer Base

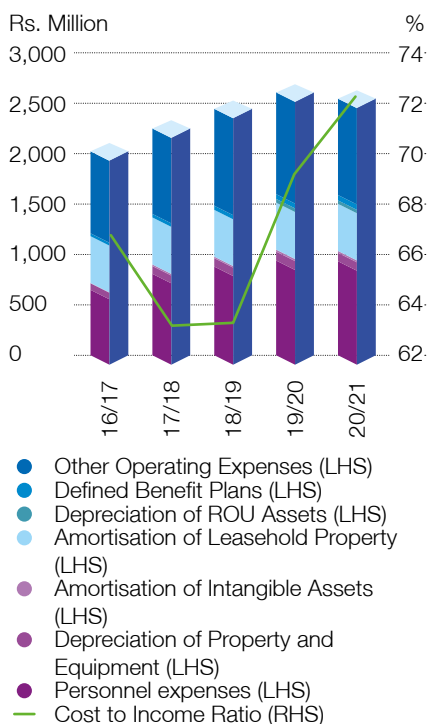


Financial Wealth

EXPENDITURE MANAGEMENT CONTROLLING OVERHEAD COST ESCALATION

Given our relentless commitment towards the cost optimisation drive, as a strategy to improve our bottom-line amidst the pandemic challenges, we were able to reduce our overheads by 3% as against the 8% cost escalation recorded in the previous year. Although the curtailed business operations also contributed to the reduction in overheads, we carefully allocated our resources, prioritising the core activities and cutting down wastage and unnecessary expenditure. Despite these efforts, the overall cost to income ratio stood at 72% up, 3% year-on-year, resulting primarily from the greater decline in operating income relative to the reduction in overheads.

Composition of Operating Expenses Vs Cost to Income Ratio



CAPITAL EXPENDITURE

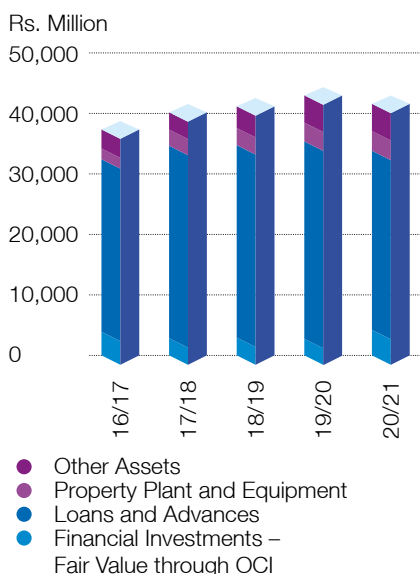
We were mindful in prioritising our long-term projects and kept significant investments limited to core business strategy deployment, especially on developing our IT infrastructure, driving the digital journey and making infrastructure enhancements to bolster core operations. Thus during the year, we invested Rs. 21 million in technology initiatives and Rs 107 million as investments in Property, Plant and Equipment to expand our operational capabilities.

FINANCIAL POSITION, STRENGTH, BLEND AND EFFICIENCY

TOTAL ASSETS POSITION

In the backdrop of sluggish economic activities which led to negative GDP growth and industry wide negative asset growth, the company also observed a contraction in total assets which declined to Rs. 41,750 million, reflecting a moderate reduction of Rs. 1,422 million in absolute terms and a 3% dip against the previous year.

Total Asset Composition

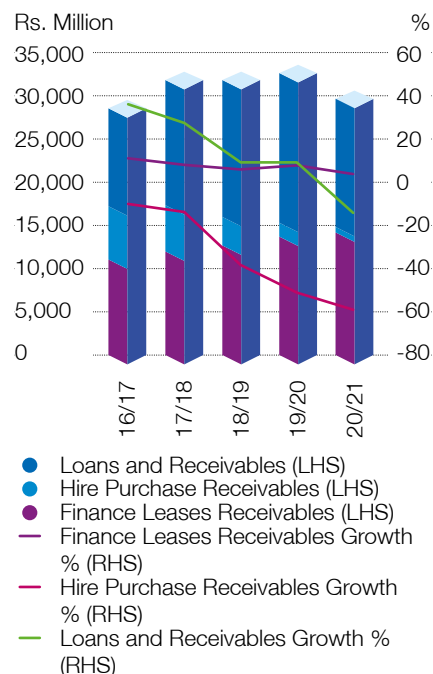


LOANS AND ADVANCES

Loans and Advances which represent 71% of our total assets remained as the largest and significant asset component. Though lending volumes steadily picked up in the second half of the year, our gross loan book growth contracted by 8.7% compared to the previous year from Rs. 35.4 billion to Rs. 32.3 billion amidst the first and second waves of COVID-19 disruptions to businesses. However, we continued to expand our product mix, whilst introducing Gold Loans to our product mix to facilitate the urgent financing needs of our customers.

Our lending business was driven by MI's primary product, lease financing and term-based product categories as depicted below.

Total Lending Portfolio Progress



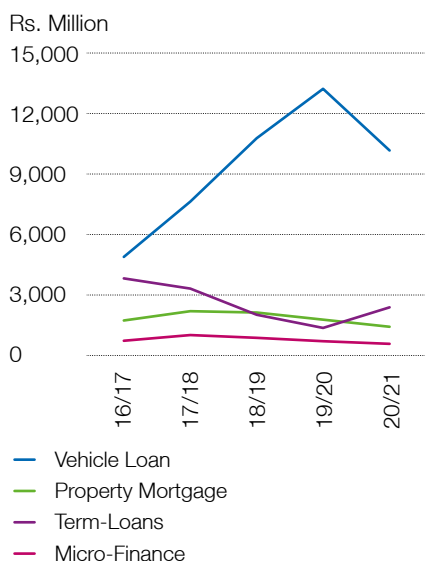
Leases being MI's core lending product, representing 48% of our total lending portfolio, performed at satisfactory levels, recording a marginal portfolio growth of 3% despite the contraction in the total loan book portfolio. In contrast, the Hire Purchase portfolio continued the steady decline in this year as well to Rs.649.9 million by 60% as other financing options remained more attractive for borrowers.

Term-based lending, which represented 50% of the total advances contracted by 15%, mainly attributable to the decline in vehicle loans to Rs 10.2 billion, which recorded a 23% drop against the last year. Micro finance and property mortgaged lending also declined by 25% and 23% respectively, as we steered through a conservative approach to minimise company's overall credit risk outlook.

Financial Wealth

These subdued individual product performance results showed mixed trajectories as depicted below.

Term Based Lending



ASSET QUALITY MANAGEMENT

With the industry-wide deterioration in borrower repayment capacity in the aftermath of the COVID-19 pandemic, asset quality of the lending portfolio was adversely affected during the year. However, we were able to control the increase in 180-day Non- Performing Loans which stood at 14.13% in 2021, as against 11.69% recorded for the previous year, while more successfully reducing the 90-day NPL from 17.5% to 16.29%. This was attributable to the effective and prompt actions, close monitoring and tactical and customised recovery approaches deployed by a committed recovery team that kept the 90-days' arrears escalation controlled. Collections remained at satisfactory levels despite the challenges, further bolstered by the setting up of a fully-fledged call centre at Kohuwala and the bold technological initiatives implemented that expanded the digital collection platforms within just one year.

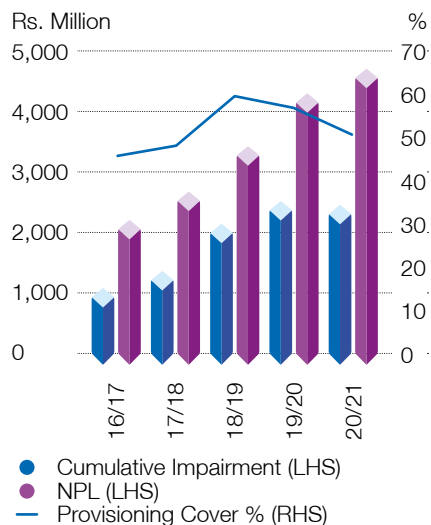
As a clear credit strategy, we took a conservative approach to lending especially for the perceived high-risk clients and sectors, aided by a robust credit risk management unit that reviewed high value credit and provided post credit feedback to Management, to keep arrears clients controlled. The escalation of NPLs during this difficult phase was further controlled with the execution of moratorium reliefs to eligible customers, which froze the aging of the moratorium loans for the NPL classification purpose under the regulator's guidance. However, a few large contracts stemming over the past few years, despite being adequately backed by prime securities, continued to have a notable impact on the company's NPL ratio.

Teams from the Special Recoveries Force (SRF) provided a 24/7 recovery effort while adhering to the moratorium guidelines and other relief extended to borrowers during the pandemic. Same time, the efficiency of the asset disposal unit was enhanced by introducing a digital platform for asset disposals which enabled close monitoring and strengthened recovery efforts. Though vehicle seizing was curtailed in line with the stringent Government regulations imposed during the current pandemic, our specialised Vehicle Disposal Unit located in Maharagama also carried out disposals totalling 504 compared to 756 done in the previous year. Simultaneously, the Legal Department worked closely to support the recovery division to fast track the bad debt recovery process.

Impairment Charges

Though our 180-day NPL increased during the year, our continuous efforts in controlling the 90-day arrears contracts together with the moratorium relief granted kept the impairment charge to Rs. 42 million, indicative of a commendable 91% reduction against last year. Accordingly, the cumulative impairment provision remained at Rs. 2,320 million as at 31st March 2021 though non performing loan values increased, which led to a reduced provisioning cover of 51% compared to last year's 57%. (Refer Financial Statements Note on Impairment from pages 238 to 244).

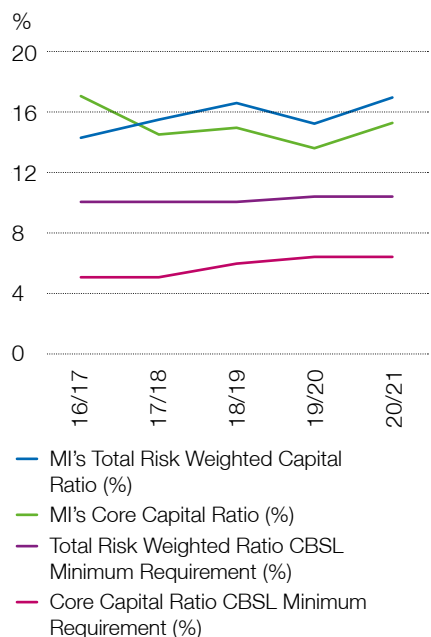
Cumulative Impairment, NPL and Provision cover



CAPITAL STRENGTH REGULATORY CAPITAL

As an 'A' grade finance company, our core capital and total capital ratios continued to remain well above the regulatory capital requirements as a 'Well Capitalised Company' even with the enhanced Basel II 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 15.31% and 17.07% respectively, higher than the minimum regulatory limits specified of 6.5% and 10.5%.

Capital Adequacy Five Years Analysis

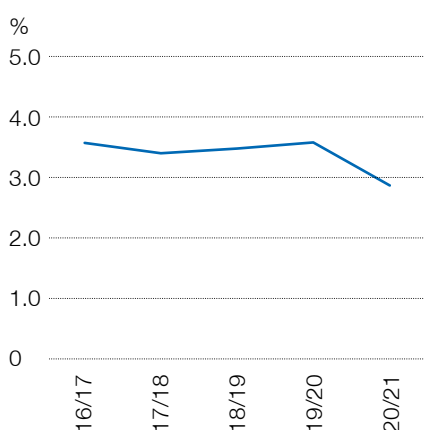


Financial Wealth

DEBT TO EQUITY

With the impressive profitability, growth in OCI reserve and reduction in borrowings, our Debt to Equity ratio improved from 3.6 to 2.86, upholding investor trust and confidence even during this pandemic time. Based on the inherent nature of the industry of mobilising deposits to fund core business activities, these levels were maintained satisfactorily in keeping with accepted industry norms and safety standards.

Debt to Equity Ratio



LIQUIDITY

SHORT- AND MEDIUM-TERM LIQUIDITY

Despite the deterioration in asset quality and recovery delays in the industry, MI continued to maintain a solid liquidity position throughout the year, managing the trade-off between liquidity and profitability levels. Though the statutory liquidity requirements were eased by the regulator during this pandemic period, MI maintained enhanced robust liquidity levels as at the balance sheet date with the liquid asset ratio at 17.07% as at 31st March 2021 (15.99% in 2020), though the regulatory levels were lowered to 6%. (Refer pages 290-292 of the Notes to the Financial Statements for a detailed ratio breakdown).

LONG-TERM LIQUIDITY

The Treasury division ensured that the maturity mismatches of Assets and Liabilities of less than one year were further managed within Board-approved levels, by securing over Rs. 3.47 billion in long-term funding from banking partners to compensate for the shorter tenor deposit mobilisation that took place during the year under review. (Refer pages 290-292 of the Notes to the Financial Statements).

CASH FLOW POSITION

Despite the COVID 19 outbreak and its spill over effects, we managed our 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. 1,830 million from Rs. 1,727 million a year before, reflecting a strong liquidity position.

CASH FLOW FROM OPERATING ACTIVITIES

Net movement of MI's operating cash flows reflected an inflow of Rs. 2,710 million for the current year compared to Rs. 503 million inflows recorded for the previous year, highlighting the effectiveness of our recovery efforts. The inflow of cash from operating activities arose mainly from interest and commission receipts and through the efficient management of operating activities.

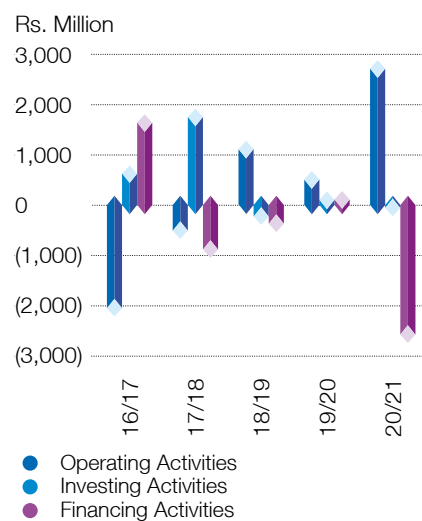
CASH FLOW FROM INVESTING ACTIVITIES

MI's cash flow from investing activities reflected an outflow of Rs. 37.6 million for the period under review, compared to the inflow of Rs. 102.4 million recorded in last year. The investments made in Property, Plant and Equipment resulted in the net cash outflow of the current year.

CASH FLOW FROM FINANCING ACTIVITIES

Cash flow from financing activities showed a negative cash flow, totalling Rs. 2,569.6 million as at 31st March 2021, compared to the positive cash flow of Rs. 111.4 million recorded during the previous period. The negative cash inflow was attributable to the repayment of loans and relatively low level of borrowings obtained during this period with the contracted lending volume.

Cash Flow Movement



Outlook

The financial outlook for the forthcoming year is likely to be largely dependent on the success of combating the emerging third wave of the COVID-19 pandemic, which has created significant uncertainty relating to industries and our future prospects, despite the high levels of optimism relating to the implementation of the COVID-19 vaccination process. However, the continuation of the accommodative monetary stance together with expected lower inflation, is bound to generate positive sentiments about the country's economic revival while capitalising on the experience gained through combating the first and second waves of the pandemic.

While the prevailing low interest regime will pose challenges in mobilising deposits, we expect the finance company sector to forge ahead with increasing credit demand, despite the temporary slowdown and volatile economic conditions that is bound to arise in the wake of the third wave drawbacks hitting business during the first quarter of the new financial year. Nonetheless, we are confident that our continued efforts in sustaining our asset quality and broad-basing digital infrastructure, together with the deployed pertinent strategy to strengthen core competencies and to extend the cost optimisation drive, will enable us to maintain this upward profitability trajectory, while upholding stakeholder trust and confidence through financial wealth accumulation, despite the ongoing pandemic challenges.



Material Focal Points



Shared growth platform



Legendary service



Empowered sustainable communities



Stakeholder loyalty

Performance Highlights



New customers over
14,000



Social bonds over
57 years



Optimal fund management



Affordable and new product developments:
Launched gold loans



Alliances

(GRI 103-2 and 103-3)

In our quest to keeping alive our broader visionary aspirations of sustaining a deep sense of corporate responsibility towards all our stakeholders, whilst striving to be a financial service brand with effective top-of-the-mind recall, we continued to believe that our unwavering commitment in satisfying evolving needs of people will help in creating win-win relationships that cement lasting stakeholder bonds. MI continues to gain a competitive advantage by capitalising on these strong relationships, which we call ‘Alliances,’ in our value creation journey. While fostering our business strategy towards customer centricity and stakeholder value creation, we created ‘shared growth opportunities’, offering win-win solutions to accomplish varying stakeholder expectations. Our two-dimensional approach in corporate relationship building of commercial alliances and social alliances has helped us to address many stakeholder concerns, thereby cementing deep-rooted bonds and relationships throughout our value creation process.



Detailed disclosures about our Alliances are made available in our website.

Challenges



Dynamic and evolving stakeholder demands



Maintaining stakeholder satisfaction



Strike a balance between organisational objectives and satisfying stakeholder expectations

Sphere of Impacts

Increased deposit retention by 5.5%



Enhanced wealth and stability by surpassing Rs. 10 billion in shareholder funds



Increased stakeholders' loyalty and trust with over 81% of satisfied customers



Employment creation with over 200 joining the workforce



Managed cost towards value enhancement









Material Focal Points

 <p>Talent acquisition and building</p>	 <p>Motivated work culture</p>	 <p>Talent management</p>	 <p>Employee engagement</p>	 <p>Performance management and rewarding</p>
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Performance Highlights

 <p>Employee productivity: Revenue per employee Rs. 5.8 Mn</p>	 <p>Innovative ideas</p>	 <p>Career prospects: 242 new recruitments</p>	 <p>Employer employee harmony</p>
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Human Strength

(GRI 103-2 and 103-3)

Our workforce has been a fundamental driver in our value creation journey and business growth successors, and remained the chief pillar during the COVID-19 pandemic in affording an unparalleled service to our stakeholders despite work disruptions and challenges. The knowledge, experience, skills, competencies and positive attitude of our employees have been key strengths in driving competitive advantage in this volatile setting and retaining market share as anticipated. Following a strategic human resource management approach, we have integrated HR strategies, policies and practices with MI's vision, mission and corporate objectives with the aim of grooming our human resources in line with strategic goals. We have adopted a series of well-structured policies and procedures covering recruitment, training, and performance management and rewarding, which are communicated to employees through a clear Board-approved HR Policy, Employee Handbook, Code of Conduct, HR information system and numerous learning and development initiatives. Our unique corporate culture and HR strategies have been successful in attracting and retaining highly-competent resource personnel, while empowering them to succeed in their fields and enabling them to achieve their personal goals and social ambitions. Therefore, despite the COVID-19 challenges, our approach in people management enabled us to sustain a motivated team to drive towards our corporate goals while assuring them of optimum rewards, job security and health safety.



Detailed disclosures about our Human Strength are made available in our website.

Challenges



Striking a balance between interests of employees and management



Head hunting



Conducive risk free working environment

Sphere of Impacts

Improved employee know-how



Motivated and engaged workforce



Optimised resource utilisation



7% reduction in staff attrition rate





Secured employee health and safety









Material Focal Points

 Technological advancement	 Information security	 Process efficiency	 Carbon neutralisation	 Employee engagements via systems
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Performance Highlights

 <p>Infused innovation: Launched payment gateway and mcash services</p>	 <p>Enhanced online service portal to improve operational process efficiency</p>	 <p>Online recoveries collection process</p>	 <p>Productivity and efficiency enhancement</p>
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Intellect

(GRI 103-2 and 103-3)

As a premier finance company, MI is endowed with knowledge-based assets in terms of expertise and intelligence gathering in its journey of close upon six decades. Our growth ambitions were underpinned by know-how, licenses, software, procedures and other protocols driving us towards the edge of competitiveness and supremacy. Our knowledge base is well geared towards the legendary service for which we are renowned, extended through the MI brand as a friendly financial specialist and trustworthy partner throughout our successful journey. We continued to assess the extent to which our technologies, in combination with our expertise, generate sustainable stakeholder returns in our value creation journey. During the year, with the new normal conditions of the COVID-19 outbreak, our strategic approach has been especially focused towards enhancing productivity, efficiency and stakeholder convenience through expanded technological solutions whilst continuing to develop our core competencies.

Detailed disclosures about our Intellect are made available in our website.

Challenges

 Vast change in technology	 Data security risk, system failures and connectivity failures	 Adherence to strict risk management procedures and internal control mechanisms	 Grasping process improvements to enhance employee productivity and customer care
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Sphere of Impacts

Efficient service	Brand building	Customer convenience and augmented service value	Competitive edge	Automation-led controlled use of paper



Material Focal Points



Ensure optimum accessibility to clients



Infrastructure resource Maintenance and development



Maintaining state-of-the-art working environment



Utilising resources in a sustainable manner

Performance Highlights



Improved operational efficiency by upgrading infrastructure



Expanded branches with gold loan operations



Increased the technology related investments over **Rs. 50 Mn**



Infrastructure

(GRI 103-2,103-3)

Sustainable infrastructure is an engine for the inclusive growth of the company and plays a vital role in delivering our offerings with a fulfilling unique experience. Our widespread branch network is fully furnished with trailblazing communication platforms in tandem with digitised system technologies to meet current and future demands. The branches therefore have the ability to coordinate among our business lines, functions, and staff and business locations virtually as well as physically to deliver service beyond customer expectations.

Though we have been somewhat conservative in our investments in the last two years due to the unprecedented challenges from COVID and Eater Sunday events, yet continued to develop our physical infrastructure and IT systems to face the competitive business environment and widening customer expectations to boost our revenue and improve operational efficiency in the long run while enhancing shareholder returns.



Detailed disclosures about our Infrastructure are made available in our website.

Challenges



Ensure the adequacy of infrastructure support to growth prospects



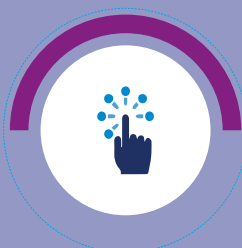
Balancing off costs versus benefits of investments



Continuous technological advancements and timing of investments

Sphere of Impacts

Convenient client access points



Scalability of business operations



Cost effectiveness



Unique working environment and culture



Environmental footprint





Material Focal Points

 Efficient waste management	 Biodiversity fortification	 Natural resources optimisation	 Carbon neutralisation
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Performance Highlights

 Completed 5 projects supporting environmental protection ideologies	 Complied with environmental rules and regulations	 Continuous employee awareness	 Reduction in usage of natural resources
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Nature

(GRI 103-2 and 103-3)

As a responsible corporate citizen, our corporate strategy in keeping with modern times embeds environmental sustainability ideologies, where we focus on appropriate management of our environmental footprint through the implementation of effective green policies and procedures. Thus, while ensuring that our lending policies support the preservation of our natural resources, we minimise our negative impact through the use of renewable resources – material, energy and water – in the most effective manner to provide a balanced response to meeting our stakeholder obligations. During our long business journey, during which we have expanded to 39 operative locations, MI has outweighed commercial boundaries to safeguard nature with the aim of creating value for society. The Sustainability Governance Committee of the company has established thematic environmental safeguard programmes in order to provide an oversight into the efficient management of our environmental policies and procedures.



Detailed disclosures about our Nature are made available in our website.

Challenges



Budget allocation during COVID-19



Creating a mindset of environmentally-friendly behaviour among stakeholders

Sphere of Impacts

Reduced paper usage by 24%



Reduced electricity, water usage and related costs



Enhanced brand recognition



Improved green-oriented automation and digitisation



Contributed in minimising climate emergency



GRI Standards Contents Index

“In Accordance Comprehensive”

 (GRI 102-55)

Category	Disclosure Number	Disclosures	Section in AR	Page Reference	
				Book Page	Web Page
GRI 102: General Disclosure					
Organisational Profile	102-1	Name of the Organisation	Mercantile Investments and Finance PLC	312	
	102-2	Activities, brands, products, and services	Business Overview	13	
			Our Products and Services	14 to 15	
	102-3	Location of headquarters	236, Galle Road, Colombo 03, Sri Lanka.	312	
			Infrastructure		5
	102-4	Location of Operations	Our Integrated Report	8	
			Infrastructure		5
	102-5	Ownership and legal form	Our Integrated Report	10	
			Corporate Information	312	
	102-6	Markets served	Business Overview	13	
			Infrastructure		4 to 5
			Branch Network	313 to 315	
	102-7	Scale of the Organisation	Financial Highlights	18 to 19	
Operational Highlights			20 to 21		
102-8	Information on employees and other workers	Human Strength		4, 5, 8	
102-9	Supply Chain	Alliances		10 to 12	
102-10	Significant changes to the organisation and its supply chain	Our Integrated Report	9		
		Alliances		10 to 11	
102-11	Precautionary principle or approach	Nature	9	11	
102-12	External Initiatives	Our Integrated Report	10		
102-13	Membership of Associations	Corporate Governance Report	96		
Strategy	102-14	Statement from senior decision maker	Managing Director’s Review	29 to 33	
			Risk Management Report	163 to 176	
Ethics and Integrity	102-16	Values, principles, standards, and norms of behavior	Direction and Value System	16	
			Sustainable Value Creation	36	
			Process – Sustainable Business Model Adopted		
	Corporate Governance Report	127			
102-17	Mechanisms for advice and concerns about ethics	Alliances		15	
		Human Strength		29 to 30	
Governance	102-18	Governance structure	Corporate Governance Report	94, 99, 129	
	102-19	Delegating authority	Corporate Governance Report	94, 95, 99 to 103, 104 to 105, 107, 129, 140	
			Corporate Governance Report	95	
102-20	Executive-level responsibility for economic, environmental and social topics	Corporate Governance Report	95		

GRI Standards Contents Index “In Accordance Comprehensive”

Category	Disclosure Number	Disclosures	Section in AR	Page Reference	
				Book Page	Web Page
	102-21	Consulting stakeholders on economic, environmental and social topics	Corporate Governance Report	95, 97, 99	
	102-22	Composition of highest governance body and its committees	Corporate Governance Report	78 to 83 , 95 to 96 , 99 to 103, 107, 136 to 139	
	102-23	Chair of the highest governance body	Corporate Governance Report	95,99,113	
	102-24	Nominating and selecting the highest governance body	Corporate Governance Report	99 to 103, 116	
	102-25	Conflicts of interest	Corporate Governance Report	126, 134, 150 to 151	
	102-26	Role of the highest governance body in setting purpose, value and strategy	Corporate Governance Report	95, 104 to 105, 107, 129, 130	
	102-27	Collective knowledge of the highest governance body	Corporate Governance Report	105	
	102-28	Evaluation of the highest governance body's performance	Corporate Governance Report	95, 105, 117	
	102-29	Identifying and managing economic, environmental and social impacts	Corporate Governance Report Risk Management Report	99, 129 163	
	102-30	Effectiveness of risk management process	Corporate Governance Report Risk Management Report	94, 95, 163	
	102-31	Review of economic, environmental and social topics	Corporate Governance Report Risk Management Report	95, 129 163	
	102-32	Highest governance body's role in sustainability reporting	Our Integrated Report Corporate Governance Report	11 95, 99 to 103, 104- 105	
	102-33	Communicating critical concerns	Corporate Governance Report	94, 95	
	102-34	Nature and total number of critical concerns	Corporate Governance Report	115	
	102-35	Remuneration Policies	Corporate Governance Report	105, 119	
	102-36	Process of determining remuneration	Corporate Governance Report	105, 119	
	102-37	Stakeholders involvement in remuneration	Corporate Governance Report	119, 121	
	102-38	Annual total compensation ratio	*Omitted and not disclosed due to confidentiality		
	102-39	Percentage increase in annual total compensation ratio	*Omitted and not disclosed due to confidentiality		

GRI Standards Contents Index “In Accordance Comprehensive”

Category	Disclosure Number	Disclosures	Section in AR	Page Reference	
				Book Page	Web Page
Stakeholder Engagement	102-40	List of stakeholder groups	Sustainable Value Creation Process - Stakeholder Matrix	38	4
	102-41	Collective bargaining agreements	Human Strength		30
	102-42	Identifying and selecting stakeholders	Sustainable Value Creation Process - Stakeholder Matrix	38	4
	102-43	Approach to stakeholder engagement	Sustainable Value Creation Process - Stakeholder Engagement	38	4 to 6
	102-44	Key topics and concerns raised	Sustainable Value Creation Process - Stakeholder Engagement	38	4 to 6
Reporting Practice	102-45	Entities included in the consolidated financial statements	Our Integrated Report	8	
	102-46	Defining report content and topic boundaries	Our Integrated Report	8	
			Sustainable Value Creation Process - Material Matters	39	6 to 12
	102-47	List of material topics	Sustainable Value Creation Process - Material Matters	39	6 to 12
			Our Integrated Report	9	
	102-48	Restatements of information	Our Integrated Report	9	
	102-49	Changes in reporting	Our Integrated Report	9	
	102-50	Reporting period	1st April 2020 to 31st March 2021	8	
	102-51	Date of most recent report	31st March 2020	9	
	102-52	Reporting cycle	Our Integrated Report	8	
	102-53	Contact point for questions regarding the report	Our Integrated Report	11	
	102-54	Claims of reporting in accordance with the GRI standards	Our Integrated Report	10	
	102-55	GRI Content Index	GRI Standards Contents Index “In Accordance Comprehensive”	68 to 74	
102-56	External assurance	Our Integrated Report	10		
		Independent Assurance Report on Sustainability	75		
GRI 103: Management Approach					
103-1	Explanation of the material topics and its boundary	Sustainable Value Creation Process - Material Matters	39	6 to 12	
		Financial Wealth	48 to 57		
103-2	The management approach and its components	Alliances	58 to 59	1 to 16	
		Human Strength	60 to 61	1 to 33	
		Intellect	62 to 63	1 to 10	
		Infrastructure	64 to 65	1 to 10	
		Nature	66 to 67	1 to 12	
		Impact Management		34	

GRI Standards Contents Index “In Accordance Comprehensive”

Category	Disclosure Number	Disclosures	Section in AR	Page Reference	
				Book Page	Web Page
	103-3	Evaluation of the management approach	Sustainable Value Creation Process - Material Matters	39	6 to 12
			Financial Wealth	48 to 57	
			Alliances	58 to 59	1 to 16
			Human Strength	60 to 61	1 to 33
			Intellect	62 to 63	1 to 10
			Infrastructure	64 to 65	1 to 10
			Nature	66 to 67	1 to 12
			Impact Management		34
GRI 200: Economic Performance					
GRI 201: Economic Performance	201-1	Direct economic value generated and distributed	Impact Management		9 to 10
	201-2	Financial implications and other risks and opportunities due to climate change	Nature		10 to 11
	201-3	Defined benefit plan obligations and other retirement plans	Financial Statements	263 to 265	
	201-4	Financial assistance received from government	Impact Management		8
GRI 202: Market Presence	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Human Strength		24
	202-2	Proportion of senior management hired from the local community	Human Strength		9 to 11
GRI 203: Indirect Economic Impacts	203-1	Infrastructure investments and services supported	Impact Management		16 to 17
	203-2	Significant indirect economic impacts	Impact Management		14 to 16
GRI 204: Procurement Practices	204-1	Proportion of spending on local suppliers	Alliances		12
GRI 205: Anti-corruption	205-1	Operations assessed for risks related corruption	Alliances		15
	205-2	Communication and training about anti-corruption policies and procedures	Alliances		15
	205-3	Confirmed incidents of corruption and actions taken	Alliances		15
GRI 207: Tax 2019	207-1	Tax strategy and the approach to regulatory compliance	Sustainable Value Creation Process - Managing Our Tax Obligations		44 to 45
	207-2	Tax governance and control framework	Sustainable Value Creation Process - Managing Our Tax Obligations		44 to 45
	207-3	Engagement with tax authorities and public policy advocacy on tax	Sustainable Value Creation Process - Managing Our Tax Obligations		44 to 45
	207-4	All tax jurisdictions	Notes to the Financial Statements	228 to 229	

GRI Standards Contents Index “In Accordance Comprehensive”

Category	Disclosure Number	Disclosures	Section in AR	Page Reference			
				Book Page	Web Page		
GRI 300: Environmental Topics							
GRI 301: Material 2016	301-1	Materials used by weight or volume	Impact Management		26		
	301-2	Recycled input materials used	Impact Management		26 to 27		
	301-3	Reclaimed products and their packaging materials	Impact Management		26 to 27		
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	Impact Management		27 to 29		
			Nature		9		
	302-2	Energy consumption outside of the organisation	Impact Management		27 to 29		
			Nature		9		
	302-3	Energy intensity	Impact Management		28 to 29		
	302-4	Reduction of energy consumption	Impact Management		27 to 29		
302-5	Reductions in energy requirements of products and services	Impact Management		27 to 29			
GRI 303: Water 2016	303-1	Water withdrawal by source	Impact Management		29 to 30		
	303-2	Water sources significantly affected by withdrawal of water	Impact Management		29		
	303-3	Water recycled and reused	Impact Management		29		
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		7		
			304-2	Significant impacts of activities, products, and services on biodiversity	Nature		7
					Nature		10
					Impact Management		32 to 33
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	Nature		7			
GRI 306: Waste 2020	306-1	Water discharge by quality and destination	Impact Management		29		
	306-2	Waste by type and disposal method	Impact Management		31		
	306-3	Significant spills	Impact Management		30		
	306-4	Transport of hazardous waste	Impact Management		30		
	306-5	Water bodies affected by water discharges and/or runoff	Impact Management		29		
GRI 307: Environmental Compliance 2016	307-1	Non-compliance with environmental laws and regulations	Nature		11		

GRI Standards Contents Index “In Accordance Comprehensive”

Category	Disclosure Number	Disclosures	Section in AR	Page Reference	
				Book Page	Web Page
GRI 400: Social Topics					
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	Human Strength	12 to 13, 28	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Human Strength	25	
	401-3	Parental leave	Human Strength	27	
GRI 402: Labor/ Management Relations 2016	402-1	Minimum notice periods regarding operational changes	Human Strength	30	
GRI 403: Occupational Health and Safety 2018	403-1	Workers representation in formal joint management-worker health and safety committees	Human Strength	25 to 27	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Human Strength	25 to 27	
	403-3	Workers with high incidence or high risk of diseases related to their occupation	Human Strength	25 to 27	
	403-4	Health and safety topics covered in formal agreements with trade unions	Human Strength	25 to 27, 29 to 30	
	403-5	Worker training on occupational health and safety	Human Strength	26	
	403-6	Promotion of worker health	Human Strength	26	
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Human Strength	26	
	403-8	Workers covered by an occupational health and safety management system	Human Strength	25 to 27	
	403-9	Work-related injuries	Human Strength	27	
	403-10	Work-related ill health	Human Strength	25 to 27	
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	Human Strength	14 to 15	
	404-2	Programs for upgrading employee skills and transition assistance programs	Human Strength	17 to 22	
	404-3	Percentage of employees receiving regular performance and career development reviews	Human Strength	22 to 23	
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	Human Strength	4, 8	
	405-2	Ratio of basic salary and remuneration of women to men	Human Strength	24	

GRI Standards Contents Index “In Accordance Comprehensive”

Category	Disclosure Number	Disclosures	Section in AR	Page Reference	
				Book Page	Web Page
GRI 406: Non-Discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	Human Strength		8
GRI 410: Security Practices 2016	410-1	Security personnel trained in human rights policies or procedures	Human Strength		30 to 31
GRI 412: Human Rights Assessment 2016	412-1	Operations that have been subject to human rights reviews or impact assessments	Human Strength		29
	412-2	Employee training on human rights policies or procedures	Human Strength		29
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Human Strength		29
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	Alliances Impact Management		13 to 14 18 to 24
	413-2	Operations with significant actual and potential negative impacts on local communities	Alliances Impact Management		14 18
GRI 417: Marketing and Labeling 2016	417-1	Requirements for product and service information and labeling	Alliances		6 to 7
	417-2	Incidents of non-compliance concerning product and service information and labeling	Alliances		6
	417-3	Incidents of non-compliance concerning marketing communications	Alliances		7
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Alliances		8
GRI 419: Socioeconomic Compliance 2016	419-1	Non-compliance with laws and regulations in the social and economic area	Alliances		6

Independent Assurance Report on Sustainability



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INDEPENDENT ASSURANCE REPORT TO MERCANTILE INVESTMENTS AND FINANCE PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED IN THE INTEGRATED ANNUAL REPORT- 2020/21

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- 2020/21 (“the Report”).

- ➔ Reasonable assurance on the information on financial performance as specified on Managing Our Impacts web content page 09 of the Report.
- ➔ Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: ‘In accordance’ – Comprehensive guidelines.

Basis of our Work and Level of Assurance

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

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

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would

become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company’s Responsibility for the Report

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

Ernst & Young’s responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: ‘In accordance’ - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 05 May 2021. 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 Company 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 2021.
- ➔ Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: ‘In accordance’ – Comprehensive guidelines.

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

Limitations and Considerations

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

Conclusion

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

- ➔ The information on financial performance as specified on Managing Our Impacts web content page 09 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2021.
- ➔ 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

07th June 2021
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 A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

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Consistent endurance we trust





03

STEWARDSHIP

Board of Directors – 78-83

Corporate Management Team – 84-89

Corporate Governance Report – 90-158

Chairman's Statement – 90-91

Board Committee Overview – 102

Management Committee – 103

Risk Management Report – 159-176

Our Operating Context – 159-162

Our Statement on Risk Management – 163-176

Committee Reports – 177-183

Board Integrated Risk Management Committee Report – 177-178

Board Remuneration Committee Report – 179




Board Nomination Committee Report – 180

Board Audit Committee Report – 181-182

Board Related Party Transaction Review Committee Report – 183

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	Membership in Board Sub-Committees
 <p>Pandithasundara Dinuka Dilhan Perera <i>Director</i> <i>Acting Chairman (Independent Non-Executive)</i></p>	21st February 2020		1 year	<ul style="list-style-type: none"> → Related Party Transaction Review Committee → Nomination Committee → Audit Committee → Remuneration Committee
 <p>Gerard George Ondaatjie <i>Managing Director</i> <i>(Executive)</i></p>	2nd December 1993		28 years	<ul style="list-style-type: none"> → Nomination Committee → Integrated Risk Management Committee → Credit Committee
 <p>Shermal Hemaka Jayasuriya <i>Finance Director (Executive)</i></p>	05th January 2001	29th July 2019	20 Years	<ul style="list-style-type: none"> → Integrated Risk Management Committee → Credit Committee → Related Party Transaction Review Committee

Stewardship

Board of Directors

Competencies			Qualifications/ Experiences	Present Directorship/Position held with other Companies	Number of Shares held in MI as at 31st March 2021
Expertise	Sector	Qualities			
<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 	FCA, FCMA (SL), ACMA (UK), CGMA, MBA (PIM, Sri J'pura)	<ul style="list-style-type: none"> ➔ CFO/Vice President – Finance and Supply chain of Millennium IT ESP (Pvt) Ltd ➔ Non-Executive Director of Infoseek (Pvt) Ltd 	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 	<ul style="list-style-type: none"> ➔ Strategic Thinker ➔ Visionary ➔ Analytical ➔ Idea Generator ➔ Able to deal with ambiguity ➔ Networking 	B.Sc. (Accountancy) (Arizona State University – USA)	<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 & Tangerine Vacations (Pvt) Ltd. 	477,213
<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 ➔ Automobile 	<ul style="list-style-type: none"> ➔ Strategic Thinker ➔ Visionary ➔ Analytical ➔ Idea Generator ➔ Able to deal with ambiguity ➔ Networking 	FCA, FCMA (UK), CGMA, FCMA (SL), MBA (Sri.J.)	<ul style="list-style-type: none"> ➔ Director of Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited, Mercantile Fortunes Insurance Brokers (Pvt) Ltd 	Nil

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	Membership in Board Sub-Committees
 <p>Angeline Myrese Ondaatjie <i>Director (Executive)</i></p>	20th January 1992	20th October 2017	29 Years	
 <p>Travice John Ondaatjie <i>Director (Executive)</i></p>	13th July 1995	20th October 2017	26 Years	
 <p>Pathmanathan Cumarasamy Guhashanka <i>Director (Independent Non-Executive)</i></p>	28th June 2013	29th July 2019	7 Years	

Stewardship

Board of Directors

Competencies			Qualifications/ Experiences	Present Directorship/Position held with other Companies	Number of Shares held in MI as at 31st March 2021
Expertise	Sector	Qualities			
<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 	MBA (University of Texas in Austin) USA, BSc (Massachusetts Institute of Technology USA)	<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
<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 	BSc. (Arizona State University – USA)	<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"> → 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 	MBA (USA)	<ul style="list-style-type: none"> → Director of Micro Constructions (Pte) Limited, Superlative Properties (Pvt) Ltd 	Nil

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	Membership in Board Sub-Committees
 <p>Anil Lasantha Naomal Dias <i>Director (Independent Non-Executive)</i></p>	26th March 2021		Since March 2021	<ul style="list-style-type: none"> → Integrated Risk Management Committee → Audit Committee → Nominations Committee → Related Party Transaction Review Committee → Remuneration Committee
 <p>Eranjale Deepthie Wickramasuriya <i>Director (Independent Non-Executive)</i></p>	26th March 2021		Since March 2021	<ul style="list-style-type: none"> → Audit Committee → Related Party Transaction Review Committee → Nominations Committee
 <p>Malwattage Kanchana Sujeewa Pieris <i>Director (Independent Non-Executive)</i></p>	05th April 2021		Appointed to the Board after FY 2020/21	<ul style="list-style-type: none"> → Remuneration Committee

Stewardship

Board of Directors

Expertise	Competencies		Qualifications/ Experiences	Present Directorship/Position held with other Companies	Number of Shares held in MI as at 31st March 2021
	Sector	Qualities			
<ul style="list-style-type: none"> → Strategic Management → Financial Management → Auditing → Risk Management 	<ul style="list-style-type: none"> → Manufacturing → Trading 	<ul style="list-style-type: none"> → Strategic Thinker → Idea Generator → Able to deal with ambiguity → Analytical → Visionary 	FCMA (UK), MBA (USJP)	<ul style="list-style-type: none"> → Director of Y Agro (Pvt) Ltd 	Nil
<ul style="list-style-type: none"> → Business Process Management → Auditing → Risk management → Financial Management → Strategic Management → Treasury 	<ul style="list-style-type: none"> → Financial Services → Trading → Manufacturing → Energy → Plantation 	<ul style="list-style-type: none"> → Strategic Thinker → Idea Generator → Analytical → Visionary 	FCMA (UK), MBA (USJP)	<ul style="list-style-type: none"> → Director of Vidullanka PLC, Vidul Plantation (Pvt) Ltd., Amana Takaful PLC and Chitrasena Vajira Dance Foundation 	Nil
<ul style="list-style-type: none"> → Company Law, → Strategic Management → Public Relations → Intellectual Property 	<ul style="list-style-type: none"> → Banking and Financial Services → Information Technology 	<ul style="list-style-type: none"> → Strategic Thinker → Idea Generator → Visionary → Analytical 	Attorney-at-Law		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
General Manager – HR



LAHIRU DAYANANDA
Assistant General Manager –
Sales & Marketing



PRASAD INDIKA
Assistant General Manager – IT

Stewardship

Corporate Management Team



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



CHANDANA NANAYAKKARA
Assistant General Manager –
Finance

Corporate Management Team



PRASAD WICKRAMASINGHE
Senior Manager –
Payments & Cost Control



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



MANEL BANDARA
Regional Manager



DINESH PRABHATH
Head of Internal Audit

Corporate Management Team



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

Corporate Management Team

DHANUSHKA FONSEKA

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

Areas of expertise and contribution:
23 years experience in the Financial Service 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 FINANCIAL OFFICER / SENIOR
GENERAL MANAGER

Areas of expertise and contribution:
19 years experience in the Financial Service sector
6 years experience in audit and accounting

Directorships and memberships:
Director of Mercantile Fortunes Insurance Brokers (Pvt) Ltd

SONALI PETHIYAGODA

ACIS (UK), ACCS
COMPANY SECRETARY

Areas of expertise and contribution:
30 years experience in the Financial Service and tourism sector

RAVI EKANAYAKE

Dipl. Engineering (UK)
GENERAL MANAGER – MOTOR
DIVISION

Areas of expertise and contribution:
39 years 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:
19 years experience in the Financial Service sector
2 years experience in the insurance field

DHARSHANA SENARATH

GENERAL MANAGER – CREDIT &
MARKETING

Areas of expertise and contribution:
23 years experience in the Financial Service sector

PRIYANTHA ATHUKORALA

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

Areas of expertise and contribution:
25 years experience in the Banking and Financial Service sector

LAHIRU DAYANANDA

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

Areas of expertise and contribution:
21 years experience in the Financial Service sector

PRASAD INDIKA

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

Areas of expertise and contribution:
18 years experience in the Financial Service sector

JAYANKA KAHAWEVITHANA

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

Areas of expertise and contribution:
11 years experience in the Financial Service sector

ROSHINI INDURUWAGE

MBA – Edith Cowan University (Australia)
ASSISTANT GENERAL MANAGER –
DEPOSITS & MARKETING

Areas of expertise and contribution:
23 years experience in the Banking and Financial Service sector

SHEHAN COORAY

ASSISTANT GENERAL MANAGER -
RECOVERIES

Areas of expertise and contribution:
23 years experience in the Financial Service 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:
20 years experience in the Financial Service sector

INDUNIL JAYAWARDENA

MBA - Sp (Finance) - Manipal University
India
ASSISTANT GENERAL MANAGER -
CREDIT RISK

Areas of expertise & contribution:
21 years experience in Commercial & Development Banking
6 years experience in Leasing

HIRANTHA BANDARA TENNAKON

MBA (UK)
ASSISTANT GENERAL MANAGER -
RECOVERIES

Areas of expertise & contribution:
21 years experience in the Banking and Financial Service Sector
3 years experience in the Pharmaceutical Industry

Corporate Management Team

CHANDANA NANAYAKKARA

ACA, ACMA (SL), CTA, MBus (Finance),
MFE
ASSISTANT GENERAL MANAGER -
FINANCE

Areas of expertise and contribution:

16 years experience in the Financial
Service sector
6 years experience in audit and assurance
sector

PRASAD WICKRAMASINGHE

Diploma in taxation (CA Sri Lanka)
SENIOR MANAGER – PAYMENTS &
COST CONTROL

Areas of expertise and contribution:

33 years experience in the Financial
Service sector

AVINDRA WIJESUNDARA

SENIOR MANAGER – CREDIT
OPERATIONS

Areas of expertise and contribution:

23 years experience in the Financial
Service sector

CHAMINDA PARANAYAPA

SENIOR MANAGER – INSURANCE

Areas of expertise and contribution:

31 years 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:

17 years 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:

23 years experience in the Financial
Service sector

PUBUDU DAYARATNE

REGIONAL MANAGER

Areas of expertise and contribution:

18 years experience in the Financial
Service sector

NILUSHA PERERA

MBA (UK)
REGIONAL MANAGER

Areas of expertise and contribution:

15 years experience in the Financial
Service sector

MANEL BANDARA

Fellow member of SLICM, PGD. in
Business Management (Colombo), BA
(Colombo)
REGIONAL MANAGER

Areas of expertise and contribution:

23 years experience in the Financial
Service sector

DINESH PRABHATH

FCA, ACMA (UK), CGMA, B.Sc.(Acc.Sp)
Sri Jayawardanapura
HEAD OF INTERNAL AUDIT

Areas of expertise and contribution:

9 years experience in the Financial Service
sector
3 years 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
9 years experience in the Accounting and
Financial Services Sector

ROHITHA RUPESINGHE

SENIOR MANAGER - RECOVERIES

Areas of expertise & contribution:

32 years experience in Financial Services
Sector

ANJULA GANEGODA

CMA Passed Finalist
SENIOR MANAGER - RECOVERIES

Areas of expertise & contribution:

19 years experience in Financial Services
Sector

INDIKA GALAHITIYAWA

SENIOR MANAGER – CORPORATE
LEASING

Areas of expertise & contribution:

15 Years experience in the Financial
Service sector

ERANDA WITHANA

SENIOR MANAGER – LEGAL &
RECOVERIES

Areas of expertise & contribution:

17 years experience in Financial Services
Sector

Corporate Governance Report

CHAIRMAN'S STATEMENT

Though the industry was saddled with two unprecedented events in just two years, finance companies remained resilient to external shocks, better prepared through more prudent governance systems than in the past. Regulator instruments to strengthen governance practices of the financial sector through controls on oversight, calibre of the Board, management and other best practices have significantly aided to stabilise and solidify the sector to face these trying times.

As a premier financial services establishment, we have realised the necessity of a sound governance mechanism in achieving long-term sustainability across all aspects of our value-creating business. Driven by this belief, we continued to work towards building a robust and meaningful corporate governance framework that would spearhead progress across 360 degrees of our business operation.

Governance during the Pandemic

The unprecedented and challenging conditions that arose from the COVID-19 pandemic in March 2020 and beyond affected the financial stability of the industry and the country. The Board evaluated the resilience of the business operations and its impact in many aspects and established action plans accordingly.

Further, it focused on sound cash flow management and liquidity status of the Company, emphasising on,

- ➔ Cost patterns evaluation and cost control wherever possible, including cutting down non-essential expenditure.
- ➔ Evaluating financial and non-financial KPIs and setting short-term cash targets
- ➔ Leverage on relief and concessions granted by the Government and Central Bank of Sri Lanka.

Working closely with the Management team, the Board was able to take further precautionary actions going forward to face the unpredictable pandemic effects.

HOW WE GOVERN OUR BUSINESS

I am pleased to place on record that the MI Board comprises an array of professionals and qualified individuals, who challenge, motivate and guide the business aligned to the Company's vision. This year too, through sound direction and leadership, we proved that the right blend of expertise governed the business in a way that all interest of our stakeholders were protected, despite the challenging situation, amid the COVID-19 environment.

The Board is collectively responsible to all stakeholders for the sustainable achievement of MI's strategic objectives and is committed to uphold the highest standards of corporate governance across all levels of the business, especially in this challenging financial year during which the Board made several decisions to cope with the pandemic environment while paving the way to reach the Company's ultimate objectives. This included scaling down operations, activating call centres to speed up collections, introducing of IT infrastructure to facilitate work from home and ensuring staff safety and people management, etc.

The Board clearly recognised its duties, roles and responsibilities and delegated its powers to sub-committees and a chairperson from each sub-committee was assigned with the duty of providing feedback to the Board. The Board and sub-committees convened more often than before to discuss matters of relevance during these difficult conditions including MI's performance, credit quality, asset and liability management, extraordinary risk management prerogatives, strategy and compliance and embracing new technologies to face evolving industry dynamics to improve business.

Most importantly, liquidity risk remained a challenge for the industry on account of most of the economic activities coming to a standstill when the first COVID-19 wave restrictions came into place. Thus, we were forced to establish extraordinary risk management techniques to cope with the prevailing market conditions.

In order to provide safety and convenience for our valued customers and staff, an internet-based payment gateway together with other solutions were introduced to ease transactions.

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. An 'Open Door Policy' is effectively operated at MI and therefore the corporate culture itself allows free flow of information both within the Board and between the Board and the Corporate Management and staff.

Corporate Governance Report

FUTURE GOVERNANCE

The challenging economic conditions caused by the pandemic are driving us further to ensure we maintain an effective governance framework to govern all corporate functions to face the rapidly-changing external factors, such as the economy, technology and regulatory environment. As it is apparent that the external variables are highly dynamic and challenging and will keep affecting the corporate sector in future as well, we will strive to safeguard the high

standard which we have formed within the corporate culture while focusing on our strategic objectives. In a rapidly-evolving industry, we expect to nurture staff to face complexities and manage risk and at the same time reap the potential. We will strive to utilise our resources very effectively in order to maximise returns for our stakeholders.

I would like to take this opportunity to thank Mr. S.M.S.S. Bandara, the 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.

As the Acting Chairman, I assure the commitment of the Board of Directors and all other employees to fulfil corporate objectives and same time ensure we comply with all regulatory and statutory requirements.



P.D.D. Perera
Acting Chairman

07th June 2021

Our Journey in Corporate Governance

Governance Actions FY 2020/21

- ➔ Reviewed, updated and approved the AML Policy, Liquidity Policy, Borrowings Policy, Related Party Transactions Review Policy, Communication Policy and Credit Policy.
- ➔ All strategic initiatives placed by the Company were continuously reviewed by the Board of Directors.
- ➔ Made radical organisation structural changes to enhance and reengineer processes to increase value and workforce motivation.
- ➔ Further strengthened the organisation-wide performance management system with the guidance and support from external consultants.
- ➔ Embraced advanced external IT solutions to develop and drive core business activities.

Governance Goals Beyond 2021

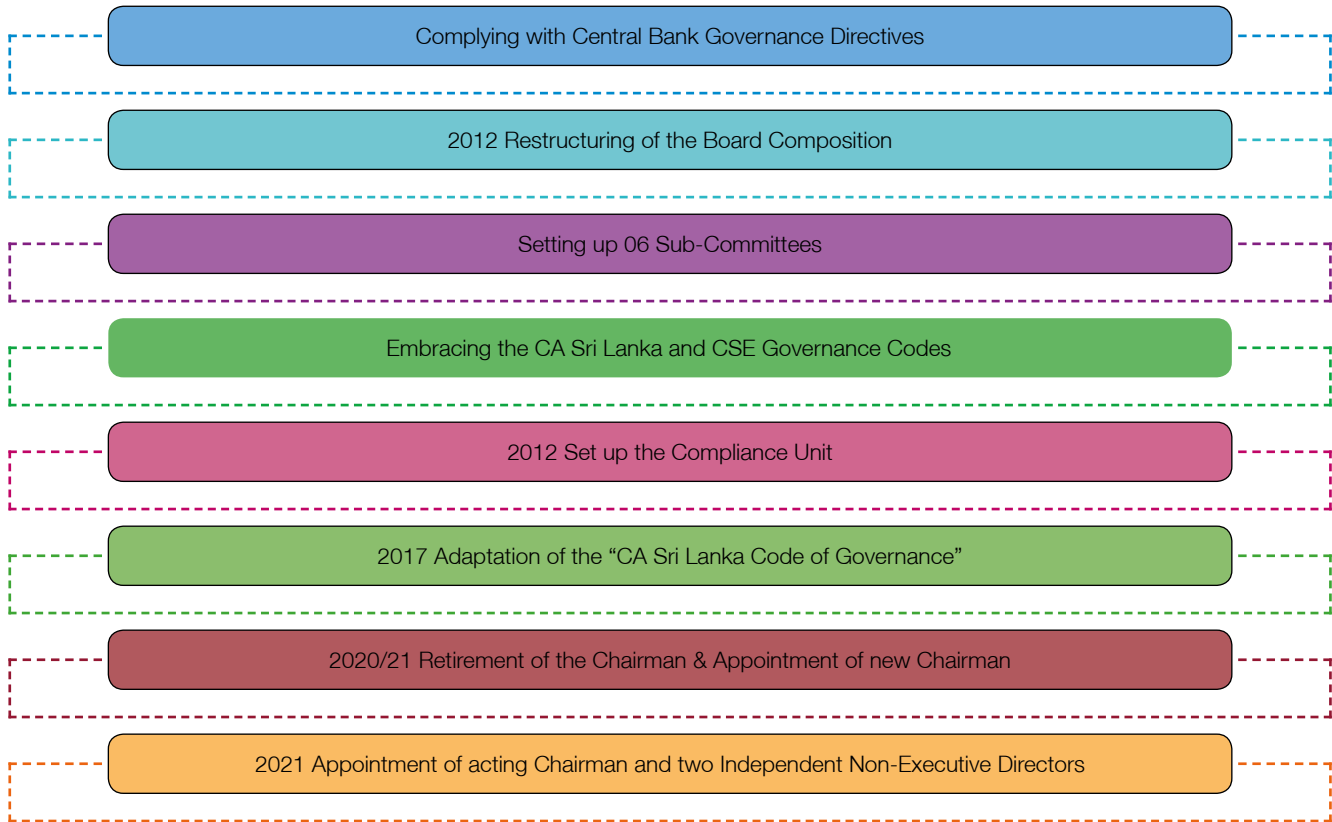
- ➔ Strengthening corporate planning and strategy process with greater involvement and periodic oversight of the Board, to set and realign performance against targets.
- ➔ Expanding External and Internal Audit and Compliance coverage to face highly-dynamic business environment.
- ➔ Establishing clear risk-based policy guidelines for all essential areas of business functions.
- ➔ Further strengthening the Process Re-engineering Division.
- ➔ Improve the quality, relevance and timeliness of corporate information provided to the Board.
- ➔ Strengthening oversight over technology, digitalisation and IT evolution within the organisation.

Governance Objectives

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

Corporate Governance Report

CORPORATE GOVERNANCE IN THE PAST DECADE

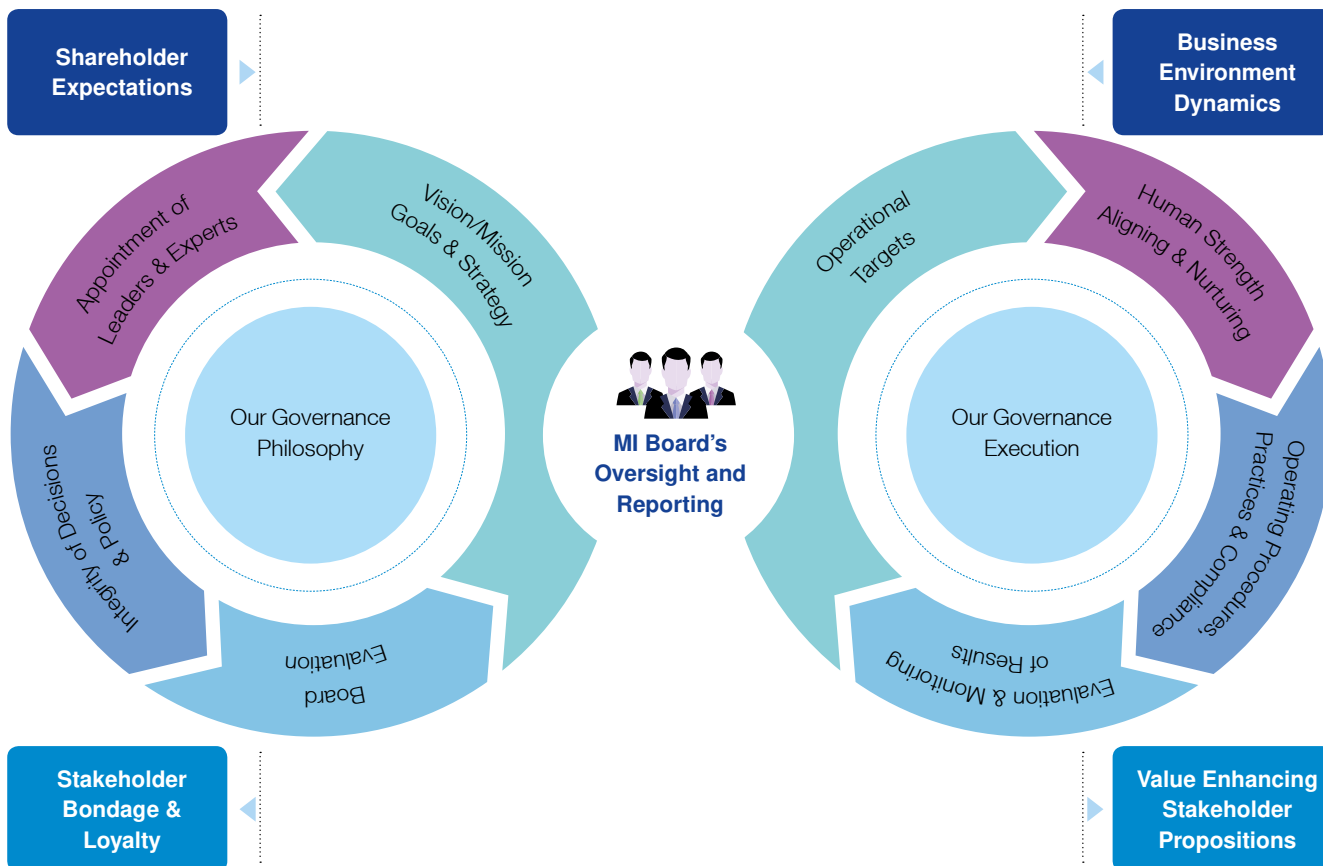


GOVERNANCE FRAMEWORK

The governance framework at MI has its own internal benchmarks, processes and structures that are aligned to 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) and also by the Securities and Exchange Commission of Sri Lanka (SECSL). This structure contains our unique corporate values and culture and encompasses effective corporate policies and control procedures to direct Company affairs prudently, in keeping with regulatory requirements. We remain committed to improving our framework to reflect global best practices and thus periodic reviews are carried out with these broad ideologies in mind. Developments in the economic, regulatory and technology sectors are also considered to enhance the effectiveness of the framework and in turn the quality of service we provide to our ultimate stakeholders.

Corporate Governance Report

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. (Pg 16 and 40)
- ➔ 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. (Pg 180). The Board then appoints sub committees through which the Board exercises its oversight over the Company's affairs. (Pg 100 to 103)
- ➔ Integrity of Decisions and Policy: 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

- ➔ Board Evaluation: The sufficiency and effectiveness of the Board's decision and policymaking in achieving strategic objectives is evaluated by the Remuneration Committee. (Pg 179)
- ➔ MI Board's Oversight and Reporting: The Corporate Management team headed by the Managing Director/ CEO sets 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. (Pg 94)

- ➔ Operational Targets: Vision/mission, strategic goals and objectives are cascaded down into operational targets set out at strategic business unit and department level. (Pg 40)
- ➔ Human Strength Aligning and Nurturing: Sufficient and effective training and development is provided to staff and the right corporate culture is in place to facilitate staff to utilise Company resources in a sustainable manner towards achieving operational targets. (Pg 61 and 62).
- ➔ 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. (Pg 94 and 95)

Corporate Governance Report

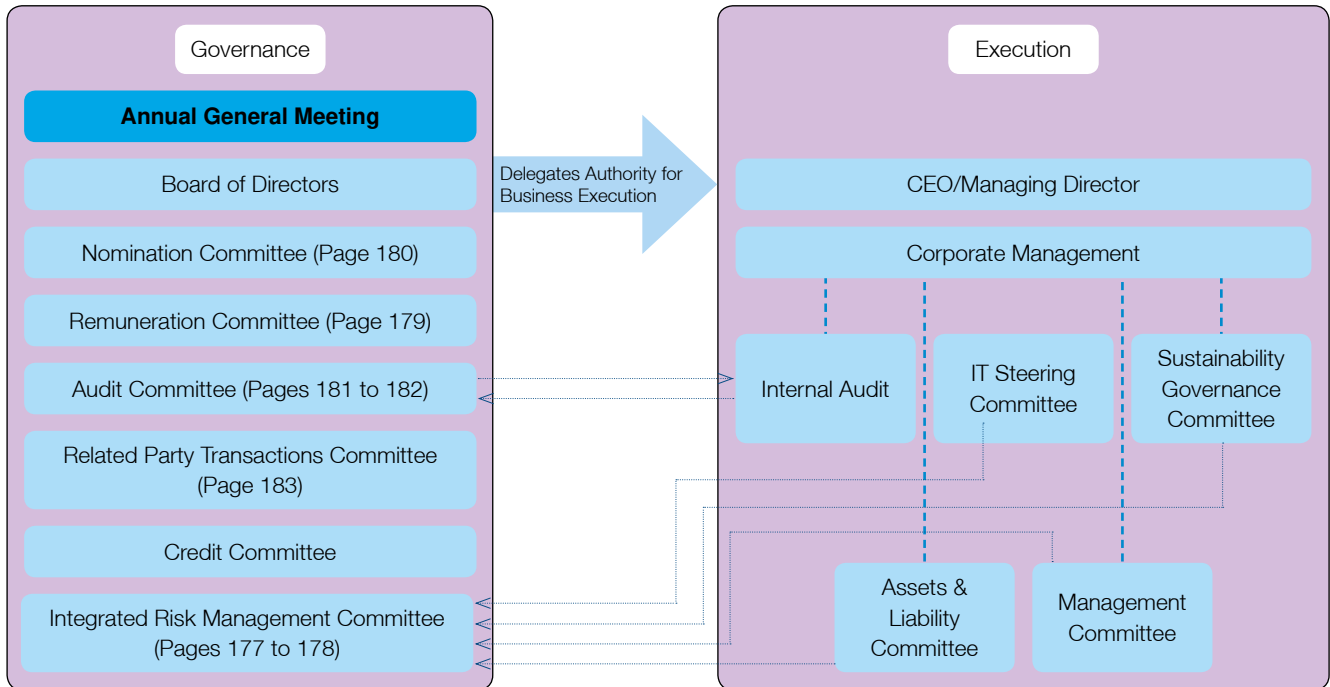
- ➔ Evaluation and Monitoring of Results: The performance of Company operations is measured regularly and the Board and its sub committees are given constant feedback. These observations and communications will be taken as input information for future amendments in policies and to update the strategy. (Pg 40)

GOVERNANCE STRUCTURE

(GRI 102-18, 102-19, 102-30, 102-33)

MI's governance structure clearly articulates the scope and hierarchy of authority and especially the relationships among the Board, its sub committees, managers, shareholders and other stakeholders. The Board of Directors holds the highest authority and delegates powers of execution to the Corporate Management team and oversees the decisions made by them through an effective monitoring process.

The Board of Directors are 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.



A ROBUST OVERSIGHT FUNCTION

INTERNAL AUDIT FUNCTION

MI's Internal Audit is headed by a qualified Chartered Accountant, having apt knowledge of the business to conduct quality audits. The Internal Audit Department through frequent audits reviews the Company's compliance with prevailing regulations and procedures. Loopholes of business processes, new developments and findings by the Internal Audit function were reported to the Audit Committee and then reported upward to the Board depending on the materiality of such matters. During the year, there were a number of new recruits and functional changes to the division to streamline the audit function in order to tackle the challenges faced by the Company as a result of the evolving business landscape including 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 159 to 176 for a comprehensive overview of MI's Risk Management process.)

Corporate Governance Report

THE COMPLIANCE FUNCTION

The Head of Risk and Compliance Management pays close attention to rapidly-changing regulations that evolve along with trends in customer protection and anti-money laundering in order to safeguard stakeholder interests. The Head of Risk and Compliance Management is also the Compliance Officer of the Company and keeps a close review of the Company's level of compliance with various regulatory and statutory directives. The Compliance Unit is further strengthened by the compliance representatives appointed across all branches and divisions. Two-way communication has been built between the Compliance Unit and the Compliance representatives to ensure smooth implementation of existing and new regulations. The Compliance Unit provided periodic feedback to the Board through the IRMC on the Company's compliance with key regulations.

THE BOARD'S ROLE IN GOVERNANCE

(GRI 102-20, 102-21, 102-26, 102-28, 102-29, 102-30, 102-31, 102-32, 102-33)

- The Board carefully evaluated the information provided by its sub committees in order to take decisions, which will enhance business performance as well as economic, social and environmental impacts. 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 2021

incorporating sustainability issues (environmental and social) as part of strategy. Key policies and procedures were reviewed and further enhanced in order to reflect the changes in our business environment and to sustain quality of service.

- 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 towards effective decision making.
- Performance of the Key Management Personnel was reviewed bi-annually to ensure the best combination of expertise is retained to perform at MI in reaching its objectives.
- The Board is involved in developing succession plans for the entire organisation, especially the Key Management Personnel (KMPs).
- The Board self-evaluated its performance by completing an evaluation checklist for each Director, which is done as a practice annually. The evaluation process of the Board considers 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, 102-26, 102-29, 102-31, 102-32)

The COVID-19 pandemic challenged almost all aspects of the economy, society and the environment. As a result, MI's Board also had to make certain unpredicted instant decisions about internal operations, resource management, etc. in order to uphold sustainable business practices which protect stakeholder interest. Though it was challenging, we scaled down operations and utilised minimum staff and resources to provide a constant effective service without compromising on the quality of our services. Moreover, call centres were operated to facilitate collections, while IT support was maximised wherever possible to allow staff to 'Work from Home'. We also provided several safety methods for staff at office by providing safe transport and sanitisation facilities.

The Board 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 was also responsible for the reporting of sustainability goals and actions and for the sanctioning of the Sustainability Report for this financial year.

CHAIRMAN'S ROLE

(GRI 102-23)

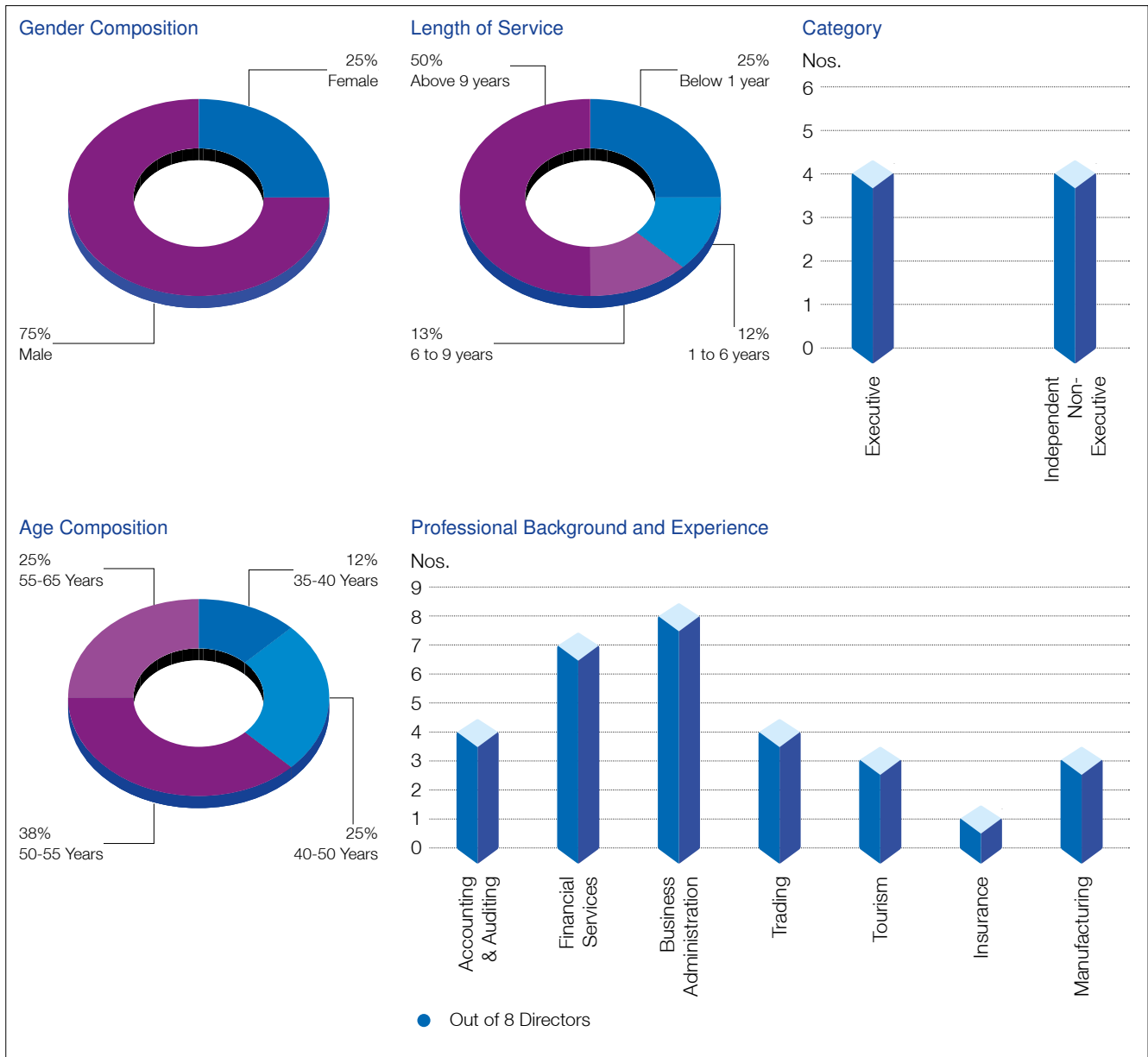
The Chairman heads the Board whilst guiding the Company to create and deliver sustainable value to our stakeholders. He is an Independent Non-Executive Director who continues to independently direct the affairs of the Board. (Refer the Chairman's role, duties and responsibilities stated in page 114 in this report).

OUR BOARD DYNAMICS DIVERSITY, SKILLS AND COMPOSITION

(GRI 102-22)

In the financial year under review, our Board comprises eight Directors possessing the right blend of skills and experience with representation from either gender and comprises individuals who possess vast knowledge in the spheres of banking and finance, leisure and accounting.

Corporate Governance Report



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



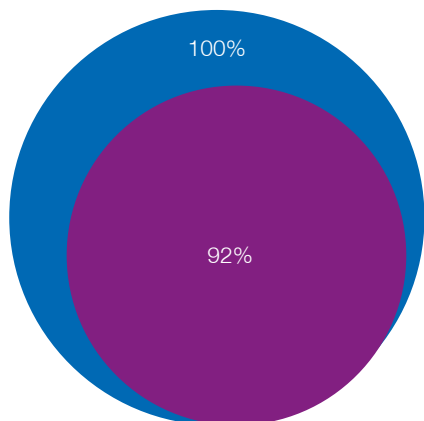
Corporate Governance Report

BOARD MEETINGS

(GRI 102-21)

<p>Scheduling</p>	<ul style="list-style-type: none"> → The Board meetings were scheduled monthly to allow to monitor performance regulatory and key matters to be addressed in a timely manner.
<p>Agenda</p>	<ul style="list-style-type: none"> → The Company Secretary prepared the agenda for Board meetings with the guidance and supervision of the Chairman.
<p>Papers Compiled and Distributed</p>	<ul style="list-style-type: none"> → 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 services of external consultants for expert advice and support on any matter deemed required.
<p>Before the Meeting</p>	<ul style="list-style-type: none"> → 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.
<p>Board Meeting</p>	<ul style="list-style-type: none"> → The Managing Director/CEO together with the Finance Director update the Director Board 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.
<p>After the Meeting</p>	<ul style="list-style-type: none"> → Minutes and matters arising from the meeting were produced and circulated to the Directors for review.

TOTAL NUMBER OF PAPERS APPROVED IN FY 2020/21



- The Number of Board Papers Submitted – 113
- The Number of Board Papers Approved – 104

Corporate Governance Report

HIGHLIGHTS OF THE BOARD'S SPECIAL REPORTS TAKEN UP BY THE ANNUAL WORK CYCLE FY 2020/21

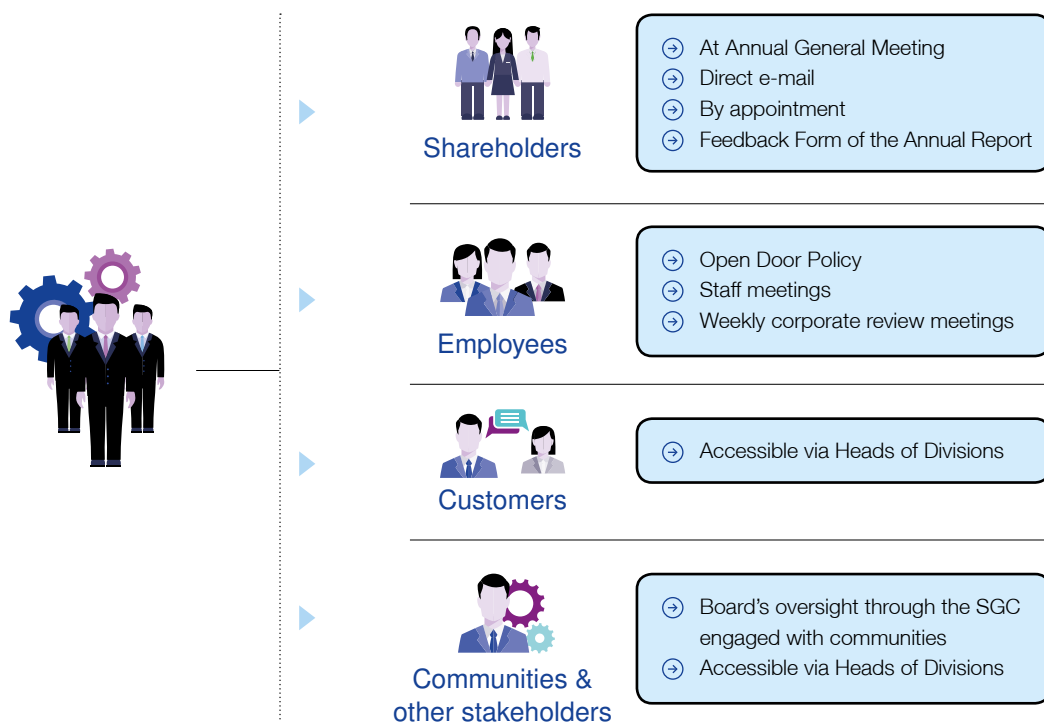
BOARD'S SPECIAL REPORTS

2020 Apr	<ul style="list-style-type: none"> ⊕ MI Compliance Status for CBSL Rules / Directions/ Guidelines ⊕ Taxes, Statutory dues and levies payable 	<ul style="list-style-type: none"> ⊕ Liquidity Risk Management Policy
2020 May	<ul style="list-style-type: none"> ⊕ Board Performance Evaluation summary ⊕ Single Borrowers / Top ten Borrowers 	<ul style="list-style-type: none"> ⊕ MI Compliance Status for CBSL Rules / Directions/ Guidelines
2020 Jun	<ul style="list-style-type: none"> ⊕ Politically Exposed Persons " PEP" ⊕ ALCO Summary Report 	<ul style="list-style-type: none"> ⊕ Risk Activity Report ⊕ Document Retention Policy
2020 Jul	<ul style="list-style-type: none"> ⊕ Single Borrowers / Top Ten Borrowers ⊕ MI Compliance Status for CBSL Rules / Directions/ Guidelines 	<ul style="list-style-type: none"> ⊕ Write off Lists
2020 Aug	<ul style="list-style-type: none"> ⊕ Anti-Money Laundering (AML) Regulation Update ⊕ Organisation Structure Changes 	<ul style="list-style-type: none"> ⊕ Terms of Reference of Integrated Risk Management Committee ⊕ Policy on Immovable Property Valuation
2020 Sep	<ul style="list-style-type: none"> ⊕ Credit Operation Manual ⊕ Product Proposal Document 	<ul style="list-style-type: none"> ⊕ MI Compliance Status for CBSL Rules / Directions/ Guidelines ⊕ Policy Guideline on Immovable Property Valuation
2020 Oct	<ul style="list-style-type: none"> ⊕ ALCO Summary Report ⊕ Branch Opening Plan for 2020/21 	<ul style="list-style-type: none"> ⊕ Risk Activity Report
2020 Nov	<ul style="list-style-type: none"> ⊕ Competitor Analysis as at 30th September 2020 ⊕ Single Borrowers / Top Ten Borrowers 	<ul style="list-style-type: none"> ⊕ Operating Manual – Business Support Division ⊕ MI Compliance Status for CBSL Rules / Directions/ Guidelines
2020 Dec	<ul style="list-style-type: none"> ⊕ Internal Audit Charter ⊕ Impairment Policy Manual 	<ul style="list-style-type: none"> ⊕ Receipt Cash Book Cashiering Operation and Procedure 2021 ⊕ Succession Plan for KMPs
2021 Jan	<ul style="list-style-type: none"> ⊕ Investments Policy ⊕ ALCO summary Report 	<ul style="list-style-type: none"> ⊕ Risk Activity Report ⊕ Purchase of Fixed Assets
2021 Feb	<ul style="list-style-type: none"> ⊕ Related Party Transaction Review Policy – Amended ⊕ Finance Procedure Manual 	<ul style="list-style-type: none"> ⊕ Communication Policy – Amended ⊕ Single Borrowers / Top Ten Borrowers
2021 Mar	<ul style="list-style-type: none"> ⊕ Organisation structure changes ⊕ Outsourcing policy 	<ul style="list-style-type: none"> ⊕ Obtaining Board Approval on KMP List ⊕ Revised Strategic Plan 2021/22 to 2023/24

Corporate Governance Report

BOARD'S INTERACTION WITH STAKEHOLDERS

(GRI 102-21, 102-29)



INDEPENDENT SELECTION OF BOARD MEMBERS

(GRI 102-23)

The Board comprises individuals from diverse backgrounds, skills, knowledge and experiences who eagerly contribute to the success of the Company by being active members of the Board. The combination of expertise has proved its effectiveness over the years for MI. The Board's skills, capabilities and experience were evaluated to assess the Board's capacity in meeting demanding market conditions as well.

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 180.

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.M.S.S. Bandara retired and Mr. P.D.D. Perera was appointed as Acting Chairman and an Independent Non-Executive Director. Mrs. E.D. Wickramasuriya and Mr. A.L.N. Dias were also appointed to the Board based on the recommendation of the Board.

RESPONSIBILITIES OF THE BOARD SUB COMMITTEES







(GRI 102-18, 102-19, 102-22, 102-24, 102-32)

In order to strengthen the Board's oversight over the core business functions, an interactive group of individuals need to be appointed to Board 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
- The scope of the 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

Corporate Governance Report

BOARD COMMITTEE OVERVIEW

 Audit Committee	 Remuneration Committee	 Integrated Risk Management Committee	 Nomination Committee	 Related Party Transaction Review Committee	 Credit Committee
Members and 2020/21 Meeting Attendance					
P. D. D. Perera 7/7	A.L.N. Dias	A.L.N. Dias	E.D. Wickramasuriya	P. D.D. Perera 3/4	G.G. Ondaatjie 10/10
S.M.S.S. Bandara 7/7*	P. D. D. Perera	N.H.V. Perera 4/4**	P. D. D. Perera	S.M.S.S. Bandara 4/4*	P.M. Amarasekara 9/10****
N.H.V. Perera 6/7**	S.M.S.S. Bandara 1/1*	G.G. Ondaatjie 4/4	S.M.S.S. Bandara 3/3*	N.H.V. Perera 4/4**	S.H. Jayasuriya 8/10
A.L.N. Dias	N.H.V. Perera 1/1**	S.H. Jayasuriya 4/4	G.G. Ondaatjie 3/3	S.H. Jayasuriya 4/4	
E.D. Wickramasuriya	P.T.K. Navaratne 1/1***	P.M. Amarasekara 3/4****	N.H.V. Perera 3/3**	E.D. Wickramasuriya	
		D. Fonseka	P.T.K. Navaratne 2/3 ***	A.L.N. Dias	
		D. Anthony	A.L.N. Dias		
		T.I. Jayawardana			
S. Pethiyagoda	S. Pethiyagoda	M.R.S.K. Costa	S. Pethiyagoda	S. Pethiyagoda	D. Fonseka
Appointments to the Board committees during the year under review					
<ul style="list-style-type: none"> • Mr.P.D.D. Perera appointed to Remuneration Committee and Nomination Committee on 30th March 2021 • Mr.A.L.N. Dias appointed to Remuneration Committee, Audit Committee, Related Party Transaction Review Committee, Nomination Committee and Integrated Risk Management Committee on 30th March 2021 • Mrs. E.D. Wickramasuriya appointed to Audit committee, Related Party Transaction Review Committee and Nomination Committee on 30th March 2021 • Mr. D. Fonseka appointed to Integrated Risk Management Committee in August 2020. • Mr. D. Anthony appointed to Integrated Risk Management Committee in August 2020. • Mr. T.I. Jayawardana appointed to Integrated Risk Management Committee in August 2020. 					

*Mr. S.M.S.S. Bandara retired on 09th February 2021







***Ms. P.T.K. Navaratne retired on 17th January 2021

**Mr. N.H.V. Perera retired on 09th February 2021







**** Mr. P.M. Amarasekara retired on 1st January 2021

- Independent Directors
- Non-Executive Directors
- Executive Directors
- Secretary
- Corporate Management

Corporate Governance Report

					
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 Central Bank of Sri Lanka.	Decide on the remuneration levels of the Executive Directors and Non-Executive Directors	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 Central Bank of Sri Lanka.	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.	The Committee reviewed and obtained Board approval for the Board Remuneration Policy drawing due reference to industry best practices during the financial year.	Review MI's approach for risk management periodically and introduce changes to bridge any gaps.			

Corporate Governance Report

 Audit Committee	 Remuneration Committee	 Integrated Risk Management Committee	 Nomination Committee	 Related Party Transaction Review Committee	 Credit Committee
Reviewing the scope of work and engaging with External Auditors and Corporate Management to identify and resolve concerns.					
Key Actions During 2020/21					
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.	Further strengthened the organisation wide performance management system with the guidance and support from external consultation.	Revised the Liquidity Risk Management Policy and ALCO Terms of Reference.	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.	Reviewed and monitored related party transactions of MI throughout the financial year.	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.	Human Resource Remuneration Policies were revisited and required changes were made	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 having considered the skills, knowledge, expertise and experience, made the recommendations to the Board to appoint an Independent Non-Executive Director.	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 ensured adherence of statutory and regulatory compliance requirements and applicable accounting policies.	Recommended measures to the Board to manage the payroll during COVID 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 COVID-19 period.		Carried out review over the ongoing systemisation 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 – 7	Papers Approved – 3	Papers Approved – 22	Papers Approved – 3	Papers Approved – 4	Papers Approved – 10

Corporate Governance Report

MANAGEMENT COMMITTEE

				
Executive Committee	Assets & Liability Committee	Sustainability Governance Committee	IT Steering Committee	Head Office Credit Committee

Key Responsibilities

- ⌚ Review management information on performance.
- ⌚ Identify early warning signals.
- ⌚ Assess gaps between targets and actual performance.
- ⌚ Renew operational concerns to eliminate or manage risk.
- ⌚ Evaluate and make recommendations to the Board on asset and liability concerns focusing on liquidity and interest rate risks.
- ⌚ Asses prevailing sustainability concerns.
- ⌚ Develop internal sustainability goals and measure progress.
- ⌚ Initiate sustainability projects, with social and environmental focus.
- ⌚ 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.
- ⌚ Determine the credit risk appetite of the Company.
- ⌚ Develop a positive credit culture at MI.
- ⌚ Identify lapses in credit evaluation with a view to overcome.
- ⌚ Proactively involve in recovery process to improve asset quality.

Actions for 2020/21

- ⌚ Ongoing reviews were done on key operational functional issues.
- ⌚ Monthly meeting were held where financial and business information was reviewed.
- ⌚ Monthly performance review was done with respective AGMs, regional managers and other key officers.
- ⌚ 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 liquidity levels within risk appetite limits.
- ⌚ Approved the list of CSR projects that are to be carried out during the 2020/21 financial year.
- ⌚ Identified and reviewed key sustainability focus areas.
- ⌚ The committee acted proactively in safeguarding MI's IT systems and information.
- ⌚ The committee regularly reviewed the IT systems and controls and ensured there were no material adverse impacts on business operations or customers caused by failure of systems.
- ⌚ 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 initiated trainings.

Corporate Governance Report

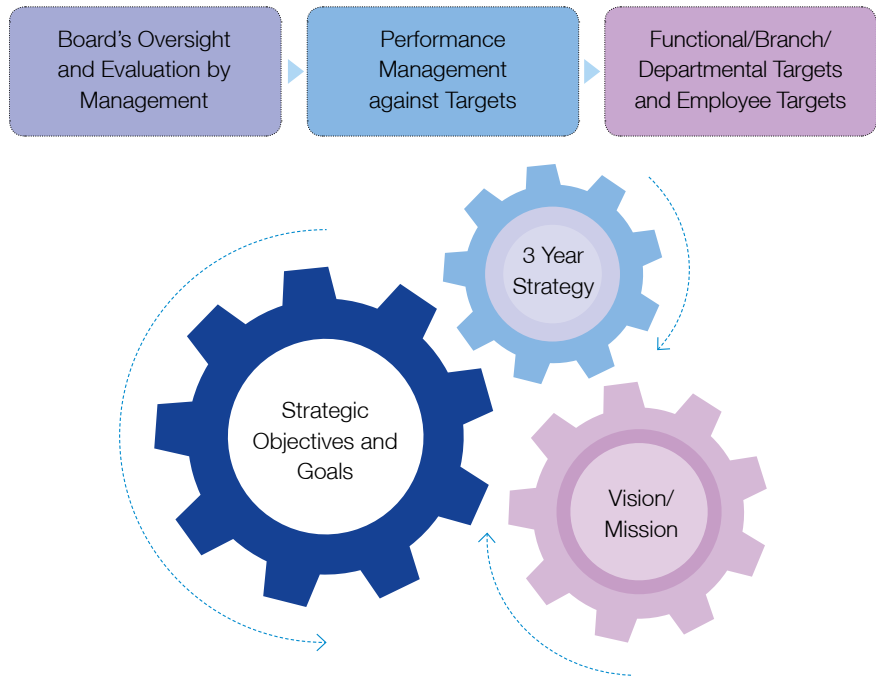
GOVERNANCE BEYOND 2021

The year concluded was undoubtedly a challenging one for the industry and country as a whole, with threats to lives and livelihoods. Business leaders have had to adapt, pivot and remain resilient through it all. Businesses have been on a journey from crisis management to change management, and although the end is in sight, it is not over and even after the pandemic is controlled, getting back to pre-COVID-19 operating conditions will be a daunting task. Governance remains the hallmark of a well-run organisation but for many, it continues to be an untapped opportunity.

Many of the challenges COVID-19 brought were governance related. Some organisations saw pressure being placed on their existing governance structures and processes while others quickly built temporary structures to get them through. Some approaches will have worked well and others less so. A critical challenge for companies in the post-crisis era will be to rebuild and strengthen their organisations with deeper governance foundations that are appropriate and proportionate to the goals and ambitions of their business.

As a highly-recognised financial establishment, 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 2023-2024,' which describes our future responses to changing customer expectations, technology, competitive environment and regulations. It also includes precautionary action plans for extreme economic and social conditions and master plans for operational changes required by inconsistent market conditions.

STRATEGIC PLANNING PROCESS



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 guiding all the activities of the Company according to external regulations and internal policies. Governing all the routine activities and leading the workforce towards the Company's strategic objectives are also under his purview.

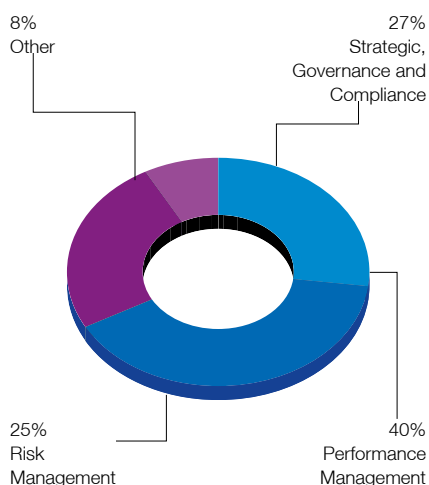
THE CORPORATE MANAGEMENT COMMITTEE'S ROLE IN GOVERNANCE

(GRI 102-19, 102-26, 102-32)

- ➔ 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 goes beyond commercial boundaries to ensure operational performances are in line with sustainability value creation aspirations of the Company and its stakeholders. Towards this end the Corporate Management Committee works closely with the Sustainability Governance Committee (SGC) to fulfil wider stakeholder obligations.
- ➔ The Corporate Management Committee's priority concern is to enhance value creation to stakeholders with distinct intentions and interests. Being a service provider, 'people' are the main resource of the Company and effective management of people is considered vital. People are managed by the Corporate Management Committee. The authority of managing people of the Company is delegated to respective Directors, GMs, DGMs, AGMs and Managers. In fulfilling these responsibilities, the Senior Management conducts regular performance appraisal of their staff against key operational targets set at the commencement of a financial year. Through close monitoring during this COVID-19 disrupted business period, the committee was able to steer through various strategic and operational challenges, taking prompt corrective actions and implementing strategies where necessary.

Corporate Governance Report

Corporate Management Meeting Focus



EMPLOYEE TRAINING ON REGULATIONS AND ENRICHING INSTITUTIONAL KNOWLEDGE

(GRI 102-27)

Initiating from the orientation programme, MI's workforce possesses knowledge on technical aspects depending on their job roles and also an overall awareness

on compliance and ethics related to the Company and the industry. In-house resource personnel and external experts carried out trainings during the financial year. Further, the SGC members who were responsible for reporting the relevant matters to the Board through the IRMC were well trained on sustainability management. (Refer Human Strength on pages 61 to 62 for more details.)

PERFORMANCE EVALUATION, REWARDS AND RECOGNITION

(GRI 102-28, 102-35 & 102-36)

- ➔ The Remuneration Committee independently reviews the performance of the Managing Director and the other Board members on an annual basis, embracing all the aspects related to their responsibilities.
- ➔ Competitive remuneration packages for Executive Directors are decided by the Remuneration Committee, considering the extent of their

individual contribution, commitment and expertise in performing the Board role and function.

Performance evaluation is formalised and accordingly staff performance was appraised against pre-determined performance targets, aligned to the three-year Strategic Plan. Thus, all staff, including in the corporate management, eventually worked towards reaching strategic goals. As a result of the performance appraisal process, employees were rewarded with bonuses on a bi-annual basis.

COMPLIANCE

For MI, compliance and business integrity play a vital role in building public trust. Therefore, the Board established a strong Governance Framework to fulfil its expectations and a high level of governance was executed at all levels, ensuring conformity with external rules and regulations and internal policies and procedures. No material breaches were identified during the FY 2020/21 that requires separate disclosure.

Key Internal Policies and Controls	Policy Reviewed/ Newly Issued During FY 2020/21
Outsourcing policy	✓
Stationery Purchasing and Inventory Procedure Manual	✓
Impairment Policy Manual	✓
Remuneration Policy – Directors	✓
Head Office Savings Manual	✓
IT Procedure Manual	✓
IT Security Policy	✓
Risk Management Policy	✓
ALCO Terms of Reference	✓
Policy on Related Party Transactions 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	✓
Write-off Policy	✓

Corporate Governance Report

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 (ICASL)	✓
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 disclosures in the form of statements have been provided.

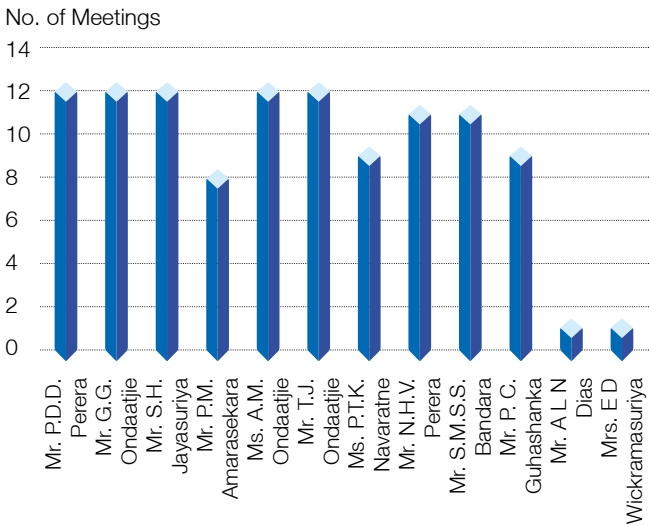
Part one provides disclosures on the Company's level of conformity with the recommended Code of Best Practice on Corporate Governance, issued to public companies by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in December 2017.

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, Direction No. 06 of 2013 and Direction No. 05 of 2020.

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.

Corporate Governance Report

MI'S COMPLIANCE TO CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017, ISSUED BY CA SRI LANKA

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)																										
<p>Section 1 The Company: A. Directors A.1. The Board</p> <p>(GRI 102-19, 102-22, 102-26)</p>	Principle A.1	Adopted	<p>The leadership for the company is provided by an effective Board of Directors comprising of experienced and influential individuals with diverse backgrounds and expertise. 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 is encompassed by effective strategic management with sound controls, while upholding good governance. The profile of the Board members with their qualification, competencies and experience is provided on pages 78 to 83.</p> <p>MI's Board comprises of an Independent Non-Executive Chairman who heads the Board and is well supported by an executive Managing Director and Directors in both executive and non-executive capacity maintaining a sound balance of independence. In March 2021 Company appointed an acting Chairman to the Board for short period due to the retirement of the Chairman Mr. S.M.S.S Bandara in February 2021.</p>																										
Board meetings	Code A. 1.1	Adopted	<p>The MI Board met 12 times during the financial year (FY) 2020/21, at monthly intervals, to review performance and take decisions for the prudent management of Company affairs. A formal notice of meeting with agenda is sent by the Company Secretary at least 7 days prior to meetings, to all Directors. There were no special Board meetings held during the FY 2020/21.</p> <p>Attendance at Board Meetings</p>  <table border="1"> <caption>Attendance at Board Meetings</caption> <thead> <tr> <th>Director</th> <th>No. of Meetings</th> </tr> </thead> <tbody> <tr><td>Mr. P.D.D. Perera</td><td>12</td></tr> <tr><td>Mr. G.G. Ondaatjie</td><td>12</td></tr> <tr><td>Mr. S.H. Jayasuriya</td><td>12</td></tr> <tr><td>Mr. P.M. Amarasekara</td><td>8</td></tr> <tr><td>Ms. A.M. Ondaatjie</td><td>12</td></tr> <tr><td>Mr. T.J. Ondaatjie</td><td>12</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>9</td></tr> <tr><td>Mr. A.L.N. Dias</td><td>1</td></tr> <tr><td>Mrs. E.D. Wickramasuriya</td><td>1</td></tr> </tbody> </table>	Director	No. of Meetings	Mr. P.D.D. Perera	12	Mr. G.G. Ondaatjie	12	Mr. S.H. Jayasuriya	12	Mr. P.M. Amarasekara	8	Ms. A.M. Ondaatjie	12	Mr. T.J. Ondaatjie	12	Ms. P.T.K. Navaratne	9	Mr. N.H.V. Perera	11	Mr. S.M.S.S. Bandara	11	Mr. P. C. Guhashanka	9	Mr. A.L.N. Dias	1	Mrs. E.D. Wickramasuriya	1
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Board Responsibilities	Code A. 1.2	Adopted	<p>The Board being the apex decision-making point in the Company hierarchy, is responsible for setting the overall strategy, risk appetite and approves capital and operating plans presented by the management, for the achievement of the objectives it has primarily set (Refer approving strategic plan pages 40 to 45). Apart from providing leadership to the corporate management in setting the long-term strategic goals, MI Board ensures adequate resources are available to meet these objectives.</p>																										

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
<p>③ Formulation and implementation of a sound business strategy</p>			<p>During FY 2020/21, the Company finalised the next medium term “strategic plan”, covering financial periods 2021/22 to 2023/24 and submitted for Board approval. However, the guiding document in governing business activity during this period under review remained the medium-term FY 2019/20 to 2021/22 strategic plan. This was the last applicable financial year of this guiding document. By devising the fresh strategic plan, the Board intends to put into perspective MI's corporate vision and mission, setting forth overall business objectives, business strategies, policies and processes for the various divisions and employees to adhere and concentrate implementing proposed strategy moving forward in the medium term and beyond 2021.</p> <p>In keeping to MI's top-down hierarchical approach, the Board ensured that the corporate objectives and goals, corporate values and strategies have been communicated to the corporate management and all key officers for implementation of planned strategies. The Board reviewed the progress of the business strategy implementation and the compliance status against annual targets at regular intervals. MI's actual financial performance highlights against annual set targets for financial year 2020/21 has been provided in the Financial Highlights page 18 and 19.</p>
<p>③ Appointing the chair and the Senior Independent Director if relevant</p>			<p>The Board appointed an acting Chairman to the Board in February 2021, with the retirement of Chairman after completing the 9 years of service as Independent Non-Executive Director.</p>
<p>③ The CEO and management team possess the skills, experience and knowledge to implement the strategy</p>			<p>Mr. Gerard Ondaatjie, the Managing Director (MD) of the Company acts also as the Chief Executive Officer. He together with the Corporate management team possess extensive knowledge and skill with widespread experience in the finance company sector in order to execute the set forth strategy, in order to achieve the organisational objectives.</p> <p>A brief biographical particulars of each member of the corporate management team is provided for on pages 84 to 89.</p>
<p>③ Adoption of an effective CEO and senior management succession plan</p>			<p>Succession for the key managerial positions (KMP) primarily focuses on developing and grooming people internally so as to have adequate options within the Company for replacement of KMP's. The Succession Plan as well as the Organisation Structure of the Company was board approved on facilitated this process.</p>
<p>③ Approving budgets and major capital expenditure</p>			<p>Board handled the key strategic financial decisions in relation to funding, pricing, liquidity and decisions on capital expenditure and reviewing of the annual budget.</p> <p>By approving the next three year plan, the budget including capital expenditure was established by the Board for FY 2020/21.</p>

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
<p>→ Determining the matters expressly reserved to the Board and those delegated to the management including limits of authority and financial delegation.</p>			<p>Board Responsibility Document and Executive Directors' detailed defined roles towards the organisation are clearly specified in the respective Board Director's job description.</p> <p>The Board has delegated its authority to the Corporate Management for each specific function, handled by the Executive Directors or Senior Staff Heading respective Divisions. The powers vested are governed by the corporate policy, procedures and other instructions issued by the Board from time to time.</p>
<p>→ Effective systems to secure integrity of information, risk management and internal controls</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 frameworks ultimate objective is to safeguard stakeholder interest and this importantly involves protecting shareholders' investment and the Company's assets whilst securing the reliability and integrity of information.</p> <p>In order to undertake the detailed monitoring of the controls and to report to the Board on its findings, the Board of Directors have delegated their authority to the Audit Committee. Same time the Integrated Risk Management Committee (IRMC) reviews the wide spectrum of risks effecting MI's business of the Company and takes prompt corrective actions to mitigate the negative effects of specific risks.</p> <p>Following reports provide comprehensive overview in this regard;</p> <ul style="list-style-type: none"> → Risk Management Report on pages 159 to 176 → Board IRMC report on pages 177 to 178 → Board Audit Committee Report pages 181 to 182 → Directors' statement on Internal Control Pages 198 to 199 → Auditor's Assurance Report on adequacy of internal control on financial reporting page 200 → Integrity of management information and its privacy in page 131
<p>→ Compliance with laws, regulations and ethical standards</p>			<p>MI's Compliance function overseen by the Head of Risk Management and Compliance, who is also the Compliance Officer (CO) of the company. He responsible to monitor and assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. He independently reports to the IRMC on a quarterly basis on divergent risk factors effecting MI's business with due recommendations and also reports on MI's compliance status to the regulatory environment.</p>

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
<p>⊕ All stakeholder interests are considered in corporate decisions</p>			<p>The Board recognises its responsibility towards all stakeholders including its depositors when directing the affairs of the Company. In fulfilling expectations of its stakeholders the Board adopts an integrated business model unique to MI, which is aimed at creating and enhancing stakeholder value either financially or non-financially as envisaged in MI business model (Refer page 36 to 37). The Board devised stakeholder specific strategy to enhance value and considered stakeholder impacts occurring from various Board decisions. Additionally, the Board approved the updated "Communication Policy" within FY 2020/21 which specifies communication methods and channels that will be adopted when interacting with various MI stakeholders.</p> <p>Refer: Stakeholder Engagement and impact (pages 38 to 39) and alliances (pages 59 to 60).</p>
<p>⊕ Sustainable business development in corporate strategy, decisions and activities and adopting "Integrated Reporting"</p>			<p>The Board as a practice reviewed current trends in the finance business field and was able to recognise sustainable business development areas/ projects needing attention such as development of new products and services and pursuing new markets to serve as a corporate strategy within its defined business and financial boundaries. In keeping to fundamentals, MI's business strategy is directed at creating long term sustainable growth and enhancing stakeholder value over time as a constant exercise.</p> <p>MI's integrated business model articulated in pages 36 to 37 highlight the sustainable value generated through the company's business process.</p>
<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>In order to be in line with the new developments in the LFC sector and changing business requirements, MI's accounting policies are annually reviewed by the Audit Committee. Through this committee, MI Board ensured that the Financial Statements of the Company are prepared in accordance with the approved accounting policies, accounting standards and internal Practices.</p> <p>Refer "Independent Auditors" Report on page 201 to 204 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 198 to 199.</p>


Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
<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 48 to 57)</p>
<p>⊕ Process of corporate reporting on annual and quarterly basis or more regularly</p>			<p>Through the Finance Department, monthly management accounts including supportive information is circulated to the Board for reviewing the financial status of the Company to make timely decisions. In parallel, the Company published interim accounts on a quarterly basis in timely manner in three languages complying with State Language Policy and circulated its annual report to the investors and updates financial statements to the CSE website quarterly in keeping to 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 the COVID 19 pandemic challenge, the Board was committed throughout in fulfilling its stewardship obligations towards all stakeholders by accomplishing their role in line with, laws and regulations and good governance practices implemented and directing the Company towards desired performance in a prudent manner.</p>
<p>Compliance with laws and access to independent professional advice</p>	Code- A. 1.3	Adopted	<p>Key policy documents updated please refer page 105.</p> <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 193 by the Directors.</p> <p>The Board approved the revised formal policy for Directors to obtain independent professional advice in FY 2020/21, 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>

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)										
Company Secretary	Code – A. 1.4	Adopted	Mrs. Sonali Pethiyagoda has been appointed by the Board as the Company Secretary since 1999. She is a qualified Chartered Secretary with over 20 years' experience in the related field. All Board members have full access to the Company Secretary to ensure proper Board procedures are followed and all applicable rules and regulations are complied with. Company Secretary is mainly responsible to advise the Board on corporate governance issues, Board procedures, compliance with applicable laws and regulations. She also co-ordinates scheduling of Board meetings and other subcommittee meetings, keeping minutes, and other relevant records. Currently, the role prescribed under schedule G of the Code for Company Secretaries is undertaken by Mrs. Pethiyagoda, in executing her routine functions.										
Independent judgment	Code – A. 1.5	Adopted	<p>All Directors are provided an equal opportunity to express their views independently, and they bring forward their independent judgment to bear at Board proceedings. The Directors have ample time to review Board papers and other circulated information prior to a meeting.</p> <p>Majority of Executive and Non-Executive Directors hold memberships in Board Subcommittees hence assist in strategy formulation, financial compliance and governance matters on a periodic basis.</p>										
Dedication of adequate time and effort by the Board	Code- A. 1.6	Adopted	<p>All Directors have been allocated sufficient time enabling them to discharge their responsibilities effectively for Board and Board Sub-Committee meetings, to fulfil their duties and obligations owed to the Company. Accordingly the Directors have attended majority of the meetings and have devoted their time adequately.</p> <p>Information pertaining to Directors' participation levels at Board meetings and Board Sub-Committee meetings are given on page 100.</p> <p>Board Meeting Discussion Composition</p> <table border="1"> <caption>Board Meeting Discussion Composition</caption> <thead> <tr> <th>Topic</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Performance</td> <td>40%</td> </tr> <tr> <td>Risk Management & Compliance</td> <td>25%</td> </tr> <tr> <td>Strategic Planning</td> <td>25%</td> </tr> <tr> <td>Other</td> <td>10%</td> </tr> </tbody> </table>	Topic	Percentage	Performance	40%	Risk Management & Compliance	25%	Strategic Planning	25%	Other	10%
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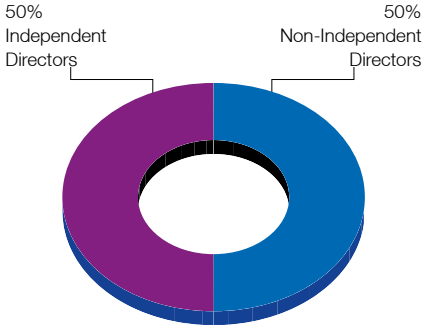

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 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 2020/21.
Training needs of Directors 102-27	Code – A. 1.8	Adopted	<p>Throughout this period, all Directors regularly updated themselves on evolving Non-Banking Finance Sector operations and regulatory aspects. Non-Executive Directors serving on key committees were updated continuously on matters particularly related to the respective Committee by the corporate management. A personalised approach to training and development of Directors was applied throughout this period.</p> <p>A comprehensive induction program is in place for any new Directors, who are planned to be appointed to the Board. This program apprises them comprehensively on the values and the culture of the Company, business and operations and its strategy, policies, governance framework and processes and their responsibilities as a Director in terms of the applicable rules and regulations.</p>
A.2 Chairman and Chief Executive Officer	Principle- A.2	Adopted	The roles of the Chairman and Managing Director/Chief Executive Officer have been segregated since 2012, ensuring a balance of power and authority in such a way that no individual has unfettered power of decisions. The Chairman leads the Board and is responsible for governance and the effective operations of the Board. The Managing Director is responsible and accountable for day-to-day management of the affairs of the Company.
Division of responsibility between the Chairperson and MD/CEO	Code – A. 2.1	Adopted	The roles of the Chairman and Chief Executive have been kept separate at MI. The Chairman's main responsibility is to lead, direct and manage the Board ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities. The Managing Director (MD) is in charge of the Company's chief executive role, managing the day-to-day operations of the Company. As part of his role, he leads the Corporate Management team in making and executing operational decisions. The MD is also responsible for recommending strategy to the Board.
A.3 Chairman's Role  (GRI 102-23)	Principle – A.3	Adopted	The Acting Chairman of the Board, Mr. Dinuka Perera, is an Independent Non-Executive Director who continued to demonstrate leadership to the Board by discharging Board functions effectively and in a methodical manner after the retirement of the previous Chairman during the financial year under review.


Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
Chairperson's role in conducting Board proceedings	Code – A. 3.1	Adopted	<p>Having a wealth of experience behind him, the Chairman was able to properly maintain high level of independency and impartiality in Board matters. He obtained advice from across the Board, given the well-blended knowledge and collective experience of MI Directors.</p> <p>Mr. Perera 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 ⊕ Ensured adequate information was provided to the Directors ⊕ Maintain a high level of independency and impartiality in Board matters, and ensure effectiveness of the Board ⊕ Prepared and circulated a formal agenda for the Board under his supervision ⊕ Obtained advice from across the Board and ensured critical issues were addressed in a timely manner ⊕ 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.
A.4 Financial Acumen 11. Availability of sufficient financial acumen and knowledge within the Board	Principle–A.4	Adopted	<p>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. The Board possesses a highly qualified Finance Director to advise them on matters relating to finance. He demonstrates vast experience in financial management, accounting and financial reporting expertise in the finance field, to advise it on matters relating to finance.</p> <p>Please refer Directors profile on pages 78 to 83.</p>
A.5 Board Balance	Principle – A.5	Adopted	<p>As per Finance Companies Corporate Governance Direction No.03 of 2008 issued by Central Bank of Sri Lanka, 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.</p>
Presence of Non-Executive Directors	Code – A. 5.1	Adopted	<p>Four out of eight Directors on MI Board are Non-Executive Directors including the Board Chairman. This ensures the importance and materiality of the Non-Executive Directors' opinion in the decision-making process of the Board.</p>


Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
Independent Directors	Code – A. 5.2	Adopted	<p>All the Non-Executive Directors are independent, in terms of the criteria defined by CSE Rule 7.10.4 on corporate governance.</p> <p>Independent Vs. Non-Independent Directors</p>  <p>50% Independent Directors</p> <p>50% Non-Independent Directors</p>
Criteria for evaluating the independence of Non-Executive Directors	Code – A. 5.3	Adopted	All four Independent Non-Executive Directors remained distant from management and free from any other business relationships that could impair independency in decision making. The Independent Non – Executive Directors complied with independency criteria stipulated by the CBSL, SEC, CSE and CA Sri Lanka guidelines during financial year 2020/21.
Signed Independence declaration by the Non-Executive Directors	Code – A. 5.4	Adopted	During the FY 2020/21, each Non-Executive Director of the Company has made written submissions as to their independence as per schedule K of the code.
16. Determination of independence of Non-Executive Directors	Code – A. 5.5	Adopted	<p>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 2021.</p> <ol style="list-style-type: none"> 1. Mr. P.D.D. Perera 2. Mr. A.L.N. Dias 3. Mrs. E.D. Wickramasuriya 4. Mr. P.C. Guhashanka
Appointment of an Alternate Director by a Non-Executive Director	Code – A. 5.6	Not Applicable	Not applicable as no Alternate Director was appointed during 2020/21.
Senior Independent Director (SID)	Code – A. 5.7	Adopted	Chairman’s/ Acting Chairman and Managing Director’s roles remained separate throughout the FY and therefore there was no requirement to appoint a Senior Independent Director.
Confidential discussion with SID	Code – A. 5.8	Adopted	Please refer Code – A. 5.7 above.
Meeting of Non- Executive Directors	Code – A. 5.9	Adopted	The Chairman held meetings with Non-Executive Directors without the presence of the Executive Directors one time during FY 2020/21.
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.
 (GRI 102-34)			
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.

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
Information to the Board by management	Code – A. 6.1	Adopted	The Board receives regular reports and presentations on strategies and developments in relation to its business lines and geographical areas and overall plans and performance from senior management. Regular reports also provide the Board and Board Subcommittees information on risk appetite profile, emerging risks & analytics, credit exposures, asset and liability management including liquidity, compliance and other vital matters. This enabled the Board Directors to review situations and risks with enough time and prepare for discussions, and make inquiries for additional information from the Management when necessary.
Adequate time for effective Board meetings	Code – A. 6.2	Adopted	The meeting agenda and the Board Papers are circulated by the Company Secretary seven days prior to Board meetings, providing the Directors with adequate time to study the papers and prepare themselves for constructive discussions at Board meetings. Board meeting minutes are circulated after Board meetings as a practice. Submission of Board meeting minutes within two weeks to the Board members will be adhered to consistently from the next financial year.
A.7. Appointments to the Board  (GRI 102-24)	Principle – A.7	Adopted	MI has established a Nomination Committee since 2013 to streamline new Director appointments and re-election process of Directors. The Chairperson of the Committee is Mrs. E.D. Wickramasuriya who is an Independent Non-Executive Director.
Nomination Committee	Code – A. 7.1	Adopted	After a comprehensive examination and an extensive screening process, the Nomination Committee recommends potential candidates who are eligible as new appointments to the MI Board. Based on such recommendations final decisions on appointment/ re-election are made by the Board in an objective and transparent manner. Refer Board Committee table on Page 100 which provides the Nomination Committee's composition, attendance at Committee meetings and the formal process that the Committee adopts to for any new Director appointments. The Nomination Committee Report for the financial period 2020/21 is given on page 180.
Assessment of Board Composition by the Nomination Committee	Code – A. 7.2	Adopted	The Board made a comprehensive evaluation of its Board members, by using the annual self-assessment process, to assess the experience and the exposure of the Directors are adequate to meet the strategic demands faced by the Company and findings of these assessments are taken into consideration in the appointment of new Directors. The complexities associated with the LFC sector in terms of business dynamics, regulatory changes and other relevant factors that took place during the financial period were also reviewed by the committee. Hence, there was necessity for the appointments of new Directors during the financial period.
Disclosure of new Director appointments to Shareholders	Code – A. 7.3	Adopted	All new Board appointments were communicated to shareholders as they happen via the Colombo Stock Exchange and also informed to the regulator. There were two new Board appointments for the year 2020/21.

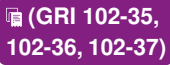
Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
A.8 Re-election	Principle – A.8	Adopted	<p>The Nomination Committee provides recommendations on Directors who are retiring by rotation for shareholder approval at the AGM.</p> <p>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</p>
Appointment of Non-Executive Directors	Code – A. 8.1	Adopted	<p>As explained in Principle A.8 above, the following Directors retire by rotation in the financial year 2020/21 and are eligible for reappointment:</p> <ol style="list-style-type: none"> 1.Mr. S.H. Jayasuriya 2. Mr. P.C. Guhashanka
Election of Directors by Shareholders	Code – A. 8.2	Adopted	As explained in Principle A.8 above.
Resignation of Directors	Code – A. 8.3	Not Applicable	<p>Not applicable as no Board member resigned during 2020/21. However, during the period under review Deputy Managing Director retired after serving 25 years in the MI Board and three Non-Executive Directors also retired upon completion of 9 years' tenure during FY 2020/21.</p>
A.9 Appraisal of Board Performance  (GRI 102-28)	Principle – A.9	Adopted	<p>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.</p>
Appraisal of Board performance	Code A. 9.1	Adopted	<p>The Board carried out a comprehensive self-assessment for the FY 2020/21, of its performance and its committees. This year the criteria of the assessment was revised and enhanced to keep up with the developments of the LFC sector specifics. The assessment mainly focused on the Board's contribution towards developing and monitoring strategy, Board and Committees mix of knowledge and skills, Board's commitment towards enhancing economic, social and environmental value; ensuring robust and effective risk management; quality of the relationships with the management, employees and shareholders; and ensuring proper functioning of Board Sub-Committees. A summary report of all the assessments made was tabled at the Board meeting, which highlighted areas requiring improvements to ensure the efficiency and effectiveness of the Board.</p>
Annual self- assessment of the Board and its committees	Code – A. 9.2	Adopted	<p>The self-assessment carried out by each Board Director for 2020/21 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 held on 31st March 2021 for future consideration.</p>

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)																
Process to review the participation, contribution and engagement of individual director at time of re-election	Code – A. 9.3	Adopted	The Nomination Committee reviewed the level of participation of Directors coming up for re-election, their contribution and engagement prior to the re-election of Directors to the Board, in an objective and transparent manner.																
Disclosure of the method of Appraisal of Board and Board Sub Committee performance	Code – A. 9.4	Adopted	<p>The Chairman and the Company Secretary gave their fullest cooperation 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 results of the Board evaluations were then tabulated by the Company Secretary and the findings were presented to the Board in March 2021.</p> <p>Based on the report, the Nomination Committee is expected to consider future need to strengthen Board resources and make recommendations promptly.</p>																
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.																
Director information	Code – A. 10.1	Adopted	<p>The following information pertaining to Directors are provided in the Annual Report:</p> <table border="1"> <thead> <tr> <th>Information</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Brief Profile with Qualification, Experience and Expertise</td> <td>78 to 83</td> </tr> <tr> <td>Composition of the Board Sub-Committees</td> <td>100</td> </tr> <tr> <td>Directors' Interest in Transactions</td> <td>194 to 195</td> </tr> <tr> <td>Directors' Shareholdings</td> <td>304</td> </tr> <tr> <td>Directors' Remuneration</td> <td>227</td> </tr> <tr> <td>Directors' Attendance at Board Meetings</td> <td>107</td> </tr> <tr> <td>Directors' Attendance at Sub-committee Meetings</td> <td>100</td> </tr> </tbody> </table>	Information	Pages	Brief Profile with Qualification, Experience and Expertise	78 to 83	Composition of the Board Sub-Committees	100	Directors' Interest in Transactions	194 to 195	Directors' Shareholdings	304	Directors' Remuneration	227	Directors' Attendance at Board Meetings	107	Directors' Attendance at Sub-committee Meetings	100
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Directors' Attendance at Sub-committee Meetings	100																		
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 2020/21. 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 revised Strategic Plan of the company, specified its corporate objectives and annual forecasted targets and drove the MD and corporate management team in FY 2020/21 towards these predetermined goals, despite a challenging business environment. The new strategic plan approved in 2021 sets clear strategic targets and goals for the next three years till 2023/24. Performance of the Managing Director is reviewed on an ongoing basis by the Board, evaluating the extent to which these organisational objectives have been achieved overall, from an overall perspective.																


Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
Evaluation of MD's Performance	Code – A. 11.2	Adopted	MD's performance assessment by the Board is an on-going 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 	Principle – B.1	Adopted	The MI Board recognises that the existence of a formal and transparent remuneration procedure aligned effectively with Directors' interests with those of shareholders. Having a clear process and guidelines ensured no Director is involved in deciding his or her own remuneration package.
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 authorised to evaluate, assess, decide and recommend, to the Board, the Executive Directors remuneration.
Remuneration Committee composition	Code B. 1.2 1.3	Adopted	Please refer the Remuneration Committee Report, page 179. In keeping to specific terms of reference, the Board has established a Remuneration Committee authorised to evaluate, assess, decide and recommend, to the Board, the Executive Directors remuneration.
Remuneration of Non-Executive Directors	Code B. 1.4	Adopted	The report of the Remuneration Committee is given on page 179. 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 was already available since he is a member of the Committee as well. When deciding on remuneration of other Executive Directors, the Committee also obtained advice from the Managing Director as necessary. The Remuneration Committee was not required to seek external professional advice to expedite its duties for FY 2020/21.
B.2 The level and make up of remuneration structure	Principle – B.2	Adopted	Executive Directors positions are filled with high calibre individuals, who are retained and motivated through rewards and recognition by the Board together with the Remuneration Committee. In order to do so the Board is aware that the level and make up of remuneration affects human motivations and decisions and, consequently, risk outcomes that are ultimately borne by shareholders. The Company Remuneration Policy has been devised in a way that it considers retention requirements. An individual's performance based on the respective officer's targets and goals was appraised through the formal bi-annual performance management system, conducted across all layers as per the Human Resources Policy of the Company. Bonuses, increments and career advancement opportunities were linked to such appraisals.

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
Managing Director's Remuneration	Code – B. 2.1	Adopted	The remuneration committee ensured the alignment of Executive Director Remunerations with MI's business strategy. To ensure fair policy on remuneration, all Executive Directors including the Managing Director are afforded with a suitable and competitive remuneration package. MI Board is aware that the remuneration of Executive and Non-Executive Directors should reflect the market expectations and concluded that it is sufficient enough to attract and retain the quality of personnel needed to run the Company.
Executive directors' remuneration should be designed to promote the long-term success of the company.	Code – B.2.2	Adopted	Please see B.2.1 above.
Comparison of remuneration with other Institutions	Code – B. 2.3	Adopted	Taking the fiercely competitive environment into consideration, the Remuneration Committee as well as the Board is aware that reward strategies and remuneration structure should be designed to attract, motivate and retain high-calibre people, at all levels of the organisation. Therefore, the remuneration structure of the Company is reviewed from time to time in comparison to that of peers in the industry. This mechanism ensures remuneration packages of the Executive Directors are on par with the industry/market while ensuring alignment of rewarding with strategic and short-term objectives of the Company.
Remuneration comparison with other group companies	Code B. 2.4	Adopted	MI does not have subsidiary companies or a parent company under its structure to which it could draw reference to. However, pay levels of peer Directors within the company are considered when deciding on Executive Director remunerations.
Executive Directors' performance related payments	Code – B. 2.5	Adopted	Please refer principle B.2 and Code – B. 2.1 above.
Executive share Options	Code – B. 2.6	Not applicable	There were no executive share option schemes offered to any Director during financial year 2020/21 period.
Deciding Executive Director Remuneration	Code – B. 2.7	Adopted	In deciding remuneration of Executive Directors, the Remuneration Committee referred provisions set out in Schedule E of the Code. (See comments given in Principle B.2 for details on Executive Director Remuneration)
Early terminations clauses in service contract of Directors	Code – B. 2.8	Partially Adopted	There were no long term incentive schemes or share option schemes proposed for Executive Directors during this period. The Remuneration Committee is considering to incorporate early termination compensation commitment clauses in service contracts of the Executive Directors from FY 2021/22 and will be implemented for all the future appointments.
Early terminations of Directors	Code – B. 2.9	Not Applicable	There were no early terminations carried out during FY 2020/21.
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 2020/21.

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
B.3 Disclosure of Remuneration	Principle – B.3	Adopted	<p>The MI remuneration policy is fair, competitive and reflects the performance of the business.</p> <p>A statement on MI's Remuneration policy is provided for in page 179 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.</p>
Names of members in the Remuneration Committee and remuneration paid to Directors	Code – B. 3.1	Adopted	<p>Details of the Remuneration Committee composition with meetings held and participation status of members is provided on page 100. Details relating to remuneration paid to Executive and Non-Executive Directors in aggregate is disclosed in page 227.</p>
C. Relations with shareholders  (GRI 102-37) C.1 Constructive use of AGM	Principle – C.1	Adopted	<p>The Board deems necessary that there is a constructive relationship with its shareholders, being MI's foremost stakeholder. Therefore through the AGM, both MI and the shareholders have the opportunity to communicate with each other. As per MI's policy, shareholders are encouraged to participate at AGMs and convey their views and make recommendations, in order to achieve this purpose, the notices of meetings are dispatched to the shareholders within the prescribed time periods. (Refer page 316 for further information in this regard).</p>
Notice of the AGM and related papers	C.1.1	Adopted	<p>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 2019/20 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.</p>
Separate resolutions for each separate issue	Code – C. 1.2	Adopted	<p>Company proposes separate resolutions for all substantially separate matters to provide shareholders an opportunity to deal with each material issue separately with the option of voting either for or against the resolution or 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.</p>
Level of proxies at AGMs	Code – C. 1.3	Partially Adopted	<p>Proxy forms are made available in the Annual Report that is released with adequate prior notice to all shareholders in accordance with Companies Act. The Company has in place an effective mechanism through the Company Secretarial Division to record all proxy votes logged on each resolution and number of votes for or against or withhold for each resolution.</p>
Availability of all Board Sub-committee Chairmen at the AGM	Code – C. 1.4	Adopted	<p>At the AGM held for the previous financial year 2019/20 for the review, the Chairpersons of all the Board sub committees were present to answer any questions raised by the shareholders.</p>
Voting procedures at General Meetings	Code – C. 1.5	Adopted	<p>All notices circulated to shareholders of general meetings carry a summary of the procedures governing votings at such meetings.</p>

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
C.2 Communication with Shareholders	Principle – C.2	Adopted	MI Board has identified the importance of having two-way communication with its stakeholders. Extensive financial and non-financial information of the Company's activities are provided to shareholders and other stakeholders through the Annual Report and the Interim Reports published on a quarterly basis or through various corporate communication methods as given on page 38.
Channel to reach all shareholders of the Company	Code – C. 2.1	Adopted	There is concise dialogue with shareholders on matters relating to their shareholdings and on business matters, which are dealt with promptly. As per the revised communication policy 2021, financial information such as Annual Reports, Interim reports are made available to shareholders via CSE website or sent by mail. All shareholders are encouraged to attend the Annual General Meeting and extra ordinary meeting of shareholders.
Policy and methodology for communication with shareholders	Code – C. 2.2 & C. 2.3	Adopted	The Board approved "Communication Policy" revised in 2021 adopts various communication mediums to interactive with MI stakeholders including shareholders. The Communication Policy requisites are being implemented by the corporate management and their teams.
Disclosure of Contact person for shareholders	Code – C. 2.4	Adopted	The persons who are responsible for communications with different stakeholders of MI are clearly specified in the MI Communication Policy. Main point of contact for the shareholders for their concerns and clarification is the Company's Secretary who will act as the intermediary between the shareholders and the Board.
Process to raise awareness of major issues and concerns of shareholders	Code – C. 2.5	Adopted	As per the Communication Policy, all major issues and concerns impacting shareholders are communicated by the Company via meeting 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, Stakeholder may send enquiries to the Board in writing or by completing the attached shareholder feedback form given at the end of the Annual Report and sending it to the given contact point.
Person to Contact in relation to shareholder matters	Code – C. 2.6	Adopted	Company Secretary is the main point of contact for shareholders' to raise matters. According to the open door policy of the Company, shareholders are welcome to contact any Executive Director or members of the corporate management to obtain clarifications for their concerns.
The process in responding to shareholder matters	Code – C. 2.7	Adopted	Please refer comment on Principle C.2.5 above.

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
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. This will be enforced when necessary either through the Audited Financial Statements or in an interim publication of the Company 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	There were no material related party transactions or corporate transactions involving acquisitions, mergers or disposal of greater than one-third of the value of the Company assets. Any such significant transaction that would materially affect MI's net assets will be disclosed in Company's interim and annual reports, if it were to occur.
Disclosures requirements and shareholder approval by special resolution as required by SEC and CSE	Code – C. 3.2	Adopted	As per comment provided in above C.3 & C 3.1 MI did not engage in any material related party transaction and therefore there was no necessity for a special resolution or disclosure.
D. Accountability and Audit D.1 Financial reporting and Annual Reporting	Principle – D.1	Adopted	To present a balanced and understandable assessment of MI's financial position, performance and prospects that prevail, MI has published a comprehensive Annual Report which incorporates the Audited Financial Statements together with comprehensive management commentary on the performance and outlook to ensure disclosure of a balanced, complete and understandable assessment of MI's financial position, performance, risk management mechanisms and stewardship and prospects to its stakeholders.
Financial reporting according to relevant laws and regulations	Code – D. 1.1	Adopted	In presenting a true and fair set of Financial Statements that provide a sound overview of MI's financial performance and position for the financial year ended 31st March 2021, the Company complied with applicable Sri Lanka Accounting Standards (LKAS) and other regulations specified in the Finance Business Act No. 42 of 2011, Companies Act No. 07 of 2007 and Colombo Stock Exchange Listing Rules. During the FY 2020/21, the interim accounts and annual financial statements were published on a timely basis and regulatory reports were filed by the due dates. Information disclosed to the CSE was also submitted promptly during this period.
Balanced and understandable assessment of the company	Code – D. 1.2	Adopted	MI's Board takes on the responsibility of presenting a balanced and understandable assessment of Company's program for the year under review, highlighting impacts positive and negative to stakeholders, through issue/dissemination of annual report, refer pages 187 to 193. The Interim results and other public reports and reports to regulators as well as information required to be furnished by statutory requirements provide an accurate position of the company.
CEO (Managing Director's) and Chief Financial Officer's declaration on financial statements	Code – D. 1.3	Adopted	A declaration statement of the Managing Director and the 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 197.


Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
Directors' Report	Code – D. 1.4	Adopted	The Annual Report of the Board of Directors (Directors' Report) provides an affirmation on Company's compliance to laws and regulations, confirms the going concern assumption and the effectiveness of Internal Control System that is in place. (Refer pages 187 to 193)
Directors' and Auditors' responsibility statement	Code – D. 1.5	Adopted	The Statement of Directors' Responsibilities is given on page 196 while Auditors responsibility is clearly stated in the Auditors Report to the Financial Statements given on pages 201 to 204, further responsibility of Directors is given in the Directors' Statement on Internal Control on pages 198 to 199 complies with content of Annexure L of the code.
Management Discussion and Analysis	Code – D. 1.6	Adopted	The Overview and "Management Discussion and Analysis" given on pages 36 to 67 covers all the requirements of this section, providing a comprehensive commentary of the Company's performance on a structured international Integrated Reporting Framework and Integrated Reporting guidance.
Calling of an EGM when net assets fall below 50% of shareholders' funds	Code – D. 1.7	Adopted	The net assets were well above the 50% shareholders fund threshold. Net assets stood positive and over Rs. 10 Billion. If a negative net asset position was to arise, an EGM will be called for and shareholders will be notified.
Adequacy and accuracy of related third party transaction disclosures	Code – D. 1.8	Adopted	MI has a Related Party Transaction (RPT) policy in place, whereby the categories of persons who shall be considered as "related parties" have been identified. In accordance with the RPT Policy, self-declarations are obtained from each Director for the purpose of identifying related parties coming under the "related party" definition. To further strengthen the above process, a Board Related Party Transactions Review Committee was established in 2015 on a voluntary basis, complying with best practice recommended by CA Sri Lanka Corporate Governance Code. (Refer Related Party Transactions Review Committee Report, given on page 183 for the detail Committee information, and the Financial Statements, given on pages 269 to 271 for details on related party transactions during the FY 2020/21)
D.2 Risk management and Maintaining a sound system of internal controls	Principle – D.2	Adopted	MI understands the importance of internal controls in managing risks and has established an ongoing process for identifying, evaluating and managing significant risks faced. This process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. These controls have been embedded as part of MI's compliance culture. Employees, irrespective of the hierarchy are required to ensure strict compliance to set procedures of internal controls.


Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
Reviewing effectiveness of risk management and internal control system	Code – D. 2.1	Adopted	<p>There is a periodic review over the adequacy and effectiveness of internal controls of the Company carried out by MI's Internal Audit team. Findings of audits are finally followed up by the higher level Audit Committee. The Audit Committee comprises Non-Executive Directors who make an independent assessment on adequacy and application of internal controls and provides feedback to the Board on matters deemed material. Statement on Internal Controls provided on pages 198 to 199 complies with content of Annexure L of the Code. MI Board was able to make due assessment of the adequacy and effectiveness of the Company's internal control mechanism and obtain clarifications with regard to any significant matter to from External Auditors as well.</p> <p>The IRMC in parallel, in keeping to its scope, continued to oversee MI's risk management process and MI's level of preparedness against potential risk, to mitigate possible losses. The Integrated Risk Management Committee Report on pages 177 to 178 provides further information with this regard.</p>
Robust assessment of the principle risks faced by the Company	Code – D. 2.2	Adopted	A clear assessment of the Company's risks and the process of risk identification, measurement and controls are given on pages 159 to 176 in the Risk Management report.
Internal Audit function	Code – D. 2.3	Adopted	MI's Internal Audit division which is centrally located provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of internal controls and governance process across the Company. Internal Audit department is headed by a Chartered Accountant who is responsible to ensure an independent audit is conducted in areas of high risk focusing on head office and branches in keeping to the annual audit plan.
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 mechanism for action plans so that they can proactively manage risks within acceptable levels. Systems and procedures are in place to identify, control and report on the major risks facing MI including credit risk, market risk, liquidity risk and other risks such as reputational risk.</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 Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
Statement of Internal Control	Code – D. 2.5	Adopted	<p>The Board Statement on Internal Controls given on pages 198 to 199 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 content of Board's internal control statements and affirmation that the process in place actually is in line with the statement. • Internal Control linkage to Financial Reporting • Audit Committee's role in reviewing internal controls. • Mechanism to identify, evaluate and manage risk • Maintaining the accuracy of financial reporting.
D.3 Audit Committee – A Committee to review financial reporting aspects, internal controls and maintaining relationships with Company Auditors	Principle – D.3	Adopted	The Audit Committee assisted the Board of Directors in its general oversight of financial reporting, internal controls, risk management and functions relating to internal and external audits. The selection and application of accounting policy, corporate reporting structure and content was thoroughly reviewed under the guidance of the Audit Committee Chairman, who is a Chartered Accountant.
Audit Committee composition	Code – D. 3.1	Adopted	The Audit Committee comprise three Directors, all of whom are Independent and Non-Executive. The names of members forming the Audit Committee, their participation level, secretary and invitees of the Committee are disclosed on pages 100 and 181 to 182.
Terms of reference of the Audit Committee	Code – D. 3.2	Adopted	The Board Audit Committee operates within clearly-defined Board-approved Terms of Reference. The Committee duties and responsibilities are set out in the said Terms of Reference and are in line with the Code and the directions issued by the CA Sri Lanka.
Disclosures of the Audit Committee	Code – D. 3.3	Adopted	<p>Please refer Audit Committee Report, Pages 181 to 182.</p> <p>The names of Directors forming the Audit Committee and their participation level at meetings are disclosed on page 100.</p> <p>Report of the Audit Committee is given on pages 181 to 182. The Report specifies the determination made by the Committee in relation to External Auditors independence.</p> <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 143 to 148.</p>
D.4 Related Party Transaction Committee  (GRI 102-25)	D.4	Adopted	MI established a Related Party Transaction Review Committee in 2015 which reviews all the material related party transaction of the Company on periodic basis.
D.4.1 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 refer pages 131 and 269 to 271 ⊕ Directors Interest in Contract refer pages 194 to 195 <p>As per LKAs 24, Central Bank of Sri Lanka and CSE regulations.</p>

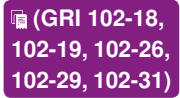
Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
D.4.2 Composition of Related Party Transaction Review Committee	D.4.2	Adopted	The composition and work of the Related Party Transactions Review Committee for financial year 2020/21 is set out in the Committee Report page 183.
D.4.3. Terms of reference of Related Party Transaction Review Committee	D.4.3	Adopted	The Related Party Transaction Committee operated under clear terms of reference for financial year 2020/21. The updated terms of reference and related party transactions review policy approved by the Board in August 2020, govern all future activities of the Related Party Transaction Review Committee covering additional best practices recommended by CA Sri Lanka Corporate Governance Code.
D.5 Code of Business Conduct & ethics	Principle – D.5	Adopted	A comprehensive board approved human resource policy document is in place defining HR policies and procedures to all staff. The HR policy document at MI upholds best corporate practices on HR management and expects employees to uphold sound business conduct. The approach to ethics considers the impact of actions on a broad range of stakeholders and to the reputation of MI.
Compliance to requirements on business conduct and ethics  (GRI 102-16)	Code – D. 5.1	Adopted	The Company has in place a comprehensive HR policy on Business Conduct and Ethics applicable to all Directors and employees at MI. The “Human Resource Handbook”, which sets out HR policies that include rules on business conduct and values, for staff to adhere, has already been circulated to all the Directors and employees. The Board approved “Customer Protection Policy” that was introduced from April 2018, specifies a Standard Operational Procedure (SOP) for customer handling by employees and a clear code of conduct to protect customer rights. The Board made a declaration in this year’s Director’s Report on page 193 stating “All the members of Board of Directors and key management personnel have complied with code of business conduct and ethics introduced in the HR Handbook”.
Process of reporting of material and price sensitive information to the regulators	Code – D. 5.2	Adopted	MI, as a listed entity of the CSE, adheres to the requirement of the regulator and detect and report any price sensitive information promptly. Refer comments given on code C.2.7, C.3 and C.3.1 on pages 122 to 123.
Policy and process for monitoring, and disclosure of Directors and KMP’s share purchases	Code – D. 5.3	Adopted	Company Secretary is responsible for reporting the dealings of the KMPs to the CSE as per the CSE listing rule 7.8. She monitored the changes in the share register and reported to the CSE promptly on share transactions in keeping to this section.
Affirmation by Chairman that no individual has violated business conduct and ethical requirements of the company	Code – D. 5.4	Adopted	The Chairman’s affirmation that the code of conduct and ethics has been introduced companywide and that he is not aware of any violations of requirements of the Company on specified business conduct and ethics is given in the “Chairman’s Statement in Corporate Governance” on pages 90 to 91.
D.5 Corporate Governance disclosure	Principle – D.6	Adopted	The Board of Directors of MI continues to focus on improving its effectiveness, responding appropriately to new developments taking place in the business environment and making pertinent updates to lift governance standards.
Disclosure on Corporate Governance	Code – D. 6.1	Adopted	The Corporate Governance report from Pages 90 to 158 sets out the manner in and the extent to which the Company has complied with the Code.

Corporate Governance Report


Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
Section 2 – Shareholders: E. Institutional Investors			
E.1 Shareholder Voting	Principle – E.1	Adopted	MI's 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. The Company encourages all shareholders to participate at the Annual General Meeting (AGM), ensuring that both the Board and the Senior Management are accessible by the investors.
Constructive dialogue between shareholders and the Company.	Code – E. 1.1	Adopted	MI has a history of active involvement of shareholders at general meetings. Shareholders have the liberty to express their views at AGMs, and to convey any matters even outside such meetings. Under the supervision of the Chairman, Company Secretary's division minutes discussions and views of all that is presented at AGM's. Shareholders views and other matters are taken up at Board and Sub Committee depending on materiality and urgency of matter at hand.
E.2 Evaluation of Governance Disclosure	Principle – E.2	Adopted	Corporate Governance related matters along with the adequate disclosures are communicated to all shareholders via the Annual Report and the AGM as mentioned.
F. Other Investors	Principle – F.1	Adopted	MI places a high degree of importance on maintaining good relationships and communications with Individual shareholders and ensures that they are kept informed of significant developments of the Company as well as the LFC sector itself. Individual shareholders are encouraged to carry out their own analysis or seek independent advice on investing, holding or divesting decisions. Quarterly published accounts in the CSE site will assist the retail investors to make judgments on the performance of the Company.
F.1 Individual shareholders			
F.2 Shareholder voting 102-18	Principle – F.2	Adopted	Shareholder base of MI comprises small number of investors, encompassing few large investors. As per MI practice, all investors are encouraged to actively participate at general meetings.
G. Internet of things and cybersecurity			
G.1 Process of identify cybersecurity risk within the organisational network and from outside.	Principle – G.1	Adopted	With the emergence of digital transcending, amidst COVID environment recent cyber-attack on global finance industry has rapidly escalated and emphasising the necessity of financial institution's to enhance the vigilance and remain agile to face this evolving 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 18 years' experience in the related field. An IT Security Policy in place which covers cyber security aspects of the company and contingency plans well communicated to all relevant officers in charge.

Corporate Governance Report

Corporate Governance Principles	Reference to SEC & ICASL Code	Adoption Status	MI's Extent of Adoption (2020/21 Update)
G.3 Allocation of adequate time on Board agenda on cyber security	Principle – G.3	Adopted	IT Steering Committee established in 2016 took up IT related potential and emerging risk at local and global level within the FY 2020/21. The IT Steering 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. The Company conducted a thorough IT system 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 page 174.
H .Environment, Society, and Governance (ESG) 			
H .1 ESG Reporting	Principle – H.1	Adopted	<p>MI recognises that a sustainability report presents the organisation's values and governance model, and demonstrates the link between its governance framework, integrated thinking, strategy and ultimate efforts at maintaining a sustainable enterprise and also its commitment to a sustainable global economy. Being a responsible corporate, MI believes in meeting most of the responsibilities towards key stakeholders namely; shareholders, customers, employees, suppliers and the community in the optimal way through our business activities. We have embraced suitable sustainability strategy to enhance MI's impact towards the economy, society and the environment in keeping to MI's sustainability vision, goals and ideologies as explained on pages 16 to 17.</p> <p>MI's annual performance and progress for the FY 2020/21 has been presented yet again as an integrated annual report, covering all sustainability reporting parameters as required by the Global Reporting Initiative (GRI) guidelines which encompasses wider economic impact on pages 36 to 37, covering the requirements of this section.</p>
Relevance of ESG factors to Company's business model	Code – H. 1.1	Adopted	Refer MI's Business Model, pages 36 to 37.
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 38, Alliances, pages 58 to 59, and Human strength, Pages 60 to 61.
H 1.4 - Governance	Code – H. 1.4.1	Adopted	Refer Business model, Pages 36 to 37, Business Overview, stakeholder engagement and Material Matters and its reference to approach and monitoring Pages 38 to 39 and Corporate Governance Report pages 90 to 158.
H 1.5 – Board's role on ESG factors	Code – G. 1.5.1	Adopted	Please refer Management Discussion and Analysis strategy pages 40 to 46, and Business Overview pages 12 to 13.

Corporate Governance Report

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 NO. 6 OF 2013 AND DIRECTION NO. 05 OF 2020 ISSUED BY THE CENTRAL BANK OF SRI LANKA ('CORPORATE GOVERNANCE DIRECTIONS')

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>The Responsibilities of the Board of Directors</p> <p>a) Approving, overseeing and communicating the finance company's strategic objectives and corporate values.</p> <p> (GRI 102-26)</p>	Complied	<p>In March 2021, MI Board approved a three-year strategic plan taking into consideration the challenging short-term COVID-19 business climate and economic uncertainty. The revised plan specified strategic objectives and corporate values that were derived from MI's Vision and Mission statements.</p> <p>Refer strategy on pages 40 to 46 and corporate values on page 16.</p> <p>The strategic objectives, corporate values and proposal strategy were communicated to the strategic business units and support divisions. Through the delegation of the corporate plan, all heads of division together with their support staff were able to devise their separate detailed operational plans and set staff-wise goals and targets for the year under review.</p> <p>The MI Board provided oversight over key matters including strategy by delegating key areas to its Board sub committees and Corporate Management. These committees provided continuous feedback on all concerns and made recommendations to Board upon which final decisions were made.</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, while the strategic plan covering the three-year period from FY 2021/22- 2023/24 was approved on 30th March 2021. Separate strategies were formulated for each core business area and support function for the attainment of corporate objectives with measurable goals and timelines.</p> <p>The Risk Management Policy of the Company addresses how risks are identified and defines the risks of the Company and the procedures and processes to manage and/or mitigate the risks and bring them within tolerance of acceptable levels to safeguard MI's six forms of capital and to prudently manage the MI operation towards all stakeholder interest. It clearly defines the risk appetite of the Company in setting limits for the key risks identified. On 30th March 2021, a revised policy was approved by the Board.</p> <p>(Refer Risk Report pages 159 to 176)</p>
<p>c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.</p>	Complied	<p>The Board places significant importance in shaping the Company's Risk Management Policy and procedures to effectively manage risks arising from executing strategy and related operational activities.</p> <p>The Integrated Risk Management Committee, on behalf of the Board, identified risks and provided oversight to ensure the implementation of appropriate systems and processes to manage risks prudently and reports to the Board on a quarterly basis. The committee obtained information directly from both the Head of Risk Management and Compliance and the Corporate Management. (The process or risks identification and measurement established to manage risk prudentially is explained on pages 159 to 176.)</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Complied	<p>The Communication Policy with stakeholders was reviewed again this financial year and updated with the changes in business environment and regulations and approved by the Board on 08th February 2021. The policy specified the communication approach and methods to be adopted when dealing with various external parties, describing effective communication methods and channels in dealing with the Company's list of stakeholders that include shareholders, customers, depositors, creditors, suppliers, borrowers, society and the environment.</p> <p>Specific emphasis was placed on adopting communication methods in line with the prevailing COVID health guidelines and greater use of virtual and non-interactive but effective communication.</p>
<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 instilled across its entire business operations to manage risks faced by the business. The Board exercises its authority over internal controls by delegating the oversight and exercising of controls over the Audit Committee. On behalf of the Board, the Audit Committee monitors the effectiveness of the internal control systems periodically on a continuous basis and reports to the Board. The Board approves procedures implemented under the internal control mechanism which are then applied in the business operations. External and internal audits are carried out periodically, testing the effectiveness and compliance of internal controls. Such audit findings are reported to the Board for which the Management is given the opportunity to respond 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 2020/21 PricewaterhouseCoopers (Private) Ltd. conducted a comprehensive IT general control audit in December 2020.</p>
f) Identifying and designating Key Management Personnel, who are in a position to: I. significantly influence policy; II. direct activities; III. exercise control over business activities, operations and risk management.	Complied	<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>
g) Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.	Complied	<p>Roles of the Board members are defined in "Directors' Responsibility" which illustrates 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.</p>


Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<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>At monthly Board meetings, the Directors review the Company's performance and monitor the key areas of business on an ongoing basis. Board feedback was provided through Board papers, MIS reports, etc. on material matters. Further, periodic activity reports were tabled by various Board sub-committees appointed by the Board to provide oversight and monitoring over strategic issues and functional areas of business.</p> <p>The Board, through the delegation of authority to the Managing Director, has given him accountability in implementing the decisions of the Board and managing the performance and affairs of the Company in line with his delegated limits of authority. The Managing Director in turn delegated the responsibility of managing the key operational functions to senior heads at Corporate Management level in overseeing performance and managing operations effectively as per the approved limits of authority. The Directors either directly or through the Board sub-committees initiated periodic meetings with the Corporate Management. Department specific meetings were held and included credit, marketing and recoveries meetings that enabled the Senior Management to stay focused during this challenging COVID environment in attaining respective immediate goals and targets.</p>
<p>i) Periodically assessing the effectiveness of its governance practices, including:</p> <p>I. the selection, nomination and election of Directors and appointment of Key Management Personnel;</p> <p>II. the management of conflict of interests; and</p> <p>III. the determination of weaknesses and implementation of changes where necessary.</p>	Complied	<p>MI has put in place a strong corporate governance framework as explained in this supplement.</p> <p>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, in keeping to the nine-year regulation for non-executive Directors, our Chairman, Mr. Sanjaya Bandara retired on 09th February 2021 after extending a yeoman service to the Board and Company. Mr. Dinuka Perera was appointed for the position of the Acting Chairman being an Independent Non-Executive Director.</p> <p>The management of conflicts of interest falls under the purview of the Related Party Transaction Review Committee. (Refer page 183)</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 tabled at the Board meeting.</p>
<p>j) Ensuring that the finance company has an appropriate succession plan for Key Management Personnel.</p>	Complied	<p>The succession plan for identified Key Management Personnel in various divisions was approved by the Board on 22nd December 2020.</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>Apart from Board Meetings, Directors communicate with fellow Directors on an ongoing basis Executive Directors meet with each other and line management frequently on routine matters. Executive Directors deal with Corporate Management on a frequent basis at least weekly to assess performance and to decide on key matters. The purpose of such Management Committee meetings also include benchmarking MI's performance against industry evaluate and monitor the Assets and Liability Management actions and risk implications.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
l) Understanding the regulatory environment.	Complied	<p>The Board is appraised of new developments and changes in the regulatory environment at Board meetings via circulars, reports and presentations and by taking part in regulatory awareness sessions. As part of the Company's training and development program, Directors, corporate management and other key officers underwent continuous training on key technical aspects and other requirements including regulatory matters.</p> <p>The Head of Risk Management and Compliance, as the Compliance Officer (CO) through the IRMC, follows up on the company's adherence to regulations related to money laundering and also updates the Board on a monthly basis through the Finance Director/IRMC on the compliance status of the company in relation to Central Bank of Sri Lanka Directions, Rules and other requirements.</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.</p>
m) Exercising due diligence in the hiring and oversight of External Auditors.	Complied	<p>The hiring and oversight of the External Auditors is handled by the Audit Committee on behalf of the Board.</p> <p>Messrs. Ernst and Young, Chartered Accountants, was re-appointed by the Audit Committee as the External Auditors of the Company for the financial year 2020/21, in accordance with Central Bank of Sri Lanka regulations on selecting External Auditors for the sector that is approved by the regulator. The committee evaluated the independence and quality of work carried out by External Auditors, reviewing the quality of the audit work carried out annually. The deliverables such as the Management Letter and other opinions and reports issued by the External Auditors were also reviewed in this context.</p>
2.1 Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	Complied	<p>The functions and responsibilities of the Non-Executive Chairman and the Chief Executive Officer have been separately defined and approved by the Board. The Chief Executive Officer's role is performed by the Managing Director who leads the Executive Management team of the Company.</p> <p>The Chairman provides leadership to the Board to ensure the Board discharges its responsibilities effectively. The Managing Director on the other hand, being an Executive Director, oversees the effective running of the day-to-day operations of the Company.</p> <p>The Board is led by the Independent Non-Executive Chairman ensuring the Board discharging its responsibilities effectively.</p> <p>Chairman Mr. Sanjaya Bandara with the completion of his nine years as an Independent Non-Executive Director handed over the Chairmanship from 9th February 2021 to Independent Non-Executive Director Mr. Dinuka Perera. Executive Director Mr. Gerard Ondaatje continued to perform as the MD of the Company.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
2.2 Availability of a procedure determined by the Board to enable Directors to seek independent professional advice at the Company's expense.	Complied	The Board of Directors 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 has been in place since 2013 and was updated and approved on 30th March 2020. The procedure has been communicated to all Directors by the Company Secretary.
2.3 Avoidance of conflicts of interest.  (GRI 102-25)	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, the separate 'Related Party Transaction Review Committee (RPTC)' that was set up in 2015 continued to review all 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 when a conflict of interest is identified. These related parties will be recorded by the Company Secretary and informed to the Finance Department. The Compliance Officer will collect RPTC details and submit reports on a quarterly basis to the Committee, reviewing the objectivity maintained in conducting such transactions.</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.	Complied	A formal process has been developed by the Board in order to effectively discharge Board functions. A formal schedule of matters has been approved, to ensure the direction and control of the Company is firmly under the Board's control and authority. The Board Secretary circulates the agenda together with relevant supporting information to the Board members seven days prior to the Board meeting. The agenda and documents circulated under the supervision of the Chairman, ensures critical matters and general performance updates are taken up in keeping with the Board's expectations.
2.5 Disclosure of insolvency to the director of the Department of Supervision of Non-Bank Financial Institutions.	Complied	<p>The Company continues to maintain the going concern presumption as declared in the 'Annual Report of the Board of Directors' on pages 187 to 193. The Company fulfilled its obligations to all its depositors and creditors, thus there was no necessity to inform the regulator in this regard.</p> <p>The Company paid interest and made the requisite capital repayments as falling due to its depositors and also to the lenders of capital. The liquidity position of the Company was well above statutory limits throughout the year (Refer page 169) and was reported to the Director of the Department of Supervision of Non-Bank Financial Institutions on a weekly basis.</p>
2.6 Inclusion of an annual Corporate Governance Report on compliance with the corporate governance directions in the Annual Report.	Complied	The Corporate Governance Report given from pages 90 to 158 provides a comprehensive disclosure of the Company's compliance status, in compliance with the direction issued by Central Bank of Sri Lanka for the financial year 2020/21.
2.7 The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied	Directors completed a self-assessment evaluating their performance for the financial period 2020/21. Evaluation criteria were further enhanced to ensure the evaluation process provides more comprehensive findings. The summary of findings together with areas for further improvements was tabled for the deliberation of the Board.

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>3) Meetings of the Board</p> <p>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.</p>	Complied	<p>Twelve (12) Board meetings were held for the financial period 2020/21 even during the COVID-19 pandemic using virtual platform to ensure Board responsibilities were fulfilled and necessary ongoing guidance was provided to Corporate Management in this challenging period.</p> <p>Please refer section A.1.1 of the CA Sri Lanka code given on page 107 for full disclosure in this regard.</p> <p>Board papers tabled relating to various functional areas seeking approval of the Board were taken up at Board meetings and approved after necessary deliberation. Urgent matters needing the Directors' review and approval between monthly Board meetings is obtained via circulation by the Company Secretary.</p>
<p>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.</p>	Complied	<p>The agenda prepared by the Company Secretary under the guidance of the Chairman incorporates all proposals submitted by Directors. All Directors are provided an equal opportunity to submit proposals with regard to all key areas of business and to table proposals pertaining to new business development and risk management.</p>
<p>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.</p>	Complied	<p>For regular Board meetings, at least a 7 days' notice has been given to all Directors providing them with adequate time to review circulated Board papers and to take up concerns and raise other matters of importance.</p> <p>The Company Secretary ensures reasonable notice is given for any other meetings held by the Board other than regular Board meetings.</p>
<p>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.</p>	Complied	<p>All Directors have participated over the minimum participation requirement of at least attending two-thirds of the meetings held for the financial year 2020/21. Due to the prevailing COVID-19 restrictions, virtual attendance was adopted via internet as and when necessary.</p> <p>No Directors have been absent from three consecutive Board meetings during the financial year 2020/21.</p> <p>There were no instances where an Alternate Director was required to be nominated during this financial year.</p> <p>Attendance status of each Director at Board meetings is given on page 107.</p>
<p>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.</p>	Complied	<p>Company Secretary's responsibilities and services extended by her to the Board is given on page 112, section A.1.4 of the CA Sri Lanka Code.</p>

Corporate Governance Report

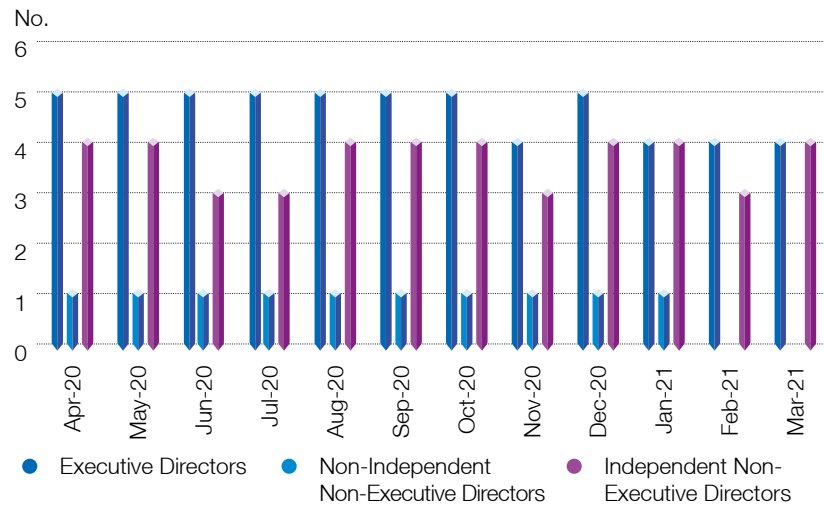
Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption																
3.6 If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such functions	Complied	<p>The responsibility for the preparation of the agenda for Board meetings has been delegated to the Company Secretary under the supervision of the Chairman. She takes a coordinating role to circulate the agenda, dealing with Directors and Corporate Management to incorporate key matters to be taken up in the agenda.</p> <p>Prior to circulation, she obtains the Chairman's approval for the notice of meeting and the agenda.</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.	Complied	<p>The Company Secretary attended all Board meetings during the financial year 2020/21 and is readily accessible to all Directors should they require her advice and services.</p> <p>Mrs. S. Pethiyagoda has over 20 years of experience in the Company Secretarial position and is well updated on all current regulations applicable to Board procedures, corporate governance requirements and other requirements related to the Company secretarial responsibilities.</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.	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 has access to the minutes and can inspect Board minutes at any point in time.</p>																
3.9 Minutes of Board meetings shall be recorded in sufficient detail.	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> <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>	Complied	<p>The Board comprised 8 Directors in keeping with the provisions of this section and did not fall below 5 or exceed 10 Directors due to resignations or appointments during the year.</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>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> <tr> <td>20/21</td> <td>4</td> <td>0</td> <td>4</td> </tr> </tbody> </table>	Year	Executive Directors	Non-Independent Non-Executive Directors	Independent Non-Executive Directors	18/19	5	1	4	19/20	5	1	4	20/21	4	0	4
Year	Executive Directors	Non-Independent Non-Executive Directors	Independent Non-Executive Directors															
18/19	5	1	4															
19/20	5	1	4															
20/21	4	0	4															

 (GRI 102-22)

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption																								
<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"> <thead> <tr> <th>Name of Director</th> <th>Directorship Status</th> <th>Number of years in position as at 31 March 2021</th> </tr> </thead> <tbody> <tr> <td>Mr. N.H.V. Perera</td> <td>Non-Executive Director</td> <td>9 years completed Resigned on 09th February 2021</td> </tr> <tr> <td>Mr. P.C. Guhashanka</td> <td>Independent Non-Executive Director</td> <td>7 years and 9 months completed</td> </tr> <tr> <td>Mr. P.D.D. Perera</td> <td>Independent Non-Executive Director</td> <td>1 Year and 2 months completed.</td> </tr> <tr> <td>Ms P.T.K. Navaratne</td> <td>Independent Non-Executive Director</td> <td>9 years completed Resigned on 17th January 2021</td> </tr> <tr> <td>Mr. S.M.S.S. Bandara</td> <td>Independent Non-Executive Director</td> <td>9 years completed Resigned on 09th February 2021</td> </tr> <tr> <td>Mr. A.L.N. Dias</td> <td>Independent Non-Executive Director</td> <td>Less than 1 month completed.</td> </tr> <tr> <td>Mrs.E.D. Wickramasuriya</td> <td>Independent Non-Executive Director</td> <td>Less than 1 month completed.</td> </tr> </tbody> </table>	Name of Director	Directorship Status	Number of years in position as at 31 March 2021	Mr. N.H.V. Perera	Non-Executive Director	9 years completed Resigned on 09th February 2021	Mr. P.C. Guhashanka	Independent Non-Executive Director	7 years and 9 months completed	Mr. P.D.D. Perera	Independent Non-Executive Director	1 Year and 2 months completed.	Ms P.T.K. Navaratne	Independent Non-Executive Director	9 years completed Resigned on 17th January 2021	Mr. S.M.S.S. Bandara	Independent Non-Executive Director	9 years completed Resigned on 09th February 2021	Mr. A.L.N. Dias	Independent Non-Executive Director	Less than 1 month completed.	Mrs.E.D. Wickramasuriya	Independent Non-Executive Director	Less than 1 month completed.
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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>		<p>An equal 50% or above representation was maintained between Executive Directors (four Directors) and Non-Executive Directors (four Directors) and is within the provisions of this section except for the period of 09th February 2021 to 25th March 2021.</p> <p>Approval was received from the regulator for the two Non-Executive Directors on 26th March 2021.</p> <p>Executive Vs. Non-Executive Directors</p> <p>The chart is a donut chart divided into two equal halves. The left half is purple and labeled '50% Non-Executive Directors'. The right half is blue and labeled '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 four Independent Non-Executive Directors as against a total of eight Directors (50%) and hence is within the requirement to have one fourth (25%) of the total number of Directors as Independent Non-Executive Directors.</p> <p>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>																								

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
4.5 In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	N/A	Not applicable since there were no Alternate Director appointments necessitated during this period.
4.6 Non-Executive Directors shall have necessary skills and experience to bring an objective judgement to bear on issues of strategy, performance and resources.	Complied	<p>All Non-Executive Directors were selected objectively based on their qualification and experience in their respective fields.</p> <p>Pages 78 to 83 provide brief profiles of the 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>
4.7 With effect from three years from the date of this Direction, a meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	Complied	<p>In complying with this section, in all Board meetings convened during financial year 2020/21, the number of Non-Executive Directors present was equal or more than one-half of the number that constituted the quorum.</p> <p>Monthly Quorum Status of the Board Meetings</p>  <p>No.</p> <p>6</p> <p>5</p> <p>4</p> <p>3</p> <p>2</p> <p>1</p> <p>0</p> <p>Apr-20 May-20 Jun-20 Jul-20 Aug-20 Sep-20 Oct-20 Nov-20 Dec-20 Jan-21 Feb-21 Mar-21</p> <p>● Executive Directors ● Non-Independent Non-Executive Directors ● Independent Non-Executive Directors</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<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>All corporate communications including the Annual Report disclose names of Directors and expressly identify Non-Executive Directors. The Annual Report clearly specifies information about each Independent Non-Executive Director in the Corporate Governance Report given on page 115 and the Directors' brief given on pages 78 to 83.</p> <p>Names of the four Independent Non-Executive Directors are mentioned on page 115 of the Corporate Governance 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 reelections to the Board have to be recommended by the Nomination Committee. Please refer page 116 section A.7 of the CA Sri Lanka 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 180.</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>Two Directors were appointed to fill casual vacancies during the financial year 2020/21.</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>Two Independent Non-Executive Directors, one Non-Executive Director and one Executive Director's resignation took place during the financial year 2020/21 was duly reported to the Department of Supervision of Non-Bank Financial Institutions and to the Colombo Stock Exchange by the Company Secretary in complying with this section and related provisions as per the Colombo Stock Exchange rules.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<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> <p>Amendment to the Corporate Governance Direction No.05 of 2020</p>	Complied	<p>There were no Board members who exceeded the age of 70 years.</p> <p>Pages 78 to 83 provides the age profile of the Board of Directors.</p>
<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>As given in the Board Profiles on pages 78 to 83 detailing Directorships held by each Director on the Board of Mercantile Investments in other companies as at 31st March 2021, no Director of the Board holds office in over 20 companies contravening the provisions of this section.</p>
<p>6) Delegation of functions</p> <p>(GRI 102-19)</p> <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>	Complied	<p>The Board has delegated some of its duties to the Board sub committees and Corporate Management, but maintains close overall oversight over the Company affairs to ensure its ability to govern and discharge duties. 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 authorised 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> <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 1 January 2009.</p>	Complied	<p>In keeping to this section an Independent Non-Executive Director was appointed by the Board to act as the Acting Chairman of the Company on 09th February 2021 due to the retirement of former Chairman completing 9 years' service to the Board. Separately, there is a Managing Director (MD) continuing in an Executive Director capacity, thus the two roles are segregated.</p> <p>Additional details pertaining to this is given on pages 113 to 114 of section A.2 and A.3 of the CA Sri Lanka's Governance Code.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
7.2 The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied	Mr. S.M.S.S. Bandara, being an Independent Non-Executive Director, who was appointed as the Chairman to the Board in 20th February 2020, resigned completing his 9 years of Directorship. Accordingly, Mr. Dinuka Perera who is an Independent Non-Executive Director took over the Acting Chairman role from 9th February 2021.
7.3 The Board shall disclose in its Governance Report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	<p>No material relationship including financial, business or family exists between the former Chairman Mr. Sanjaya Bandara/Acting Chairman Mr. Dinuka Perera 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.</p> <p>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: 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	<p>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 standard attention was given for matters with strategic importance to the company.</p> <p>Refer pages 113 to 114 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.	Complied	<p>The Chairman of the Company is responsible and provides supervision in the preparation of the formal agenda of Board meetings. The agenda captures all key matters to be discussed at the Board meetings and information on the performance of the Company to ensure adequate information is provided to Board Directors to maximise their contribution at the Board meetings.</p> <p>Refer page 112 for key areas focused on in Board meetings during 2020/21</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
7.6 The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied	The agenda with notice of meeting is duly circulated to the Directors as per the stipulated timelines as given in Section 3.3 in this Code, giving sufficient time to the Directors to prepare themselves on the issues to be taken up.
7.7 The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied	The Chairman leads from the front, encouraging active participation of all Directors, in governing the affairs of the Company and acting in the best interest of the Company.
7.8 The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors	Complied	<p>All Non-Executive Directors including the Chairman himself effectively contribute to the Board, through their immense experience and wide knowledge base that they possess within the finance industry as well as experience gained from their professional fields.</p> <p>There is constructive open dialogue amongst all categories of Directors. Apart from Board meetings, Directors meet at other Company events that enable them to maintain close rapport with each other.</p> <p>All Directors were able to attend a majority of Board meetings and contribute to matters brought up at meetings, individually as well as collectively. They were able to raise concerns, recommend suitable solutions, and deliberate with each other to arrive at effective decisions.</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.	Complied	<p>The Chairman, being an Independent Non-Executive Director, does not directly supervise the Key Management Personnel or handle executive duties.</p> <p>The duties of the Chairman have been defined and approved by the Board and do not include executive duties whatsoever.</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.	Complied	<p>The feedback of shareholders is primarily obtained at the AGM where they have the opportunity of expressing their views, voicing their concerns and making recommendations for the betterment of the Company. Important matters and future plans are also shared by the Board with shareholders, which facilitates two-way interactions. Shareholders are also able to meet with the members of the Board on a one-to-one basis, on obtaining a formal appointment.</p> <p>Matters raised by shareholders at the AGM are taken up subsequently and responded to in writing by the Company Secretary under the supervision of the Chairman of the Board depending on its relevance and materiality.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption														
7.11 The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.	Complied	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.														
8) Board-appointed Committees	Complied	MI Board has established six sub committees for closer supervision of Company affairs, each chaired by an experienced Board Director. The Board-appointed sub committees' level of compliance with this section is outlined in the pages referred below:														
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.		<table border="1"> <thead> <tr> <th>Subcommittee</th> <th>Page Reference Number</th> </tr> </thead> <tbody> <tr> <td>Audit Committee</td> <td>181 to 182</td> </tr> <tr> <td>Integrated Risk Management Committee</td> <td>177 to 178</td> </tr> <tr> <td>Remuneration Committee</td> <td>179</td> </tr> <tr> <td>Nomination Committee</td> <td>180</td> </tr> <tr> <td>Related Party Transaction Committee</td> <td>183</td> </tr> <tr> <td>Credit Committee</td> <td>100</td> </tr> </tbody> </table>	Subcommittee	Page Reference Number	Audit Committee	181 to 182	Integrated Risk Management Committee	177 to 178	Remuneration Committee	179	Nomination Committee	180	Related Party Transaction Committee	183	Credit Committee	100
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8.(2) Audit Committee The following shall apply in relation to the Audit Committee:	Complied	Audit Committee														
8.2 a) The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.		The Acting Chairman of the Company, Mr. Dinuka Perera, who is an Independent Non-Executive Director, was newly-appointed as 30th March 2021 Chairman of the Audit Committee. He is a fellow Member of the Institute of Chartered Accountants of Sri Lanka, Member of the Chartered Institute of Management Accountants of UK, Fellow Member of the Institute of Certified Management Accountants of Sri Lanka and Member of the Chartered Global Management Accountants (USA). While possessing four accounting qualifications and being a Chartered Accountant, he has a wealth of experience in the field of audit and financial reporting, which enables him to oversee the Committee's functions effectively.														
8.2 (b) The Board members appointed to the committee shall be Non-Executive Directors.	Complied	The Audit Committee comprises three Independent Non-Executive Directors. The Audit Committee operates in an independent and objective manner to ensure impartiality of the Committee. Refer page 126 of section D.3 of the CA Sri Lanka Code for details on this subject.														

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>8.2 (c) The committee shall make recommendations on matters in connection with:</p> <p>i.) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>ii.) The implementation of the Central Bank guidelines issued to Auditors from time to time;</p> <p>iii.) The application of the relevant accounting standards; and</p> <p>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.</p>	Complied	<p>The Audit Committee made the following recommendations in relation to this section:</p> <p>I) The Committee made recommendation for the re-appointment of External Auditors Ernst and Young, Chartered Accountants, for the FY 2020/21. The Committee made this recommendation on the basis that this is the fourth undertaking for the External Auditors within the given five-year regulation.</p> <p>II) That the Central Bank guidelines issued for Auditors are implemented, as and when they are issued, on an ongoing basis.</p> <p>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.</p> <p>IV) The Audit Committee decides on the audit fee for the financial year 2020/21 deemed in line with the firm's expertise and resources deployed. The committee noted that no resignations or dismissal of the Auditor took place during the financial year under review.</p>
<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 External Auditor's independence, objectivity and the effectiveness of the audit process, was monitored and reviewed by the Audit Committee, mainly focusing on relevant professional and regulatory requirements specific to the LFC sector.</p> <p>In keeping with this section, the External Auditors, Ernst and Young, Chartered Accountants submitted their annual declaration of Independence in the audit process to the Audit Committee for the FY 2020/21.</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 FY 2020/21 following non-audit services were obtained from firms;</p> <ul style="list-style-type: none"> ⊕ Tax advisory services ⊕ System and process review of ATM ⊕ Agreed upon procedure for the evaluation of selected loan facilities from the portfolio of MI for borrowing purposes.

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
8.2 (f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.	Complied	The Audit Committee met the External Auditor, Messrs. Ernst and Young, Chartered Accountants 3 times during the financial year 2020/21. The Committee finalised the nature and scope of the audit with the audit partner, before the commencement of the audit. Areas needing special attention and recommendations of the Auditors were incorporated into the discussions, and were included in the audit plan.
8.2 (g) The committee shall review the financial information of the finance company in order to monitor the integrity of the Financial Statements of the finance company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.	Complied	<p>The Committee met on 26th June 2020 and reviewed the Financial Statements and the Annual Report to ascertain the quality and integrity of the information contained therein.</p> <p>Based on the review of the Committee, necessary changes were made by the Finance Department to the Financial Statements and other information contained in the Annual report before submitting to the Board for their approval. The Committee also reviewed the Company's Quarterly Financial Statements in addition to the Annual Report before submitting to the Board of Directors.</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.	Complied	The Committee met the External Auditors 02 times during this financial period without the presence of the Corporate Management to discuss matters arising from the Management Letter issued for the past audit period and to discuss other concerns.
8.2 (i) The Committee shall review the External Auditors' Management Letter and the Management's response.	Complied	The Committee reviewed the FY 2019/20 Management Letter issued by the External Auditors together with Management responses to ascertain material concerns that exist that require their immediate attention for resolution, in the presence of the Finance Director.
8.2 (J) The Committee shall take the following steps on internal audit: i.) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work;	Complied	<p>The Audit Committee was submitted with the annual audit programme by the Internal Audit Division of the Company for the financial year 2020/21, which was affirmed by the committee on 17th June 2020. Due to the work impact caused by the pandemic, internal audit division had to do some modifications to the internal audit plan and such amendments were approved by the audit committee on 5th April 2021. According to the Central Bank of Sri Lanka Direction issued on 'Outsourcing Business Operation' scope, functions and resource allocations of the Internal Audit Department were assessed and accordingly, the resources were deployed to enhance the internal audit function.</p>
		<p>The Committee met 06 times and reviewed full audit/spot review reports in the presence of audit team. As and when required, Corporate Management was invited and their related observations were taken up, to ensure corrective action is initiated in a firmly and effective manner.</p>

Corporate Governance Report

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>	<p>Complied</p>	<p>The Audit Committee reviewed the findings of the Internal Audit team for the financial year 2020/21 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 06 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 the Internal Audit Division of the Company for the financial year 2020/21, 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 2020/21.</p> <table border="1" data-bbox="608 779 1422 920"> <thead> <tr> <th>Type of Audit</th> <th>Coverage %</th> </tr> </thead> <tbody> <tr> <td>Full Audits</td> <td>68</td> </tr> <tr> <td>Special Audits</td> <td>3 Audits</td> </tr> </tbody> </table>	Type of Audit	Coverage %	Full Audits	68	Special Audits	3 Audits
Type of Audit	Coverage %							
Full Audits	68							
Special Audits	3 Audits							
<p>iii.) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</p>	<p>Complied</p>	<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 were based on the formal performance management process which lays out the quality of audit findings and timeliness of finalising audits as key performance goals for the team.</p> <p>The Committee concluded that all required audit deadlines were met and that the quality of reports generated were satisfactory.</p>						
<p>iv.) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</p>	<p>Complied</p>	<p>Considering the increasing of the level of scope of the Company's own Internal Audit Department due to the change of 'Outsourcing Business' Direction of Central Bank of Sri Lanka, and not renewing the services obtained from PricewaterhouseCoopers (Private) Ltd. for selected branch audits compared to past years, the number of staff to support the Internal Audit division was increased to compensate for the increasing workload. Additionally the committee also considered providing more internal and external technical training for the Company's own Internal Audit staff to improve quality of the Internal Audit function.</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>	<p>Complied</p>	<p>No senior staff members of the Internal Audit Department handling the Company's Internal Audit function resigned during the year.</p>						
<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>	<p>Complied</p>	<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 Departments submit their reports directly to the Audit Committee. The Audit committee has direct access to the Board in the event any matters need to be brought to the attention of the Board.</p>						

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
8.2 (k) The Committee shall consider the major findings of internal investigations and Management's responses thereto;	Complied	Based on the reports submitted by the Internal Audit Department, the Audit Committee reviews and considers audit findings on internal investigations and the management's responses thereto. However, no such major audit findings were identified and reported during the financial year 2020/21.
8.2 (l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied	The Finance Director and Chief Financial Officer attended Audit Committee meetings on invitation, while the Head of Internal Audit attended all meetings held for the financial year. The committee also met with the External Auditors 02 times this year without the presence of the Executive Directors in keeping to this section.
8.2 (m) The Committee shall have: i.) Explicit authority to investigate into any matter within its terms of reference; ii.) The resources which it needs to do so; iii.) Full access to information; and iv.) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	<p>Terms of Reference of the Audit Committee</p> <p>The Board-approved Terms of Reference of the Audit Committee, which was updated on 30th March 2021 mandates explicit authority to investigate any matter within its purview and take necessary action.</p> <p>Refer: Board Audit Committee Report, pages 181 to 182 for a summary of Terms of Reference of the Board Audit Committee.</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.	Complied	<p>The Board Audit Committee met 07 times during the financial year under review.</p> <p>The Secretary to the Audit Committee kept duly perfected minutes in a manner that captures the essence of the meeting discussions and conclusions.</p> <p>The report on Audit Committee given on pages 181 to 182 provides details on how committee recorded its decisions.</p>
8.2 (o) The Board shall, in the Annual Report, disclose in an informative way, i.) Details of Audit Committee activities; ii.) The number of Audit Committee meetings held in the year; and iii.) Details of attendance of each individual member at such meetings	Complied	<p>Details of the activities carried out by the Audit Committee and meetings held during this period with participation status have been disclosed on page 100 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 2020/21 is given on pages 181 to 182.</p>


Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
8.2 (p) The Secretary to the committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the committee meetings.	Complied	The Company Secretary, Mrs. S. Pethiyagoda, acts as the Secretary to the Board Audit Committee, keeping record of the meeting proceedings.
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.	Complied	<p>The Whistle-Blowing procedures form part of the Human Recourse Management Policy and was approved by the Board. The policy lays down a formal mechanism for the Company's staff to report violations to laws, rules, regulations or unethical conduct routed through the whistle-blower channels, so that necessary actions can be taken by the committee. The policy sets forth the investigation process to be carried out on such reported incidents ensuring that they are handled strictly protecting the confidentiality of those who are reporting and will not subject to any discriminatory action.</p> <p>During the financial year 2020/21, no material matters were reported formally to the Human Resource Division necessitating investigation by Audit or any other assigned party.</p>
8.3 Integrated Risk Management Committee (IRMC) The following shall apply in relation to the Integrated Risk Management Committee:	Complied	The Integrated Risk Management Committee (IRMC) comprises an Independent Non-Executive Director (1) acting as the Chairman, while two Executive Directors including the Managing Director, Corporate Management including the COO, CFO, Head of Risk and Compliance and AGM – Credit Risk comprises the full committee. The Committee's main duties are supervising broad risks pertaining to finance company business which primary revolves around credit, market, liquidity, operational and strategic risks.
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>Refer the Board Committee overview on page 100. The Corporate Governance Report provides additional information pertaining to the composition and activities of the IRMC on pages 177 to 178.</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 basis and to make sound decisions to eliminate or curtail potential risks on behalf of the Board, within the framework of the authority and responsibility assigned to the Committee.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
8.3 (b) The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information.	Complied	<p>The IRMC assesses all risks, i.e., credit, market, liquidity, operational and strategic risks through appropriate risk indicators. IRMC Reviews the risk reports submitted by the Head of Risk and Compliance on a quarterly basis and in the event of such risks exceeding the established risk tolerance levels as highlighted by the reports submitted to the committee, the IRMC takes prompt corrective actions to mitigate the negative effects of specific risks.</p> <p>Refer section 8.3 (a) above on scope and tasks handled by the Committee. Refer the Board Committee overview on page 100 and Risk management Report on pages 159 to 176 on wider explanation on the Company's risk management approach.</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.	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 the liquidity risk and the 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 Report on pages 177 to 178 for the scope of the committee, a wider explanation on the Company's Risk Management Framework and its activities during the financial year 2020/21.</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.	Complied	<p>The IRMC of the Company determined risk tolerance levels which were updated on a timely basis considering the factors such as strategic objectives of the Company, changes in regulatory requirements, competitiveness in the business environment and future economic conditions. Each risk category in the risk profile of the Company was reviewed against the risk tolerance levels by the Committee and recommendations were made when specific risks exceeded risk appetite limits to the Board. This trickled down to the management level through appropriate communication channels.</p> <p>In reviewing specified risk appetite limits set for credit and liquidity risk, actual risk levels were compared against such limits and reported to the committee by the Head of Risk and Compliance. Summary of variances are disclosed on pages 159 to 176.</p>
8.3 (e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied	<p>The Integrated Risk Management Committee met four times at quarterly intervals during FY 2020/21 on a quarterly basis.</p> <p>Page 100 provides information on meetings held along with attendance records of the Directors.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
8.3 (f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	N/A	The Committee did not come across any material violations by staff in relation to a breakdown in internal controls, non-compliance with risk management procedures and for not taking appropriate measures to avoid material risks during the financial year under for review.
8.3 (g) The Committee shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.	Complied	As per the Risk Policy of the Company an 'activity report' was submitted by the IRMC to the Board within 7 days after having an IRMC meeting, detailing a summary of key risks identified for the period and specifying risk mitigating actions proposed by the committee for the Board's views. Accordingly, four activity reports have been submitted to the Board for the 2020/21 financial year.
8.3 (h) The Committee shall establish a compliance function to assess the finance company's compliance with the laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the Compliance function and report to the committee periodically.	Partially Complied	The Company has established a compliance function to assess, monitor and report the Company's compliance with laws, regulations and regulatory guidelines. The compliance function is headed by a qualified Accountant in the senior managerial cadre who directly reports to the Integrated Risk Management Committee on the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and internal controls. A compliance status report was prepared and tabled monthly through the IRMC for the Board's information purposes, and a total of twelve (12) status reports were submitted during the financial year 2020/21 under review.
9) Related Party Transactions  (GRI 102-25) 9. 1 The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies	Complied	During FY 2020/21, no lending was extended to Directors of the Company contravening the above Direction. The Related Party Transactions Review Committee (RPTC) was formed during the FY 2014/15 and is under the acting Chairmanship of Mr. Dinuka Perera, who was appointed on 30th March 2021. The committee reviews all Related Party Transactions including accommodations to related parties based on information tabled by the Finance Department. (Refer page 183 about RPTC Committee.)

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>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.</p>	Complied	<p>No favourable treatment has been given to related parties for transactions effected by the Company directly with such parties. Transactions with related parties are done only after necessary due diligence.</p> <p>Any transaction entered into by the Company with any such related party has been carried out on an arm's-length basis at prices that were applicable to similar other unrelated customers of the Company depending on the risk profile of the entity and MI's pricing structure. During the period under review, the Company automated the RPTR capturing process and further development to this system is planned.</p> <p>The process of capturing Related Party Transaction information was streamlined further during this period in accordance with the provisions of this Section and Sri Lanka Accounting Standard (LKAS - 24) on 'Related Party Transactions' for purpose of internal and external reporting.</p>
<p>9. 3 The transactions with a related party that are covered in this Direction shall be the following:</p> <p>(a) Granting accommodation,</p> <p>(b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,</p> <p>(c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company,</p> <p>(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.</p>	Complied	<p>Particulars relating to Related Party Transactions have been disclosed in the Notes to the Financial Statements. Further, pages 194 to 195 disclose information relating to Directors' Interests in Contracts.</p> <p>All Related Party Transactions mentioned therein have been carried out on an arm's-length basis as per provisions of this section. The Related Party Transaction Review Committee reviewed all such transactions carried out during this year to ensure all transactions were at an arm's length.</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>MI has not entered into any transaction in a manner that would grant the related party "more favourable treatment" than if dealt with an unrelated customer.</p> <p>Please see section 9.3 above that refers to 'Related Party Transactions' and 'Directors' Interests in Contracts' disclosures.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>10) Disclosures</p> <p>10. 1 The Board shall ensure that:</p> <p>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,</p> <p>b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	Complied	<p>The Company complied with applicable accounting standards including the IFRS requirements introduced by CA Sri Lanka. The Financial Statements also conform to other regulatory requirements including the Finance Business Act, the Companies Act and rules specified by Colombo Stock Exchange.</p> <p>Quarterly publications of interim results were published in all three languages and conform to the regulatory interim publication format and the applicable accounting standards.</p>
<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	<p>The Statement on Director's Responsibility given on page 196 provides an affirmation that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and applicable regulatory requirements.</p>
<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 Board's report on the effectiveness of the Company's internal control mechanism over financial reporting given under the 'Report by the Board on Internal Control' on pages 198 to 199 in the Annual Report provides required disclosure to comply to this section.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption												
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.	Complied	<p>The External Auditor's certification on the effectiveness of the internal control mechanism over financial reporting was obtained for the financial period 2020/21. 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 200 in the Annual Report.</p>												
10.2 (d) Details of Directors, including names, transactions, with the finance company	Complied	Director information including their names and other details are provided on pages 78 to 83 while their transaction details are disclosed under the Directors' Interest In Contracts on pages 194 to 195 and in Related Party Disclosures in the Notes to the Financial Statements on pages 169 to 171.												
10.2 (e) Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after 1st January 2010.	Complied	Details of Director remuneration in aggregate is disclosed on page 227 in Notes to the Financial Statements.												
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. '000)</th> <th>% Against Company Capital Funds</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel</td> <td>26,748</td> <td>0.29</td> </tr> <tr> <td>Associates Companies</td> <td>-</td> <td>-</td> </tr> <tr> <td>Other</td> <td>80,216</td> <td>0.88</td> </tr> </tbody> </table> <p>There have not been related party transactions exceeding 10% of the equity during the financial year 2020/21.</p>	Category of Related Party	Amount (Rs. '000)	% Against Company Capital Funds	Key Management Personnel	26,748	0.29	Associates Companies	-	-	Other	80,216	0.88
Category of Related Party	Amount (Rs. '000)	% Against Company Capital Funds												
Key Management Personnel	26,748	0.29												
Associates Companies	-	-												
Other	80,216	0.88												

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption								
10.2 (g) The aggregate values of remuneration paid by the finance company to its Key Management Personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied	<p>The aggregated value of remuneration paid and transactions carried out by the Management Personnel and their close family members during financial year 2020/21 are discussed 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>26,748</td> </tr> <tr> <td>Deposits</td> <td>962,948</td> </tr> <tr> <td>Remuneration</td> <td>208,601</td> </tr> </tbody> </table>		KMP's including Executive Directors (Rs. '000)	Accommodations	26,748	Deposits	962,948	Remuneration	208,601
	KMP's including Executive Directors (Rs. '000)									
Accommodations	26,748									
Deposits	962,948									
Remuneration	208,601									
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 187 to 193 gives a collective confirmation on MI's compliance status with applicable laws and regulations. In addition, the statement of Directors' Responsibility for Financial Reporting given on page 196 confirms MI's compliance with regulations on financial reporting.								
10.2 (i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public with the measures.	Complied	None so requested to be disclosed.								
10.2 (j) The External Auditors' certification of the compliance with the Corporate Governance Directions in the annual Corporate Governance Reports published from the date of this Direction.	Complied	External Auditors Ernst and Young, Chartered Accountants, reviewed the Company's compliance status to Central Bank of Sri Lanka Corporate Governance Directions. Accordingly, the firm has issued a factual finding report in this regard for the financial year 2020/21.								

Corporate Governance Report

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 during the financial year were directors of the Entity.	Annual Report to the Board of Directors on the Affairs of the Company.	Complied	187 to 193
7.6 (ii)	Principal activities of the Entity during the year and any changes therein	Significant Accounting Policies	Complied	210
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	303
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	303
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	187 to 193
7.6 (vi)	Information pertaining to material foreseeable risk factors	Risk Management	Complied	159 to 176
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 and 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	248 to 258
7.6 (ix)	Number of shares representing the Entity's stated capital	Notes to the financial statements Investor Relations	Complied	266 302 and 303
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	302
7.6 (xi)	Equity Ratios	Investor Relations	Complied	302 to 307
	Market Value	Investor Relations		302 to 307
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	250 to 258 and 210 to 221
7.6 (xiii)	Details of funds raised through Public issues, Rights issues and Private Placements during the year	Investor Relations	Complied	302 to 305
7.6 (xiv)	Information in respect of Employee Share Option Plan and Employee Share Ownership Plan	Notes to the financial statements	Complied	192
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	90 to 158
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	305

Corporate Governance Report

LISTING RULE NO. 7.10 – CONTENTS OF THE ANNUAL REPORT AT GLANCE

CSE Rule No.	Requirement	Compliance Status	Extent of adoption (FY 2020/21 update)
7.10	Overall compliance position in relation to SEC 7.10 (Corporate Governance)	Complied	<p>a & b) 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>c) The Company has complied with CBSL Corporate Governance Direction. Compliance status is given on pages 130 to 154.</p>
7.10.1	Non- Executive Directors of a Listed Company	Complied	<p>A higher of two Non-Executive Directors or 1/3 representation was maintained between Executive Directors and Non-Executive Directors and within the provision of this section except for the period of 09th February 2021 to 25th March 2021.</p> <p>Approval was received from the regulator for the two Non-Executive Directors on 26th March 2021.</p>
7.10.2	Independent Directors	Complied	<p>All four (4) Non-Executive Directors at MI as at 31st March 2021 were Independent Non-Executive Directors.</p>
	(a) Two or one third of the Non-Executive Directors of the Board whichever is higher should be independent.		
	(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 2020/21 financial year.
7.10.3	Disclosures Related to Directors	Complied	<p>As per section 7.10.4, names of all four Independent Non-Executive Directors are mentioned on page 115 of the Corporate Governance Section A5.5 of the CA Sri Lanka and CBSL Code.</p>
	(a) Disclosure of the names of Independent Non- Executive Directors		
	(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 2020/21.
	(c) Disclosure of a brief resume of Directors in Annual Report		Please Refer: Corporate Governance, pages 78 to 83 for Director Profiles
	(d) Upon appointment of a new Director to its Board, the Entity shall forthwith provide to the Colombo Stock Exchange a brief resume of such Director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	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.

Corporate Governance Report

CSE Rule No.	Requirement	Compliance Status	Extent of adoption (FY 2020/21 update)
7.10.5	<p>Remuneration Committee A listed entity should have a Remuneration Committee.</p> <p>(a) Composition of the Remuneration Committee</p> <p>(b) The Remuneration Committee shall recommend the remuneration of the Managing Director of the Company.</p> <p>(c) Disclosure of the Remuneration Committee in the Annual report</p> <p>→ Name of the Directors serving in the Committee</p> <p>→ Statement of Remuneration Policy</p> <p>→ Aggregate Remuneration paid to Executive Directors and Non-Executive Directors</p>	Complied	<p>Details of the Remuneration Committee are provided on page 179</p> <p>All the members in the Remuneration Committee are Independent Non-Executive Directors.</p> <p>Page 120 section B.2.1 of the CA Sri Lanka Code provides necessary information</p> <p>Names of Directors in the Remuneration Committee are provided on page 179.</p> <p>Please refer page 179 for the Remuneration Committee Report.</p> <p>Aggregate remuneration paid to Executive and Non-Executive Directors is provided on page 227</p>
7.10.6	<p>Audit Committee A listed entity should have an Audit Committee</p> <p>Composition of the Audit Committee</p> <p>→ Audit Committee shall comprise of Non – Executive Directors, a majority of whom shall be independent</p> <p>→ One Non-Executive Director shall be appointed as Chairman of the Committee</p> <p>→ The Chief Executive Officer and the Chief Financial Officer of the listed Company shall attend Audit Committee meetings.</p> <p>→ The Chairman or one member of the Committee should be a Member of a recognised professional accounting body.</p> <p>(b) Functions of the Audit Committee</p> <p>(c) Disclosures in Annual Report</p> <p>→ The names of Directors of the Audit Committee</p> <p>→ The Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination</p> <p>→ 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</p>	Complied	<p>Particulars relating to MI's Audit Committee are provided on pages 181 to 182</p> <p>The Audit Committee comprised of three of Independent Non-Executive Directors.</p> <p>The Chairman of the Audit Committee is Mr. P. D. D. Perera, who is an independent Non-Executive Director.</p> <p>During financial year 2020/21, Finance Director and CFO attended Audit Committee meetings by invitation. Calling of Managing Director was not necessitated this period.</p> <p>The Chairman of the Audit Committee and all the Audit Committee members are Chartered Accountants, with years of experience in the Financial and Auditing field.</p> <p>Functions of the Audit Committee are disclosed in pages 181 to 182 in section D.3.3 of the CA Sri Lanka Code details.</p> <p>Composition of the Audit Committee is provided on page 181</p> <p>Please refer page 182 of the Audit Committee report for disclosure in this regard.</p> <p>The Audit Committee report is disclosed on pages 181 to 182 in the Annual Report.</p>

Corporate Governance Report

MI'S COMPLIANCE STATUS WITH CENTRAL BANK RULES, DIRECTIONS, DETERMINATIONS, NOTICES AND GUIDELINES

The Company's compliance with laws and regulations with specific focus on Central Bank of Sri Lanka Directions is reported by the Head of Compliance and Risk Management to the Board.

SUBMISSION OF CENTRAL BANK OF SRI LANKA WEB RETURNS

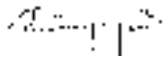
All required Central Bank of Sri Lanka web returns were submitted by the Company on or before the due dates for submission. The information table is uploaded on the website of the Company under the Corporate Governance section. (Refer QR code below).

RETURNS SUBMITTED AS PER PREVAILING REGULATIONS FOR THE LFC SECTOR

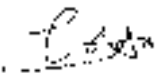
The information table is uploaded on the MI website under the Corporate Governance section. (Refer QR code below).

EXTERNAL AUDITORS' CERTIFICATION

The services of the External Auditor was 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. The External Auditors confirmed that the disclosures given are in order, according to their report prepared on agreed upon procedures dated 07th June 2021.



S. Pethiyagoda
Company Secretary



Ramidu Costa
Head of Compliance and Risk Management



P.D.D. Perera
Acting Chairman

Colombo

07th June 2021

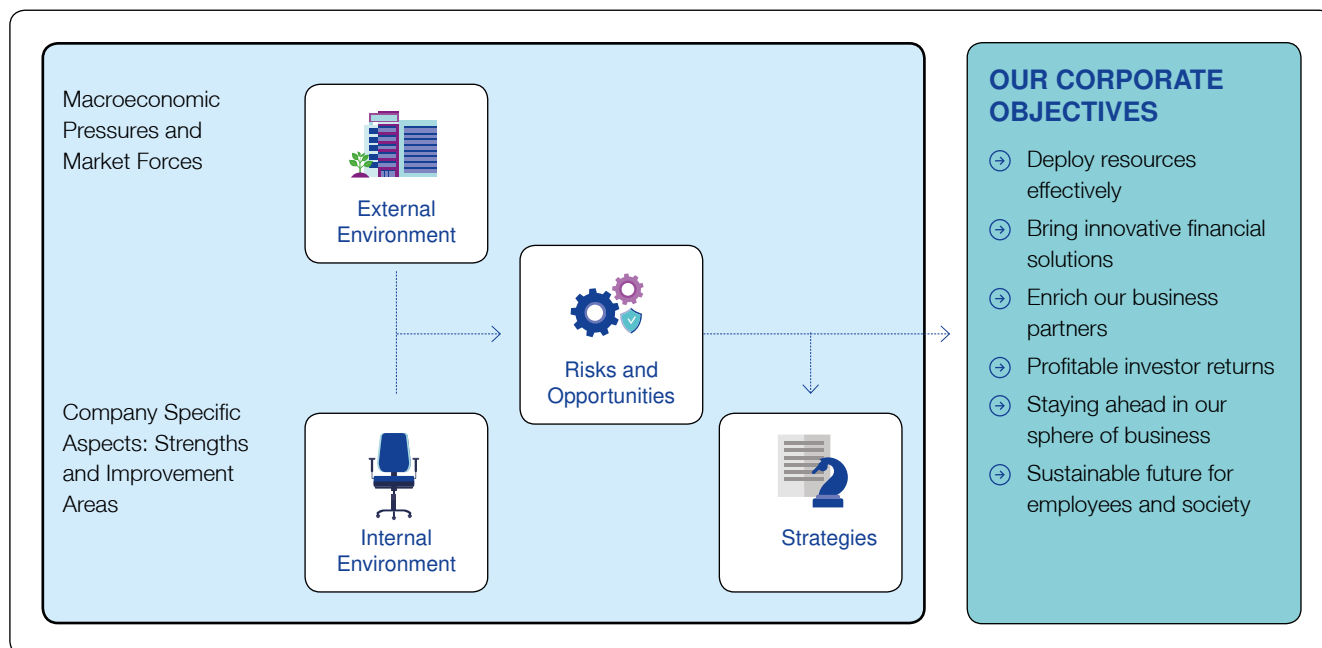


Detailed disclosure about Corporate Governance is made available on our website.

Risk Management Report

OUR OPERATING CONTEXT

Business organisations across the world are faced with a volatile, uncertain, complex and ambiguous (VUCA) business environment due to the dynamic and uncontrollable nature of environmental constraints. Having witnessed those challenges, our various risk mitigation techniques allowed us to navigate through the tumultuous period of COVID-19 and deliver commendable results in comparison to our peers in the industry. We also highlighted our own strengths as well as areas of improvement, alongside strategies we have in place to manage key risks, and effectively tackled these constraints.



SNAPSHOT OF OPERATING CONTEXT – FY 2020/21

Challenges and opportunities that emerged from our operating environment during the year largely correlated to the business impacts stemming from the COVID_19 pandemic.

- ➔ The regulator provided certain relief measures such as reducing the requirement to maintain liquid assets deposits in order to ease the liquidity stress faced by licensed finance companies due to the sudden withdrawal of cash by depositors and delay of repayment of loan rentals.
- ➔ GDP growth recorded the steepest contraction by 3.6% amidst the lack of demand for credit, import restrictions and slow recovery of consumer demand.
- ➔ The low interest rate environment resulted in yield compression and margin challenges.
- ➔ The adverse economic situation led to a higher number of withdrawals from finance companies.
- ➔ Vehicle import restrictions affected the core leasing business.
- ➔ Debt moratoriums caused stress to under performing NBFIs as the increase in number of restructuring/rescheduling facilities due to credit relief schemes increased credit risk.
- ➔ Tough macro conditions resulted in a lower number of recoveries.
- ➔ The stressed macro environment resulted in the rapid deterioration of asset quality and higher NPLs.

Risk Management Report

MACROECONOMIC CONTEXT WE OPERATED

PESTEL Factor	Impact Scale	Associated Risks	Impact	Our Strategy
Political	High	CR MR SR	<p>Even though the political atmosphere and business climate were not optimal at the early stage of financial year, after the General Election political stability and clear policies were in place.</p> <p>However, these policies were primarily focused towards uplifting local businesses, especially targeting tourism and export businesses by infusing foreign investments. The second wave of the COVID-19 pandemic in October 2020 halted the momentum of the corporate sector with fresh challenges.</p>	Our focus remained on providing high quality and efficient services with added emphasis on strengthening our balance sheet. In doing so, we diversified our loan portfolio by adding short-term products, especially gold loans, capitalising on the prevailing high global demand for gold.
Economic	High	CR MR LQR	As a COVID-19 relief measure, the Central Bank of Sri Lanka intervened to maintain policy interest rates at historically low levels. The resulting low cost funding was expected to infuse momentum to the sector to acquire funds cheaper. Though, the lower lending rates encouraged borrowings, demand for credit remained constricted.	Given these changing business dynamics, MI was keen to keep its cost of funding lower and on the lending side focused on picking up volumes whilst safeguarding the loan book asset quality.
Social	High	SR RR	Recent LFC failures continued to hit confidence levels of the general public towards the NBFi sector. Meanwhile, the fast-spreading pandemic badly impacted the livelihoods of people, their purchasing power and per capita income. However, demand for financial products in the form of home loans and other retail loans continued to rise whilst demand for luxury items and motor vehicles remained constricted.	MI continued to focus on the wellbeing of its employees and their families and continued to support customers and other stakeholders, managing the new challenges with resilience.
Technological	High	CR OR TR	In order to avoid COVID-19 risks, the financial services sector moved more towards paperless digital advancements. This enabled those organisations to upgrade their operational efficiency. Moreover, the use of Robotic Process Automation (RPA) to automate transactional activities enhanced accuracy, efficiency, and speed of critical business processes while also freeing up people to focus on more strategic work.	We were able to automate several core business and operational functions through a Business Process Re-engineering drive, especially focusing on expansion of digital payment platforms and upgraded IT security.
Environmental	Moderate	SR	As a measure to address environmental risk in recent years, regulators have encouraged green financing as well as financial and nonfinancial disclosures of environmental impacts on business activities.	MI continued to control GHG emissions to minimise adverse effects of operations on the environment.
Legal	High	MR SR LR LQR	Recent scandals in the NBFi sector as well as global regulatory enhancements have led local regulators to revisit their financial risk reduction measures. Economic sluggishness due to the pandemic outbreak also directed regulators to focus on freezing liquidity and enhancing future regulatory capital buffers of the LFC sector.	As an evolving financial sector institution, we deployed an effective risk control mechanism. Moreover, we continuously monitored and upgraded the risk management framework, while welcoming new regulatory and statutory changes.

MR Market Risk LR Legal Risk CR Credit Risk TR Technology Risk
SR Strategic Risk LQR Liquidity Risk OR Operational Risk RR Reputation Risk

Risk Management Report

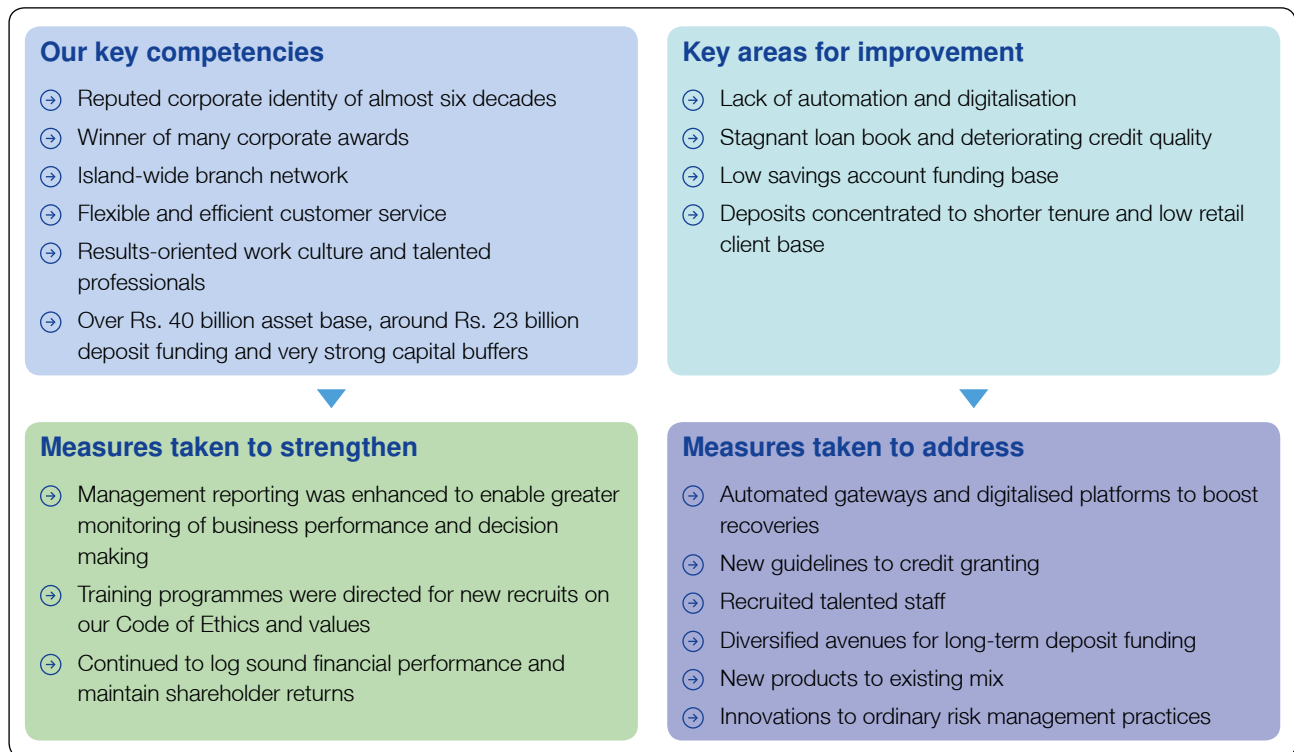
COMPETITIVE LANDSCAPE WE OPERATED

Sector forces	Underlined facts	Our judgment	Our strategy
Buyer bargaining power	Sri Lankan LFC sector clients enjoy relatively low switching cost. Moreover, Government intervention to bring down policy interest rates also resulted in creating high competition among sector players to attract deposit funding. Furthermore, liquidation of some LFCs recently somewhat dented customer confidence. Thus depositors took a cautious approach towards making investments.	High	We were keen to develop value-added product offerings such as ATM support to improve ease of transacting during the pandemic and to gear towards evolving markets.
Supplier power	In the LFC sector, supplier bargaining power is significant as a few large banking players dominate the funding institutions. Moreover, high demand prevailed for funding in the sector although financial markets became liquid as the year unfolded.	Moderate	Long-standing banking relationships and non-banking partnerships helped us to maintain a satisfactory level of contingency funding. Moreover, in order to diversify the dependency on borrowed money, we focused on a diversified pool of deposit segments and moved towards gradually expanding the retail deposit base.
Threat of New Entry	Possibility of fresh new entrants entering the finance industry was largely dependent on decisions made by various wings of the Government. In this case, especially the minimum capital requirement and liquidity levels were comprehensively appraised by the regulator.	Moderate	As a reputed corporate establishment with close upon six decades of industry experience, we continuously focused on protecting our market share while maintaining regulatory requirements at a satisfactory level. Moreover, our strong capital buffers helped us withstand headwinds and we expect to maintain this in future periods as well.
Threat of Substitutes	The sector's largest substitution threat emerged not only from new products by peer companies but from informal establishments such as informal money lenders and borrowers despite the cracking down on a few such illegal competitors in the recent past by authorities. However, when analysing substitution impact, customer brand loyalty, customer relationship, switching cost for customers and substitute performance could be considered as key facts.	Moderate	Although substitute products somewhat impaired our major income avenues, we were on constant alert for looming breakthroughs and remained adaptable to changes in the market conditions to be prepared for the future.
Competitive Rivalry	Over 40 NBFIs were established in the country by 2020. Moreover, all companies provide similar products with minor innovations. Hence, all companies tended to compete with each other by focusing on the same customer groups in the market.	High	Our longstanding commitment towards delivering excellent service quality has helped us to differentiate ourselves so far. We continued to invest in process developments and technology to engineer superior efficiency.

Risk Management Report

OUR ENTITY SPECIFIC LANDSCAPE

When walking through our integrated value chain, we were able to identify our key competencies and weaknesses. Through effective utilisation of identified competencies, we are in a position to counterattack emerging risks and minimise our own internally-generated weak points whilst achieving the necessary competitive advantage.



Risk Management Report

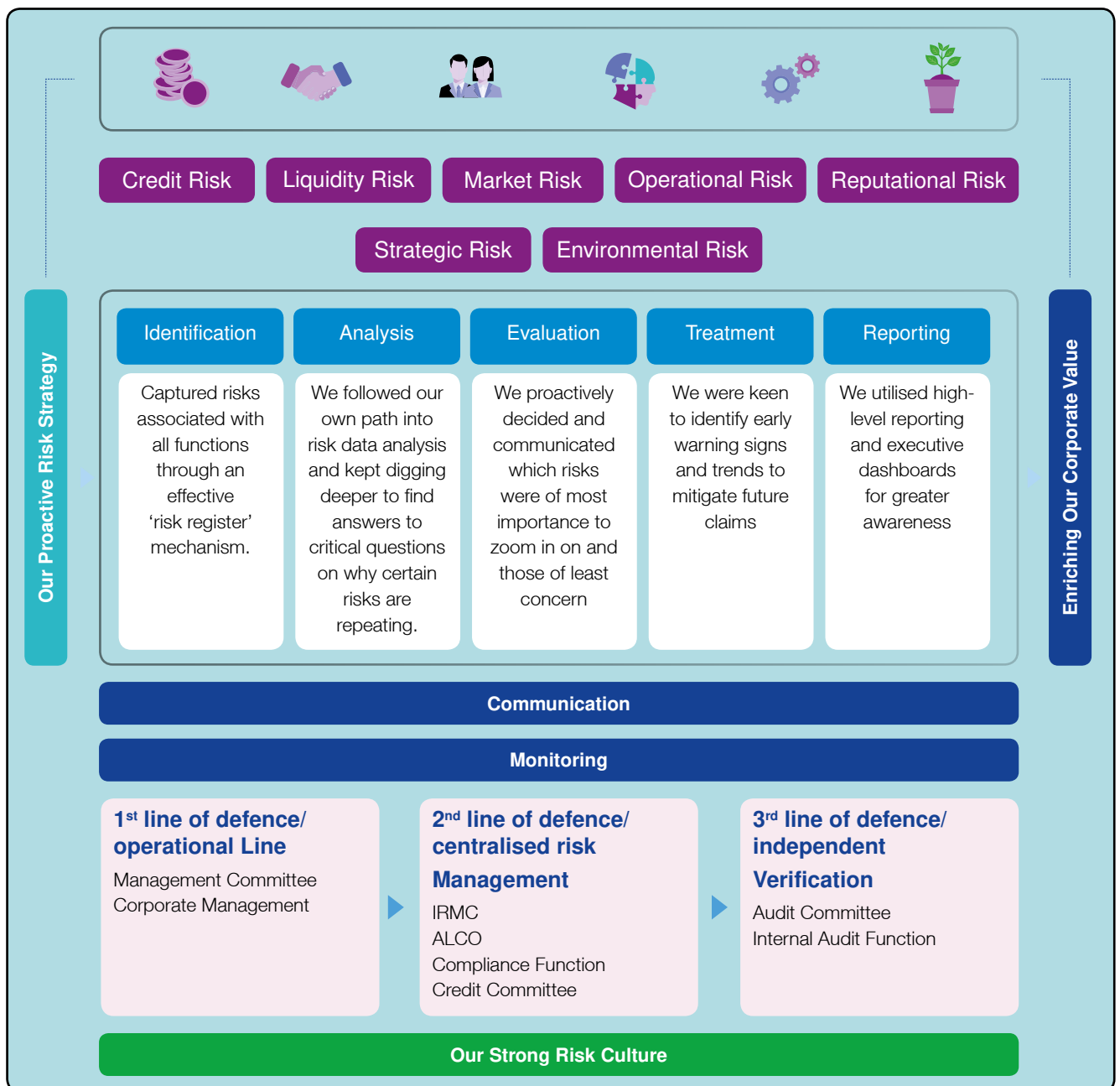
OUR STATEMENT ON RISK MANAGEMENT

Highlights for the Year

- ⊕ Improved operational resilience mechanisms aided MI to evolve, integrate and remain active amid COVID-19 related operational risks.
- ⊕ Our newly-developed risk register enabled the compiling of external and internal risk information into a single and understandable content for focused risk management.
- ⊕ We utilised high-level reporting and executive dashboards for greater accessibility, agility and deeper analytical awareness
- ⊕ We strengthened staff health and safety policies to face COVID-19 pandemic challenges.

OUR INTEGRATED FRAMEWORK FOR MANAGING RISK

(GRI 102-29, 102-30, 102-31)



Risk Management Report

PROACTIVE RISK STRATEGY ADOPTED

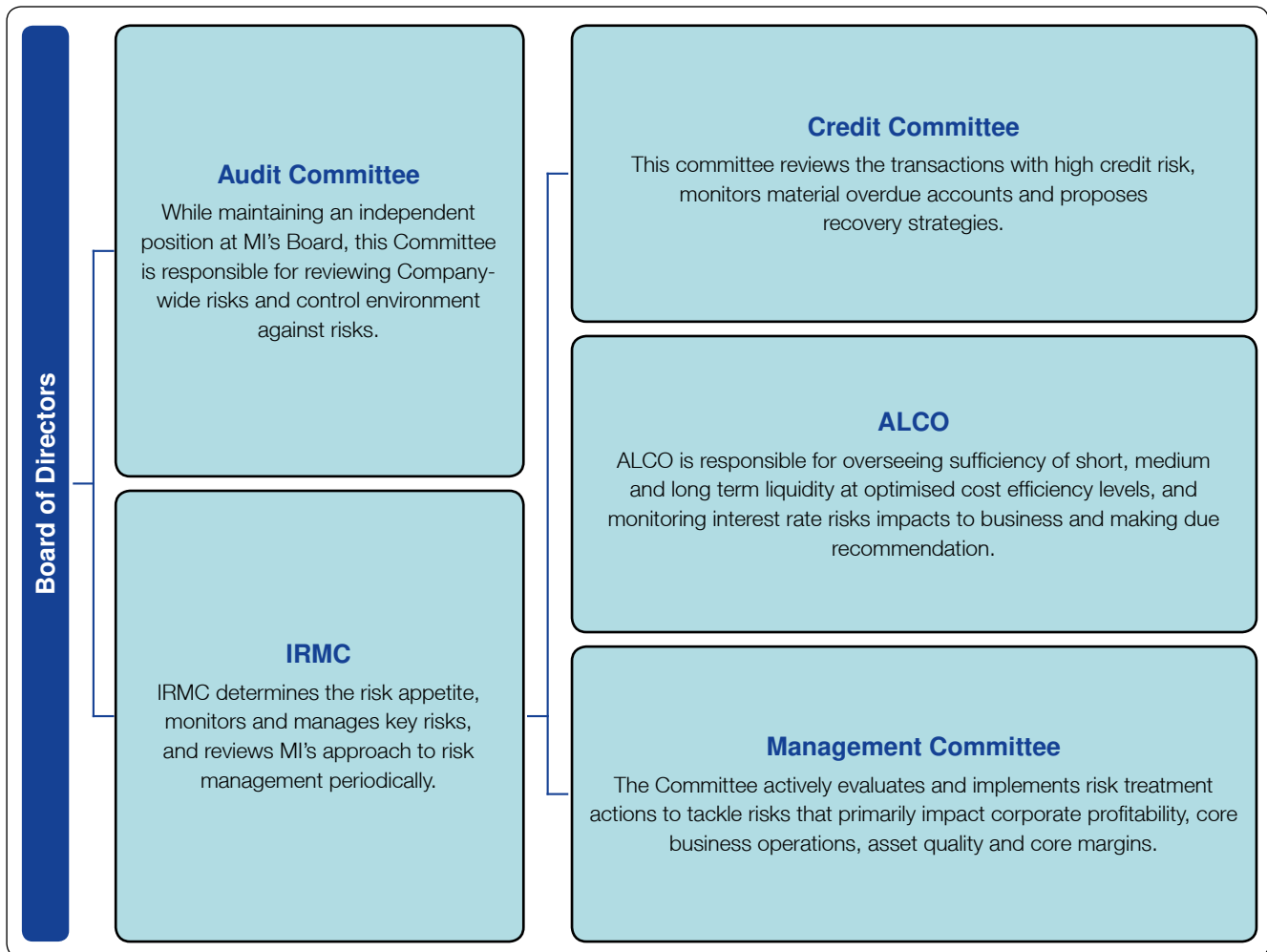
Our Risk Strategy has been carefully developed by considering the inputs and feedback received from all business departments. This enabled us to design the most appropriate Risk Strategy and maintain a healthy balance between risks and returns without hindering any business opportunities. In order to support the Risk Strategy, the Company devoted significant resources, set up a dedicated risk unit and 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.

THE STRONG RISK CULTURE WE POSSESS

Since the year under review was one of the most challenging with numerous risks emerging for our value creating business, we ensured that all our staff members were engaged in managing risks at each level. As we believe MI's risk culture is fully dependent on risk awareness, experience, curiosity and ability of making sound judgments, we were keen to nurture our risk culture with numerous training events, especially in the areas of staff health and safety, industry changes, anti-money laundering, countering financial crimes corruptions, etc. initiated throughout the year.

RISK GOVERNANCE APPROACH AT MI

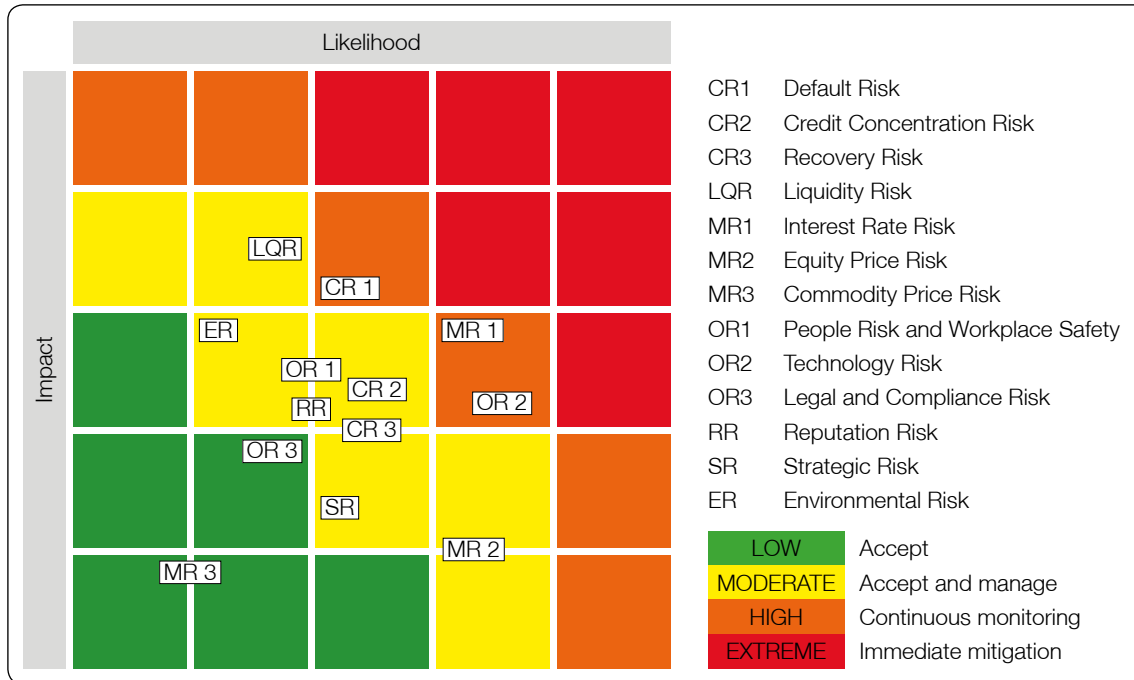
Our Board of Directors possesses the ultimate responsibility for managing risk at MI. The Integrated Risk Management Committee (IRMC) as a Board-appointed subcommittee takes a leading supervisory role to review all risk areas, whilst continuing to provide invaluable advice and recommendation on risk management, which is then executed through management committees and heads of divisions.



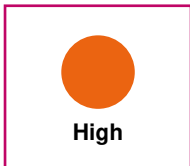
Risk Management Report

OUR RISK PROFILE

According to the risk heat map below, risks of which the likelihood and impact were high were analysed for extensive management and monitoring (Red and Orange zone) was exercised. Similarly, if impact and likelihood of risks were at lower level, a strategy of continuous monitoring was pursued.



HOW WE TACKLED KEY RISKS



CREDIT RISK

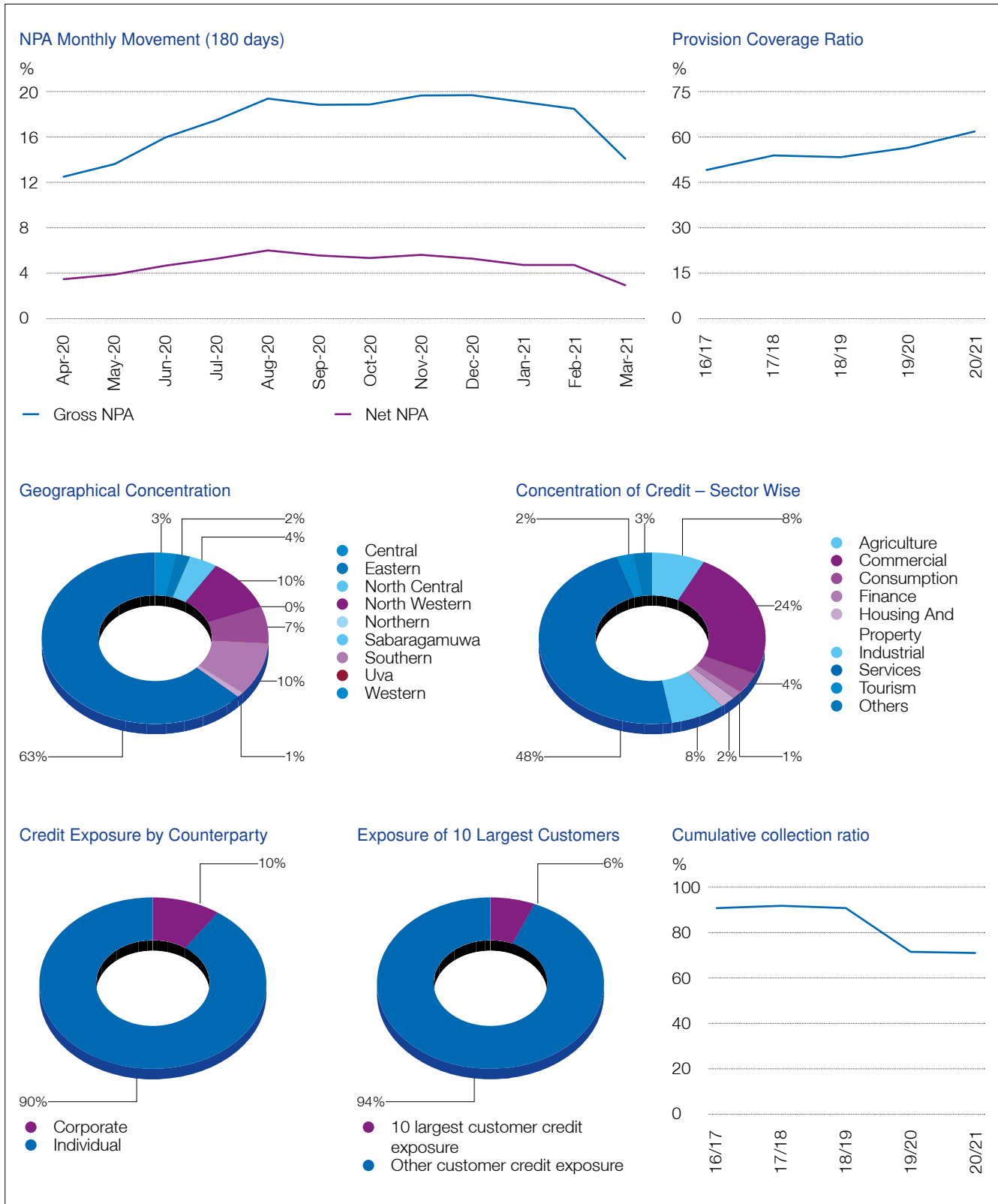
Credit Risk arises due to failure of a customer or counterparty to honour their financial or contractual obligations to the Company. It could result in the loss of the principal amount and interest with adverse implications on profits to MI due to the impairment provisions or write-offs of non-performing facilities.

Credit Risk mitigation highlights

- ➔ Improved controls were incorporated into our comprehensive Credit Policy whilst strengthening the credit team cadre.
- ➔ Newly-implemented call centre operations and digital collection channels bolstered the recovery process and customer engagement.
- ➔ Customer risk profiles were proactively assessed and monitored by using an improved internal rating scheme.
- ➔ Virtual training sessions were conducted enhancing credit knowledge of branch level credit authorities.

Risk Management Report




KEY CREDIT RISK INDICATORS



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

Risk Management Report

HOW WE MANAGED AND MONITORED CREDIT RISK

Risk	Risk Description	Risk Severity	Our Concerns	Our Responses
Default Risk	Risk of failure of certain customers to settle their debt obligations	 High	<p>Due to the high risk nature of the customer base, our business model is inherently exposed to higher credit risk compared to the banking sector. Even before facing the COVID-19 pandemic, we were experiencing somewhat of a deterioration of asset quality post Easter Sunday events. With the outbreak of COVID-19, the low repayment capacity of borrowers resulting from the deteriorating economic conditions further exacerbated the asset quality of the Company, despite freezing or classifying part of loans as NPL under debt moratorium schemes.</p> <p>Moreover, our stagnant loan book fuelled an increase in the NPL ratios through the denominator effect as well.</p>	<ul style="list-style-type: none"> ⊕ MI's Credit Department was able to monitor the risk level of the credit portfolio on a regular basis, enabling detection of early warning signals ⊕ Arrears accounts were monitored closely, giving special consideration to products and sector risks etc. ⊕ Analysed the borrower's financial leverage at regular intervals. ⊕ We applied different types of COVID-19-related stress scenarios under our comprehensive stress testing modelling by collaborating with experienced credit professionals. ⊕ IRMC assessed the credit portfolio performance against risk tolerance levels to maintain the credit risk indicators within the stipulated tolerance levels.
Concentration Risk	Risk of unbalanced distribution of MI's advances among business sectors, geographical regions and counterparties.	 Moderate	<p>During the year, there were no material changes in MI's credit concentration.</p> <p>However, due to the second wave of COVID-19, tourism, apparel and related industries took the major brunt, which had a cascading effect, especially on vehicle financing and general appetite for credit. Moreover, this resulted in marginal loan book growth of the Company as well.</p>	<ul style="list-style-type: none"> ⊕ We were very cautious and applied strict guidelines when granting credit to high risk sectors. ⊕ As a measure to bring down our exposure to the vehicle segment, we focused on property-backed loans and micro loans and introduced gold loans. ⊕ Product caps, sectoral caps and regulator limits were effectively monitored and maintained. ⊕ Portfolio review and post disbursement monitoring of large borrowers were conducted quarterly.
Recovery Risk	Risk of MI's loan advances requiring a longer period to recover	 Moderate	<p>Due to the continuous lockdowns in the country, MI's credit recovery was hampered significantly. Moreover, the debt moratorium relief introduced by the Government to extend repayment periods for borrowers on their debt repayments also negatively impacted the Company's expected cash inflows drastically.</p>	<ul style="list-style-type: none"> ⊕ Our special recovery task force effectively monitored the overdue accounts and aided speeding up the recovery process. ⊕ Newly-established call centre operations, digitalisation introductions such as M-cash and payment gateways boosted the entire recovery procedure. ⊕ Our competent Legal Department ensured the recoverability of problematic default accounts. ⊕ We continuously monitored NPL percentage, provision coverage, NPL portfolio and focused on arrears recovery targeting the 90-day bucket to keep impairment charges minimal.

Risk Management Report

CREDIT RISK STRESS TESTING

STRESS TESTING ON OVERALL ASSET DOWNGRADE

Stress Scenario: Increasing the Gross Non-performing facilities (NPA) over the performing facilities for the entire credit portfolio.

Scenario	Magnitude of Shock (%)	Stressed NPA (180 day) (%)
1	5	14.88
2	10	15.59
3	15	16.29

Commentary:

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

STRESS TESTING ON ASSET DOWNGRADE AND CAPITAL BUFFERS

Stress Scenario: Impact on Company's Total CAR from the changes in Non-performing facilities (NPA)

Scenario	Magnitude of Shock (%)	Stressed CAR (%)
1	5	16.53
2	10	15.98
3	15	15.44

Commentary:

Under the given stress case scenario's even, MI's CAR ratio is well above the total risk weighted prudential capital adequacy ratio requirement of 10.5%.

STRESS TESTING ON PROVISION FOR IMPAIRMENT AND CAPITAL BUFFERS

Stress Scenario: Impact on MI's Total CAR when increasing the impairment provision by given stressed cases

Scenario	Magnitude of Shock (%)	Stressed CAR (%)
1	5	16.80
2	10	16.52
3	15	16.24

Commentary:

Under the given stress case even, MI's total risk weighted capital adequacy ratio is well above the prudential capital adequacy requirement of 10.5%.

Risk Management Report



Moderate

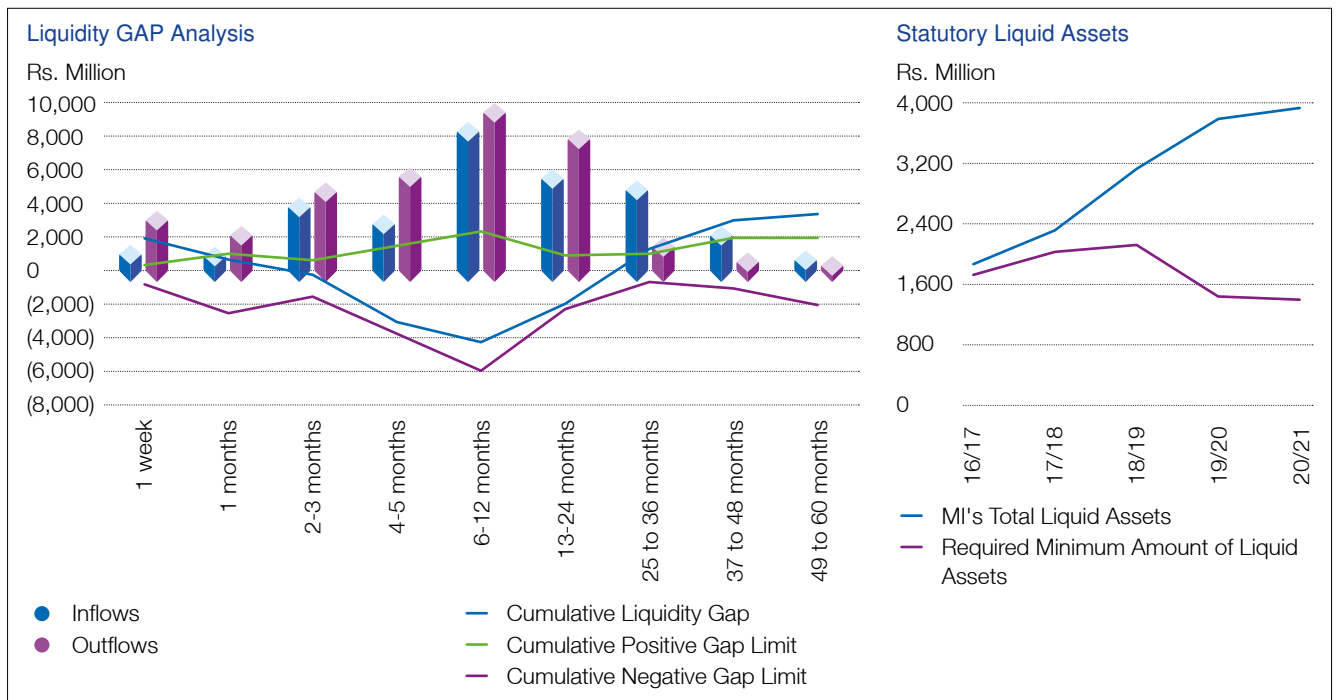
LIQUIDITY RISK

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.

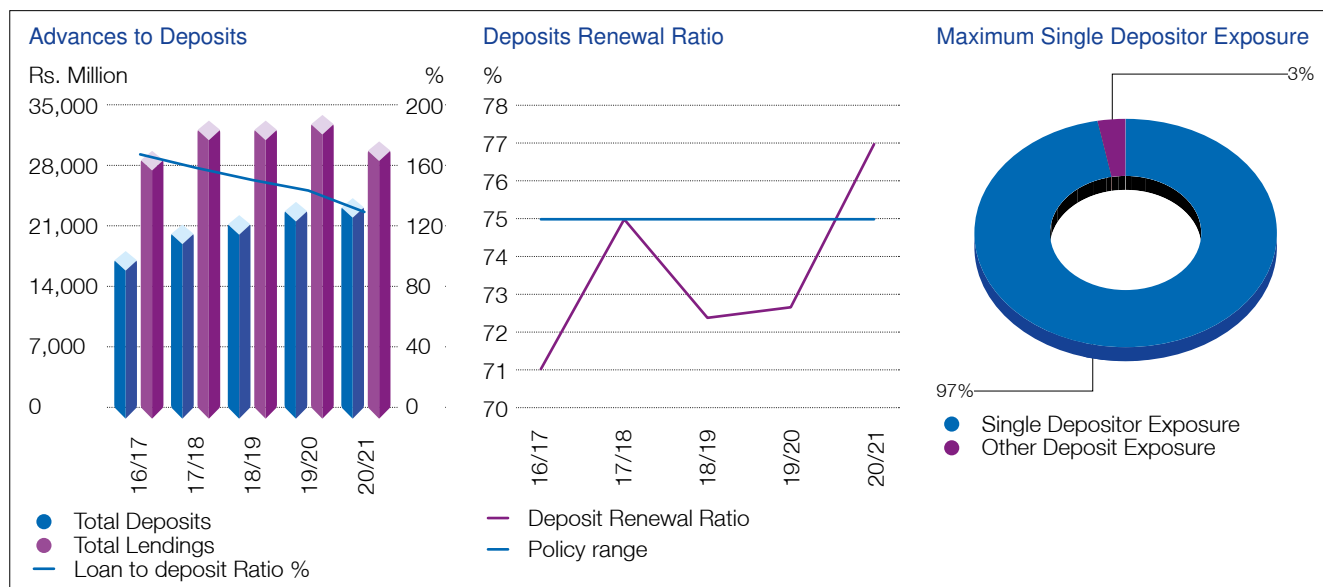
Liquidity Risk mitigation highlights

- ➔ Liquidity and investment policies were further enhanced in 2021 by introducing stringent controls to provide a solid framework for managing Liquidity Risk that remained a potent risk to the industry due to COVID-19 impacts
- ➔ MI's Treasury was able to secure bank and financial institutional funding on a regular basis whilst maintaining proper balancing of short-term and long-term funding needs
- ➔ Our well-maintained contingency funding lines remained a solid buffer to fund core business lines whilst possessing liquidity to withstand volatile market liquidity conditions
- ➔ Evaluated and invested in higher return secured investment avenues after thorough consideration of its risk and rewards

KEY LIQUIDITY RISK INDICATORS



Risk Management Report



HOW WE MANAGED AND MONITORED LIQUIDITY RISK

Risk	Risk Severity	Our Concerns	Our Responses
Funding and Liquidity Risk	Moderate	<p>With the outbreak of COVID-19, the regulator intervened to provide adequate liquidity to the market through an eased monetary policy. In particular, the reduction of minimum liquid assets requirement eased the needed liquidity levels over the regulatory minimum requirements during the period under review.</p> <p>Moreover, the unfavourable economic condition that remained throughout 2020/21 financial year kept MI's loan book contracted. This also provided some comfort from a liquidity point of view.</p> <p>On the other hand, the sharp reduction in loan recoveries due to debt moratoriums and lockdowns in the country somewhat hindered our well-maintained liquidity profile.</p>	<ul style="list-style-type: none"> We considered the statutory liquidity assets ratio as a Key Risk Indicator (KRI) and presented to the Integrated Risk management committee (IRMC) and the Board for evaluation purposes regularly. Managed to effectively take advantage of the decline in interest rates and lending rate caps of the banking sector to reduce our cost of borrowings. We closely monitored our borrowing repayments and deposit maturities to retain our one year cumulative maturity mismatch below Rs. 6 billion amid challenging market conditions. By taking up contingency funding plans at Assets and Liabilities Committee (ALCO) meetings, we ensured proper resilience under tight liquidity market constraints, especially during the first half of the financial year. Our deposit mobilisation team continued to focus on existing and new deposit segments like youth and professionals to improve mobilisation and retention ratio further.

LIQUIDITY RISK STRESS TESTING

STRESS TESTING ON STATUTORY LIQUID ASSETS

Stress Scenario: Sudden decline in liquid assets impacting on MI's statutory liquid assets ratio

Scenario	Magnitude of Shock (%)	Stressed Statutory Liquid Assets Ratio (%)
1	5	16.22
2	10	15.37
3	15	14.51

Commentary:

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

Risk Management Report



High

MARKET RISK

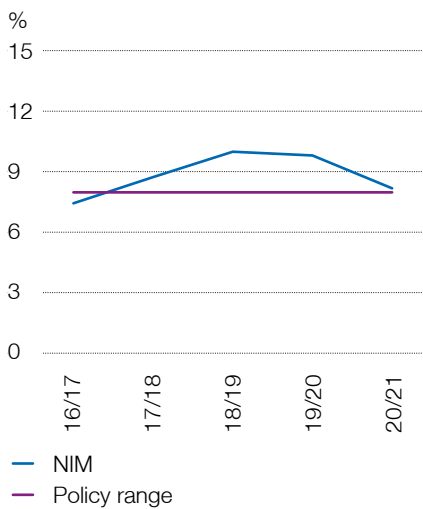
Market Risk exposure arises by dealing in interest-bearing financial assets and liabilities, which include our lending products, deposit products, investment in Government bills and bonds and institutional borrowings. Furthermore, our equity investment portfolio is also exposed to changes in equity prices.

Market Risk mitigation highlights

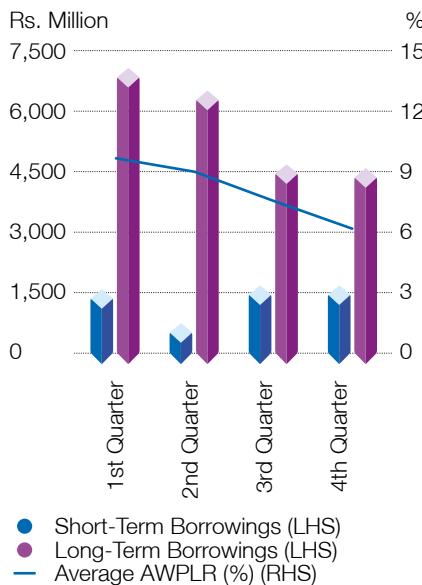
- ➔ Improved NIM by capitalising on repricing effect to deposit funding whilst sustaining reasonable yields
- ➔ Recruited talented professionals specialised in gold loan product to manage Commodity Price Risk
- ➔ Negotiated with funding organisations to obtain fixed-rate, long-term borrowing facilities by utilising single digit lower interest rates
- ➔ Investment Policy was strengthened by incorporating new terms and references
- ➔ Kept close a watch on share market movements and traded optimally

KEY MARKET RISK INDICATORS

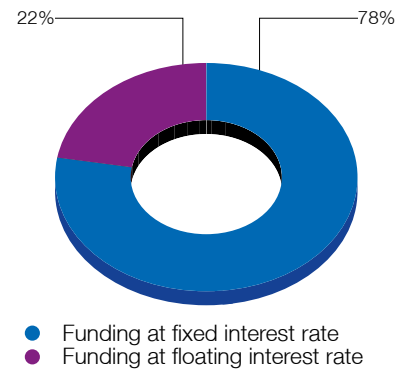
Net Interest Margin



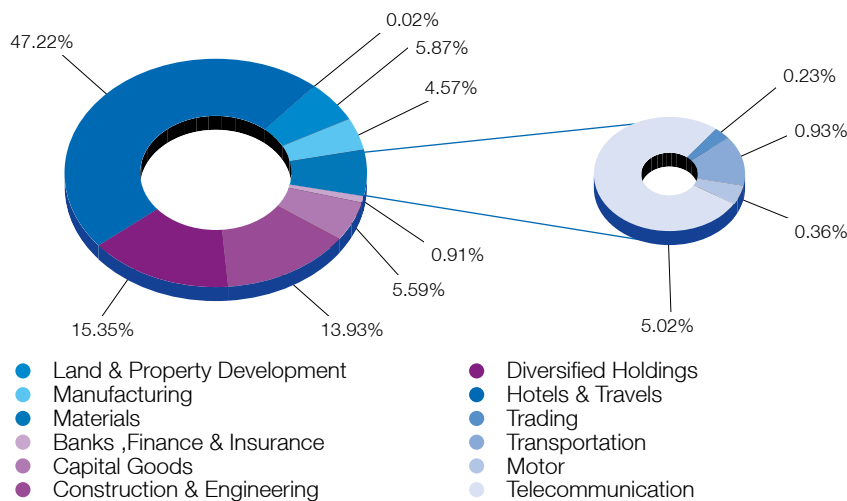
Short, long term borrowings and AWPLR



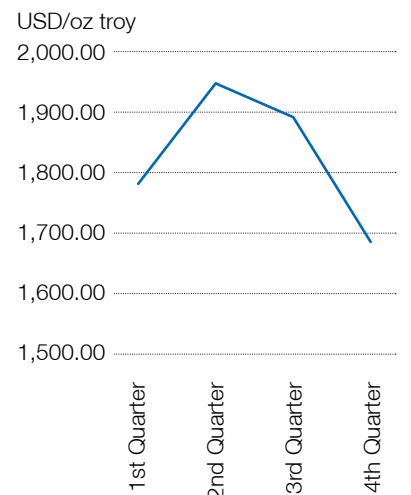
Floating and Fixed Interest rate funding 2020/21



MI's Equity Investments Portfolio 2020/21






International gold price movement 2020/21



Risk Management Report

HOW WE MANAGED AND MONITORED MARKET RISK

Risk	Risk Description	Risk Severity	Our Concerns	Our Responses
Interest Rate risk	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.	 High	<p>With the outbreak of COVID-19, the Central Bank of Sri Lanka continued to reduce policy interest rates throughout the financial year under review.</p> <p>When considering MI's core business product portfolio, it comprised 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 led to volatility in net interest income as interest rates varied.</p>	<ul style="list-style-type: none"> ➔ The Treasury Division closely monitored the interest rate risk from an operational perspective, measuring and analysing the exposures as per the risk appetite set for Treasury transactions. ➔ Movements in TB rate and AWPLR were proactively observed and pricing effectively structured. ➔ ALCO reviewed interest rate risks on a broader perspective and appropriate action plans were initiated in consultation of the Board of Directors. ➔ Maturity mismatches and stress testings were presented to ALCO meetings on a monthly basis and through short-, medium- and long-term strategy bridged gaps to a reasonable level.
Equity Price 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.	 Moderate	<p>During the year, the Colombo Stock Exchange (CSE) marked a high degree of decline, responding to the outbreak of COVID-19 and economic sluggishness. However, the booming of the stock market was noted with gradual easing of COVID-19 restrictions relating to tourism after December 2020. However, again by the end of February 2021, a bearish market was observed.</p>	<ul style="list-style-type: none"> ➔ Our Treasury management team continuously monitored the share price movements of the investment portfolio with the guidance of the Finance Director. ➔ In order to manage equity risk effectively, MI placed great emphasis on analysing the fluctuations in counterparty exposures and sector-wise exposures of investments as well. ➔ Investing and divesting decisions were proactively taken based on MI's enhanced Investment Policy.
Commodity Price Risk	The risk of financial losses due to the movements in commodity prices of the Company. MI's Commodity Price Risk arises mainly due to the gold-backed loans introduced during the financial year under review.	 Low	<p>According to market analysts, the sudden hike of global gold prices recorded in 2020/21 was due to investors showing a preference for purchasing gold against the backdrop of the global economic downfall due to the COVID-19 pandemic.</p> <p>Even though the higher price was good from an investor point of view, as a financial institution, this became a noticeable risk factor for us since almost all COVID-19 hit countries including Sri Lanka have gradually commenced their vaccination process and adapted to the new normalcy by the latter part of the financial year 2020/21, triggering price fall.</p>	<ul style="list-style-type: none"> ➔ Since commencing gold operation from 2021, we continued to adjust our loan to value ratio (LTV) by carefully observing global gold price fluctuations. ➔ Short tenure gold loan tickets were encouraged as it accelerated the recovery process. ➔ The Risk Division started to report gold product-related key risk indicators to the Board Risk Committee for better risk evaluation purposes.

Risk Management Report

MARKET RISK STRESS TESTING

STRESS TESTING ON EQUITY INVESTMENTS

Stress Scenario: Falling fair values of MI's equity investment portfolios impact on the Company's Total CAR

Scenario	Magnitude of Shock (%)	Stressed CAR (%)
1	5	16.78
2	10	16.50
3	15	16.21

Commentary:

Under the given stress cases, MI's total risk weighted capital adequacy ratio is well above the prudential capital adequacy requirement of 10.5%.



Moderate

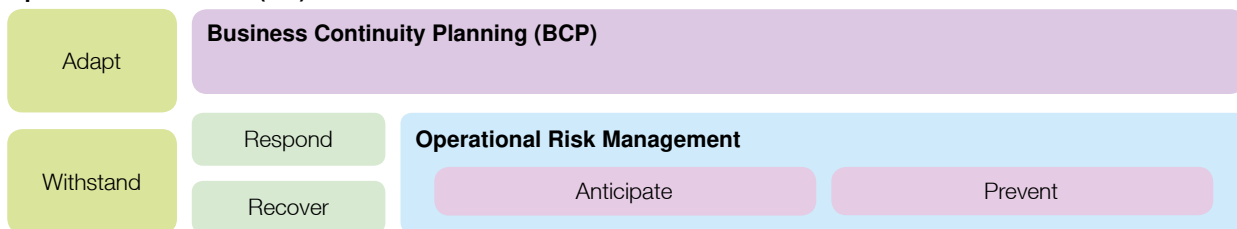
OPERATIONAL RISK

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

Operational Risk mitigation highlights

- We focused on integrating Operational Risk Management (ORM) with Business Continuity Planning (BCP) through a well-established Operational Resilience (OR) mechanism

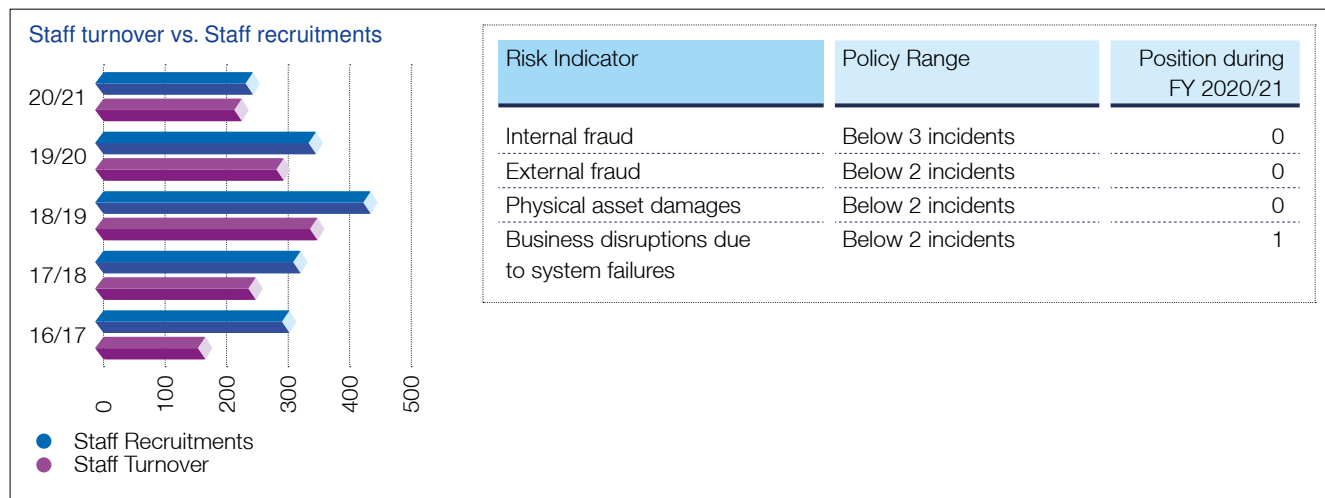
Operational Resilience (OR)



- Realigned and redesigned the operational processes of the Company removing non-value-added activities with the aid of the independent, dedicated process re-engineering team
- Staff health and safety protocols were further strengthened by adding improved safety measures in order to adopt to new normalcy

Risk Management Report


KEY OPERATIONAL RISK INDICATORS



HOW WE MANAGED AND MONITORED OPERATIONAL RISK

Risk	Risk Description	Risk Severity	Our Concerns	Our Responses
People Risk and Workplace Safety	The risk of loss intentionally or unintentionally caused by employees. The risk arises from employee errors, employee health and safety concerns, etc.	Moderate	<p>People Risk is considered a key operational risk faced as our workforce stands at over 1,000, working in 40 locations.</p> <p>With the outbreak of COVID-19, the Government imposed new protocols on social distancing and staff safety measures in workplaces. On the other hand, several COVID-19 clusters emerged in several areas of the country and MI was faced with the challenge of dealing with MI's staff in such areas.</p>	<ul style="list-style-type: none"> MI prioritised the protection of the workforce and encouraged 'stay at home' and 'roster basis' concepts by obeying respective rules and regulations of the Government. Staff health and safety related matters due to COVID-19 risk was continuously taken up during Management Committee meetings Transportation services were provided to staff within the peak period of COVID-19 to ensure the safety of our workforce. Virtual communication channels were effectively used by the Human Resource Division to educate and train MI's staff to face the new normalcy conditions.
Business Disruptions, System Failures and Technology Risk	The risk of losses caused by piracy, theft, failure, breakdown or disruption in technology, data or information. The risk arises from hardware and software failures, telecommunication problems and utility outages	High	<p>MI's technology related risk is inherently high due to its business model. Hence, management needed to take a cautious approach to manage the risk of fraud and data corruption through system manipulation, cyber-attacks, loss of data, data protection issues and use of obsolete systems this year as well.</p> <p>In addition, with the sudden lockdowns of the country due to COVID-19, MI was required to improve its remote working capabilities whilst minimising system downtimes and failures.</p>	<ul style="list-style-type: none"> We continued to invest in secure and efficient remote access solutions to improve business resilience. Our dedicated IT team performed operating system checking, database security assessments and hardware feasibility checking on a regular basis. System downtimes and error reports were continuously monitored. Software licenses and system security features were updated with immediate effect.

Risk Management Report

Risk	Risk Description	Risk Severity	Our Concerns	Our Responses
Legal and Compliance Risk	Risk of possible losses in terms of penalties, fines, claims or outside parties filing law suits against the Company.	 Low	In order to protect the LFC sector and related customer base due to the COVID-19 pandemic, the regulator continuously engaged by introducing several circulars and directions especially relating to debt moratoriums, liquid assets, share capital and expected sound support from the industry.	<ul style="list-style-type: none"> → MI obliged and compiled by supporting the regulator's request to support borrowers in keeping to set criteria. → The Head of Compliance submitted a monthly compliance report to the Board through the IRMC covering all the relevant Central Bank regulations. → Through periodical reviews, MI assessed the Company's progress in eliminating or mitigating compliance risk. → We encouraged regular staff training to gather knowledge about changes in statutes and regulations. → The Compliance Division monitored timely submission of reports to the Central Bank of Sri Lanka and other regulatory bodies, whilst the Internal Audit Division independently provided feedback on MI's regulatory compliance status.



Moderate

REPUTATIONAL RISK

Reputational Risk arises when stakeholders lose the favourable 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.

Reputational Risk mitigation highlights

- Specific customer care hotlines were deployed in challenging times to provide uninterrupted service to customers
- New call centre operations aided to resolve customer complaints instantly and improved customer engagement
- COVID-19-related health and safety precautionary measures helped to boost customer confidence and employee motivation and trust in relation to workplace safety

HOW WE MANAGED AND MONITORED REPUTATIONAL RISK

Risk	Risk Severity	Our Concerns	Our Responses
Reputational Risk	 Moderate	<p>The distressed and high risk economic situation due to the COVID-19 pandemic impacted most LFC sector credit ratings negatively throughout the year.</p> <p>According to September 2020 Fitch Ratings, MI's BBB- (lka) rating remained unchanged. However, greater emphasis was placed on improving organisation-wide KPIs and KRIs to bolster future ratings.</p>	<ul style="list-style-type: none"> → Continued to maintain smooth operations whilst implementing contingency plans correctly in challenging times to add value to the customers. → Enhanced communication and Whistle-Blowing Policies encouraged employees to report any malpractices to curtail damage from reputational risk. → We managed to remain customer focused whilst introducing new product facilities (e.g. gold loans) in a timely manner. → Training programmes were conducted for front office employees on business ethics, workplace professionalism, behaviour, etc.

Risk Management Report



Moderate

STRATEGIC RISK

Strategic 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.

Strategic Risk mitigation highlights

- ➔ Board-approved the revised Strategic Plan that is applicable till March 2024, considering stress scenarios that prevailed throughout the year and potential concerns
- ➔ All strategic initiatives placed by the Company were continuously reviewed by the Board of Directors
- ➔ Product feasibility studies were conducted at Board level for the newly-implemented gold loan product

HOW WE MANAGED AND MONITORED STRATEGIC RISK

Risk	Risk Severity	Our Concerns	Our Responses
Strategic Risk	 Moderate	<p>Given the unprecedented macroeconomic volatility, the financial year under review could be considered as one of the toughest in terms of Strategic Risk.</p> <p>Vehicle import restrictions, country lockdowns, policy interest rate downgrade, moratorium implications, stagnant loan book and increasing NPLs were major factors in formulating the strategic direction for the Company during the year under review.</p>	<ul style="list-style-type: none"> ➔ Strategic planning sessions were held and the corporate plan was developed with executive committee and Board input. ➔ Monthly variance analysis, analytical reviews and budgetary reviews were presented and evaluated at management meetings on a regular basis. ➔ Stress testing was conducted by incorporating various stress scenarios. ➔ Risk dashboards were used as an effective tool in reporting Key Risk Indicators (KRIs) to IRMC and the Executive Committee. ➔ Competitor analyses were conducted on a quarterly basis in order to identify strategic focus of sector peers.



Moderate

ENVIRONMENTAL RISK

Environmental Risk is the risk of actual or potential threat of adverse effects on living organisms and the environment by effluents, emissions, wastes, resource depletion, etc., arising out of the Company's activities.

Environmental Risk mitigation highlights

- ➔ Our Environmental Risk Policy was further strengthened with emerging concerns over governance practices on environmental sustainability
- ➔ Biodiversity checks were done via audit spot reviews

HOW WE MANAGED AND MONITORED ENVIRONMENTAL RISK

Risk	Risk Severity	Our Concerns	Our Responses
Environmental Risk	 Moderate	<p>In Sri Lanka, an increasing pattern of Environmental Risk continued to unfold during the year, resulting in rapid climate changes, carbon emission, high energy consumption, etc.</p> <p>Moreover, great emphasise was placed in reviewing the purpose of funding facilities requested by customers was required since some projects could result in key environment-related issues and disasters.</p>	<ul style="list-style-type: none"> ➔ Our long-term environment resilient plan aided in transforming from a high carbon intensive to a low carbon intensive mechanism. ➔ We continued to educate staff to reduce use of plastic products whilst stressing on health and safety concerns over use of same. ➔ Low electricity and water consumption mechanisms were initiated with the support of the Company's maintenance team. ➔ Requested clients' environmental clearance documents for facilities with high environmental risks.

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. A. L. N. Dias (w.e.f. 30th March 2021)	Chairman	Independent Non-Executive Director
Mr. N. H. V. Perera (upto 09th February 2021)	Former Chairman	Non-Executive Director
Mr. Gerard G. Ondaatjie	Member	Executive Director
Mr. P.M. Amarasekara (upto 01st January 2021)	Member	Executive Director
Mr. S.H. Jayasuriya	Member	Executive Director
Mr. Dhanushka Fonseka (w.e.f. August 2020)	Member	Chief Operation Officer (Non-Board Director)
Mr. Deva Anthony (w.e.f. August 2020)	Member	Chief Financial Officer/ Senior General Manager
Mr. Ramidu Costa	Member/Secretary	Head of Risk Management & Compliance
Mr. Thusitha Indunil Jayawardana (w.e.f. August 2020)	Member	Assistant General Manager-Credit Risk

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 100.

DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

The Terms of reference of the Committee was revised and approved by the Board on 31st August 2020, responding to the challenging and dynamic business environment. Based on the Board approved 'Terms of Reference' and 'Risk Policy' of the Company, following remained the key responsibilities of the Integrated Risk Management Committee.

- Assessing key risks associated with business including, credit, market, liquidity, operational, information and strategic risks, which also cover the business continuity plan of the company, through appropriate risk indicators and ensuring suitable risk mitigation strategies are in place for current and emerging risks which exceed the risk tolerance levels.
- Determine the appropriate risk appetite limits in addition to limits imposed stemming from regulations.
- Set a comprehensive risk management framework with appropriate compliance policies and systems to create a strong risk-conscious culture, by
 - Communicating MI's approach to risk company wide.
 - Promoting ethical conduct and integrity among the staff by setting the appropriate standards and expectations.

- 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. This includes the evaluation of the adequacy and effectiveness of the risk management mechanisms in place and the exercising oversight over the overall risk management process.
- Approve major decisions impacting MI's risk profile or risk exposure, ensuring all key risks are addressed with necessary mitigation strategies within the framework of the authority and scope assigned to the Committee.
- 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.
- Identify and monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises.
- Review MI's approach to Risk Management periodically and to introduce changes to bridge any gaps arising as a result of evolving business landscape.

KEY COMMITTEE ACTIONS INITIATED DURING FINANCIAL YEAR 2020/21

Prevailing COVID pandemic situation in the country impacted all key areas of risk management throughout the year under review. The Committee considered a wide range of risks faced by the Company resulting from the said pandemic related implications and took vigilant and proactive actions during the year in fulfilling its responsibilities effectively.

- During the year, Committee reviewed and approved the risk parameters and risk appetite limits for various key risk categories which were deemed as benchmarks in periodically conducted risk assessments.
- The Committee submitted 'Activity Reports' on a quarterly basis and updated the Board on key risks and recommended respective risk mitigation actions.

Board Integrated Risk Management Committee Report

During the FY 2020/21, the Committee continued to utilise established Corporate Management Committees to provide additional focus on credit and recovery risk, liquidity risk, IT resilience and cyber Security, operational risk concerns, business continuity planning, Environmental and sustainability risks. The key actions of these Committee and benefits derived are summarised below;

Action	Benefit to MI
<p>⊕ Assets and Liabilities Management Committee (ALCO) - Amidst challenges stemming from decreasing interest rates, as well as shifts in risk appetite levels of counterparties especially the conservative stance taken by banks due to COVID, management took measures to strengthen the treasury and liquidity management function in particular, enhancing Liquidity Risk Management Policies, Borrowings Policies and Investment Policy.</p>	<p>⊕ Enhanced treasury management function with stronger risk controls that helped to sustain sound liquidity levels throughout the pandemic and also helped to improve the maturity profile of the Company's Assets and Liabilities thus lower liquidity risk.</p> <p>⊕ Better monitoring of interest cost resulted in better margins</p>
<p>⊕ IT Steering Committee - The rapid shift towards staff "Work-From-Home" and the enhancements instilled to ensure strong security to facilitate remote access remained a key feature to lower COVID risks. As a result, necessary steps were initiated to ensure safety from cyber threats and to improve system capabilities and instill sound control practices.</p>	<p>⊕ Initiated options of working from home ensured core functions operated uninterrupted at optimal capacity.</p> <p>⊕ Oversight of ongoing external system evaluations and associated risk.</p>
<p>⊕ Management Committee - Reviewed ongoing performance to provide early warning signals and a platform for decision-making.</p>	<p>⊕ Monitored core business progress amidst evolving risks and mitigation of gaps.</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, related training 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 including company's reputation risk.</p>



A.L.N. Dias

Chairman

Integrated Risk Management Committee

07th June 2021

Board Remuneration Committee Report

COMMITTEE COMPOSITION

Name	Membership Status	Directorship Status/ Position held in the company
Mr. A. L. N. Dias (w.e.f. 30th March 2021)	Chairman	Independent Non-Executive Director
Mr. S. M. S. S. Bandara (upto 09th February 2021)	Former Chairman	Ex-Chairman/Independent Non-Executive Director
Mr. P. D. D. Perera (w.e.f. 30th March 2021)	Member	Acting Chairman/Independent Non-Executive Director
Mr. M. K. S. Pieris (w.e.f. 30th April 2021)	Member	Independent Non-Executive Director
Mr. N. H. V. Perera (upto 09th February 2021)	Member	Non-Executive Director
Mrs. P. T. K. Navaratne (upto 17th January 2021)	Member	Independent Non-Executive Director
Mrs. Sonali Pethiyagoda	Secretary	Company Secretary

TERMS OF REFERENCE

The terms governing the Committee are;

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

COMMITTEE'S ROLE

The Committee as part of its responsibilities 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 concern.
- ⊕ Evaluated prevailing market remuneration levels and taking note of the impact of COVID crisis on economy and business when making remuneration policy amendments.
- ⊕ Recommend/ decide remuneration 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 to adjust to the temporary business environment.
- ⊕ Set goals and targets for the CEO and Key Management Personnel and evaluated their performance against set targets and goals periodically and determined the basis for revised remuneration, benefits and other incentives.

KEY ACTIVITIES DURING FY 2020/21

- ⊕ Amid of prevailing COVID 19 crisis, Committee provide guidance on annual remuneration changes.
- ⊕ The Committee reviewed and obtained Board approval for the revised Board Remuneration Policy drawing due reference to industry best practices during the financial year.
- ⊕ Human Resource Remuneration Policies were revisited in keeping to best human resource management practices and required changes were carried out to be implemented from the next financial year.



A. L. N. Dias
Chairman
Remuneration Committee
07th June 2021

Board Nomination Committee Report

COMPOSITION OF THE NOMINATION COMMITTEE

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

Name	Membership Status	Directorship Status /Profession held in the company
Mrs. E. D. Wickramasuriya (w.e.f 30th March 2021)	Chairperson	Independent Non-Executive Director
Mr. S. M. S. S. Bandara (upto 09th February 2021)	Former Chairman	Independent Non-Executive Director
Mr. Gerard G. Ondaatjie	Member	Managing Director
Mr. P. D. D. Perera (w.e.f 30th March 2021)	Member	Independent Non-Executive Director
Mr. A.L. N. Dias (w.e.f 30th March 2021)	Member	Independent Non-Executive Director
Mr. N. H. V. Perera (upto 09th February 2021)	Member	Non-Executive Director
Ms. P. T. K. Navaratne (upto 17th January 2021)	Member	Independent Non-Executive Director
Mrs. 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.

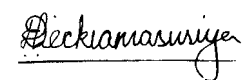
- ⊕ Oversee the orientation and training of new Directors.
- ⊕ Ensure succession arrangements are in place for the post of CEO and Key Management Personnel and put in place of a training and development plan for the KMPs identified for succession.
- ⊕ Recommend ways in which the Board could improve its performance.

KEY ACTIVITIES/ACTIONS DURING THE FINANCIAL YEAR 2020/21

- ⊕ The committee having considered the skills, knowledge, expertise and experience, made recommendations to the Board to appoint Mr. A.L.N. Dias- Independent Non-Executive Director, Mrs. E. D. Wickramasuriya- Independent Non-Executive Director and Mr. M. K. S. Pieris- Independent Non-Executive Director. This was initiated to fill the vacancies of three Non-Executive Directors who retired after completing 9 years as per corporate governance regulations.
- ⊕ 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 continued to work closely with the Board of Directors on matters assigned to the Committee and reported back to the Board of Directors with its recommendations.
- ⊕ The Committee obtained declarations from all the Directors through a prescribed format confirming their status of independence.

MEETING INFORMATION

Three Nomination Committee meetings were held during the year under review and the proceedings of the meetings were regularly reported to the Board.



E. D. Wickramasuriya
Chairperson
Nomination Committee
07th June 2021

Board Audit Committee Report

The Board of Directors have 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 three Independent Non-Executive Directors 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 the company
Mr. P. D. D. Perera (Appointed Chairman w.e.f 30th March 2021 & member w.e.f 27th February 2020)	Chairman	Independent Non-Executive Director
Mr. S. M. S. S. Bandara (upto 09th February 2021)	Former Chairman	Independent Non-Executive Director
Mr. N. H. V. Perera (upto 09th February 2021)	Member	Non-Executive Director
Mrs. E. D. Wickramasuriya (w.e.f. 30th March 2021)	Member	Independent Non-Executive Director
Mr. A. L. N. Dias (w.e.f. 30th March 2021)	Member	Independent Non-Executive Director
Mrs. Sonali Pethiyagoda	Secretary	Company Secretary

During the period, the Finance Director, Chief Financial Officer and representatives from Internal and External Auditors were presented 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, overseeing External auditor's engagement, internal audit matters etc.

RESPONSIBILITIES OF THE AUDIT COMMITTEE

- ➔ Make recommendations on matters in connection with the appointment of the external auditors and service period, audit fee, resignation or dismissal of the auditor. The implementation of Central Bank guidelines issued to auditor from time to time, application of relevant accounting standards.
- ➔ 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 is permitted under the relevant statues, regulations, requirements and guidelines.
- ➔ Review the key financial information of the 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 audits, the going concerns assumptions and the compliance with relevant accounting standards and other legal requirements.
- ➔ Discuss the issues, outstanding matters 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 also ensures effective whistle-blowing policies are in place to address issues relating to breach of ethics.

The Committee held 07 meetings during the financial year 2020/21 and submitted 07 reports to the Board of Directors during the year under review, highlighting the key matters taken up.

INTERNAL AUDIT

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

The Internal Audit programs were structured to ensure there is adequate audit cover age at both the Head Office and branch level. The Audit Committee regularly reviewed audit reports and followed-up with Management on material audit observation with recommendations.

Board Audit Committee Report

The Internal Audit Department's resource requirements were assessed and performance appraisal of the head of Internal Auditor and other senior staff members of the Internal Audit team were reviewed.

INDEPENDENCE OF EXTERNAL AUDITORS

The Audit Committee reviewed both audit and non-audit functions of the External Auditors which are segregated as those require independent view 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 2022, subject to the approval

of shareholders at the Annual General Meeting, in accordance with Central Bank 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 for the 2020/21 financial year and approved by the Board.

KEY ACTIVITIES/ACTIONS OF THE COMMITTEE DURING FY 2020/21

- ➔ The committee revised and obtained Board approval on for the revised Terms of Reference (TOR) of the Audit Committee drawing due reference to best practices in the LFC sector.
- ➔ The Committee regularly monitored all exceptional items charged to the Income Statement, long outstanding items in the Company's chart of accounts, credit quality, risk management procedures and adherence to classification of non-performing loans and provisioning requirements specified by the regulator.
- ➔ 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 IT audits.
- ➔ The committee reviewed the effectiveness of the adopted 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 scrutinised best practices adopted by the industry and regulatory requirements and systems in place to adhere to same.
- ➔ Assessed the Company's current and future ability to comply with enhanced Basel II capital adequacy statutory requirements.
- ➔ The Committee emphasised the need to uphold good governance practices and ethical values to staff. The Company Code of Ethics and Whistle-blower's Charters were strongly enforced and thereafter followed up by educating and encouraging all members of staff to resort to whistle-blowing to designated independent officials, if they suspect any wrongdoings or other improprieties.



P. D. D. Perera
Chairman
 Audit Committee
 07th June 2021

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 transactions carried out by the Company with related parties, 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. MI's BRPTRC composition is as follows;

Name	Membership Status	Directorship Status/ Position held in the company
Mr. P. D. D. Perera (Appointed Chairman w.e.f 30th March 2021 & member w.e.f. 27th February 2020)	Chairman	Independent Non-Executive Director
Mr. S. M. S. S. Bandara (upto 09th February 2021)	Former Chairman	Independent Non-Executive Director
Mrs. E. D. Wickramasuriya (w.e.f 30th March 2021)	Member	Independent Non-Executive Director
Mr. S. H. Jayasuriya	Member	Executive Director
Mr. N. H. V. Perera (upto 09th February 2021)	Member	Non-Executive Director
Mr. A.L.N. Dias (w.e.f 30th March 2021)	Member	Independent Non-Executive Director
Mrs. Sonali Pethiyagoda	Secretary	Company Secretary

SCOPE OF THE COMMITTEE

Identify all related parties of the Company and review their transactions with the Company to ensure that they are carried out on an arm's length basis. The committee aims to provide independent review, approval and oversight of Related Party Transactions of the company. At each subsequent scheduled meeting of the Committee, the management updates the Committee as to changes in any previously identified related parties.

OBJECTIVE

To protect the interest of investors and other stakeholders as a whole, through the introduction of a formal mechanism to identify and report related party transactions and comply with requirements of the Code of Best Practice on Related Parties issued by the Securities and Exchange Commission of Sri Lanka.

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.

ACTIONS/ ACTIVITIES CONDUCTED BY THE COMMITTEE DURING FY 2020/21

- During the year, the Committee was further strengthened by the appointment of additional Independent Non-Executive Directors in view of the retirement of two members.
- Four Committee meetings were held during the year under review. Finance Division through the Finance Director submitted comprehensive reports on related party transactions to the Committee. Attendance of the members of the Committee is provided on page 100. Any concerns of the Committee continued to be reported to the Board of Directors on an ongoing basis.
- The Committee reviewed and enhanced existing policy on related party transactions and it's monitoring which comprehensively covers both organisational and regulator standard requirements on related party transactions.
- The committee reviewed and monitored related party transactions that the company has entered into and requested through the finance department additional information to draw conclusions.
- Carried out review over the ongoing systemisation of related party transaction reports and recommended Credit and Finance Divisions to further enhance the related party transaction capturing and review process.



P. D. D. Perera
Chairman
Related Party Transactions Review Committee
07th June 2021

Consistent strategy we trust





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FINANCIAL REPORTS

Financial Calendar – 186

Annual Report of the Board of Directors – 187-193

Directors' Interests in Contracts with the Company – 194-195

Directors' Responsibility for Financial Reporting – 196

Managing Director's and Chief Financial Officer's

Statement of Responsibility – 197

Report by the Board on Internal Controls – 198-199

Independent Assurance Report on the

Directors' Statement on Internal Control – 200

Independent Auditor's Report – 201-204

Financial Information-Index – 205

Statement of Comprehensive Income – 206

Statement of Financial Position – 207

Statement of Changes in Equity – 208

Statement of Cash Flow – 209

Notes to the Financial Statements – 210-299

Financial Calendar

	2020/21	2021/22 (Proposed)
First interim dividend	-	July 2021
Second interim dividend	-	-
Annual Report and Accounts for the year signed/to be signed	31st May 2021	20th May 2022
Annual General Meeting to be held	30th June 2021	30th June 2022
Submission of the Interim Financial Statements in Terms of the Rule 7.4 of the Colombo Stock Exchange and as per the Requirements of the Central Bank of Sri Lanka	2020/21 Submitted on	2021/22 to be submitted on or before
For the 3 months ended 30th June – (unaudited)	14th August 2020	15th August 2021
For the 3 and 6 months ended 30th September – (unaudited)	13th November 2020	15th November 2021
For the 3 and 9 months ended 31st December – (unaudited)	12th February 2021	15th February 2022
For the 3 months and year ended 31st March – (unaudited)	31st May 2021	31st May 2022
Publication of Financial Statements as per Finance Business Act No 42 of 2011	2020/21 Published on	2021/22 to be Published on or before
Six month Financial Statements	26th November 2020	30th November 2021
Annual Financial Statements	30th June 2021	30th June 2022

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, 2021 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 Diri savi 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 May 31, 2021.

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, 2021).

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 210
II) Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 (1) (b)	Refer pages 206 to 207
III) Auditor's Report on Financial Statements of the Company and the Group.	Section 168 (1) (c)	Refer page 201 to 204
IV) Any changes made to the Accounting policies during the year under review.	Section 168 (1) (d)	Refer page 210 to 221
V) Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 (1) (e)	Refer page 191
VI) Remuneration and other benefits paid to Directors of the Company during the period.	Section 168 (1) (f)	Refer page 227
VII) Total amount of donations made by the Company during the period.	Section 168 (1) (g)	Refer page 227
VIII) Information on Directorate of the Company during and at the end of the accounting period.	Section 168 (1) (h)	Refer pages 190 to 191
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 227
X) Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Refer page 192
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 193

2. REVIEW OF BUSINESS

2.1 VISION, MISSION AND CORPORATE CONDUCT

The company's Vision and Mission are given on page 16 of this Report. The business activities of the company are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission, which reflects our commitment to high standards of business conduct and ethics.

2.2 REVIEWS ON OPERATIONS OF THE COMPANY

The company has established delivery points across all key regional hubs of the country. During the year, there were no new delivery points added, the total number of delivery points in country was 39 at the end of 2021 (39 at the end of 2020)

Annual Report of the Board of Directors

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 24 to 33 and Management Discussion & Analysis on pages 34 to 75 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 55 to Financial Statements on page 298.

Segment wise contribution to revenue, results, assets and liabilities is disclosed in Note 52 to the Financial Statements on page 273 to 275.

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. During the Financial year company has introduced Gold Loan Product for its Customers.

2.2.2 Associate Company

Company has a 26.12% (2020 – 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 246 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 207 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 206 to 299 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 196 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 187 to 193.

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 200.

2.6 AUDITORS' REPORT

Company's Auditors, Messrs Ernst & Young Partners performed the audit on the Financial Statements for the year ended March 31, 2021 and the Auditor's Report on the Financial Statements is given on pages 201 to 204 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, 2021, 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 210 to 221 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 191 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. 0.417mn (2020-Rs. 0.782 mn). There are no donations made to the Government approved charities from above (2020 –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.

Annual Report of the Board of Directors

2.10 FUTURE DEVELOPMENTS

Future developments activities of the company is discussed under the Managing Director's report on page 29 to 33 of this Annual Report.

3. GROSS INCOMES

The income of the company for the year ended March 31, 2021 was Rs. 6,496 million (year ended March 31, 2020- Rs. 7,610 million). An analysis of income is given in Notes 6 & 7 to the Financial Statements on page 222 to 223 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 2021 was Rs. 827 million (Rs. 692 million in 2020) and the profit after tax for the year ended 2021 was Rs. 614 million (Rs. 372 million in 2020).

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

As at March 31	2021	2020
Profit before Tax	827,501	691,791
Taxation	213,358	320,082
Profit after Tax	614,143	371,708
Other Comprehensive Income	(23,804)	9,235
Balance brought forward	2,016,150	1,765,028
Available for Appropriation	2,606,489	2,145,972
Transfer to Statutory Reserve	(35,000)	(25,000)
Transfer to Retain Profit from OCI reserve	151,694	-
Impact of Adoption of SLFRS 16	-	(51,590)
Deferred tax Impact of Adoption of SLFRS 16	-	6,887
Interim Dividend Paid	-	(60,120)
Balance carried forward	2,723,183	2,016,150

4.2 DIVIDEND ON ORDINARY SHARES

Details of information on dividends are given in Note 17 to the Financial Statements on page 230.

4.3 PROVISION FOR TAXATION

Income tax for 2021 has been provided at the rate of 24% (24% - 2020) 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% -2020).

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 228 & 262 respectively, of this Annual Report.

4.4 RESERVES

A summary of reserves of the company as at year ended 31st march 2021 is as follows:

	2021	2020
Statutory Reserve Fund	796,400	761,400
Revaluation Reserve	1,997,538	1,744,351
Associate Company- reserve	592,326	581,234
General Reserve	4,086,430	4,086,430
Fair value through OCI Reserve	77,693	(327,238)
Retain Earnings	2,723,183	2,016,150

The company's total Reserves as at March 31, 2021 amounted to Rs. 10,309million (2020-Rs. 8,898 million). The movement of the reserves are given on page 208 under Statement of Changes in Equity & Note 40 & 45 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	2021	2020
Property, Plant & Equipment	107 Million	58 Million
Leasehold Property	Nil	Nil
Intangible Assets	21 Million	1 Million

Details of which are given in Note 31 on page 250 in the Financial Statements. Capital expenditure approved and contracted for is given in Note 46 to the Financial Statements on page 268 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, 2021, 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 253.

Annual Report of the Board of Directors

7. STATED CAPITAL AND DEBENTURES

The stated capital of the company as at March 31, 2021 was Rs. 36 million (2020- Rs.36 Million) comprising 3,006,000 ordinary shares. The details of the stated capital are given in Note 40 to the Financial Statements on page 266 of this Annual Report.

The Company did not issue any debentures during the financial year ended March 31, 2021.

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 8 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 302 to 304.

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 303.

8.3 ISSUE OF SHARES

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

Class of Shares	Voting Ordinary shares	
	2021	2020
Number of share issued	Nil	Nil

9. SUBSTANTIAL SHAREHOLDINGS

The list of 20 Largest Shareholders as at 31 March 2021 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 2021
Rs. 847,211,040/-.

The Company is not fully Compliant with the minimum public holding requirement as of 31 March 2021. 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 303.

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 2021 comprised of Eight Directors (Ten Directors as at March 31, 2020) with extensive financial & commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors – Profile' on pages 78 to 83 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 2021,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. P. D. D. Perera	Non Executive	Independent
Mr. G. G. Ondaatjie	Executive	Non Independent
Ms. A .M. Ondaatjie	Executive	Non Independent
Mr. T. J. Ondaatjie	Executive	Non Independent
Mr. S .H .Jayasuriya	Executive	Non Independent
Mrs. E. D. Wickramasuriya	Non Executive	Independent
Mr. A. L. N. Dias	Non Executive	Independent
Mr. P. C. Guhashanka	Non Executive	Independent
Mr. S. M. S. S. Bandara (Ceased)	Non Executive	Independent
Ms. P. T. K. Navaratne (Ceased)	Non Executive	Independent
Mr. N. H. V. Perera (Ceased)	Non Executive	Non Independent
Mr. P. M. Amarasekara (Retired)	Executive	Non Independent

10.1.2 New Appointments & Resignations

The information on new appointments and resignation to and from the Board of Directors of the Company are given below.

Annual Report of the Board of Directors

New Appointments

Mr. A. L. N. Dias & Mrs. E. D. Wickramasuriya were appointed as a Non-Executive Independent Director on 26/03/2021.

Resignation/Cessations

Mr. P. M. Amarasekera retired and Mr S. M. S. S. Bandara, Ms. P. T. K. Navaratne & Mr. N. H. V. Perera ceased to be Directors in terms of section 4(2) of the Finance companies (Corporate Governance) Direction on No 3 2008, as follows.

Name of the Director	With Effect from
Mr. S. M. S. S. Bandara	09th February 2021
Ms. P. T. K. Navaratne	17th January 2021
Mr. P. M. Amarasekera	01st January 2021
Mr.N. H. V. Perera	09th February 2021

10.1.3 Recommendation for Re-election

In terms of Article 23(7) of the articles of association, Mr. S .H. Jayasuriya and Mr. P. C. Guhashanka retire by rotation , Mr. S .H. Jayasuriya being eligible offer himself for re-election and Mr. P. C. Guhashanka will not offer himself for re-election.

10.1.4 Directors' Meetings

Details of the meetings of the Board of Directors are presented on page 97.

10.1.5 Board Sub-Committees

Information with regard to Board subcommittees is given under Corporate Governance on pages 177 to 183 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 181 to 182 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 177 to 178 of this Annual Report.

Remuneration & Nomination Committee

The Report of the Remuneration & Nomination Committee is given on pages 179 to 180 of this Annual Report.

Related Party Transaction Review Committee

The report of the Related Party Transaction Review Committee is given on pages 183 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, 2021 is given in Note 13.1 to the Financial Statements on page 227 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

As at March 31	2021	%	2020	%
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. C. Guhashanka	-	-	-	-
Mr.P. D. D. Perera	-	-	-	-
Mrs. E. D. Wickramasuriya	-	-	-	-
Mr. A. L. N. Dias	-	-	-	-
Mr. P. M. Amarasekera (retired)	-	-	-	-
Ms. P. T. K. Navaratne (Ceased)	-	-	-	-
Mr.N. H. V. Perera (Ceased)	-	-	10,020	0.33
Mr.S. M. S. S. Bandara (Ceased)	-	-	-	-

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, 2021 was 325,810 shares (2020- 315,790) which amounted to 10.84% (2020- 10.51%) 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, 2021. Further information is given on page 194 to 195 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

Annual Report of the Board of Directors

'Related Party Disclosures'. Refer note 49 to the Financial Statements on pages 269 to 271 for those transactions disclosed by the Directors. These interests have been declared at Related Party Transaction Review Committee Meetings.

There are no related party transactions which exceeded 10 percent of the total Equity or 5 percent of the total assets whichever is lower and the company has complied with the requirements of the listing rules of the Colombo Stock Exchange on Related Party Transactions.

The Directors have disclosed their interest in other companies so as to ensure that they refrain from voting on a matter in which they have an interest.

13. EMPLOYEE SHARE OPTION PLANS AND PROFIT SHARING PLANS

The Company 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 51 to the Financial Statements on page 273 of this Annual Report. Impact of the COVID-19 on the business of Company discuss in Note 55 to Financial Statement on page 298.

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 are 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 2,759,920/- is payable by the company to the Auditors for the year under review comprising Rs. 1,694,000/- as Audit fees, and expenses of Rs. 1,065,920/- 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 277 to 299 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 181 to 182 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.

Annual Report of the Board of Directors

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 tabled at the Board Meeting held in the month of March 2021.

20.4 AUDIT COMMITTEE

The composition of the Audit Committee and their report is given on page 181 to 182 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 90 to 158 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 90 to 158.

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 61 to 62 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.

25. OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company Lawyers, litigation currently pending against the company will not have material impact on the reported financial results or future operations of the Company. Refer further information on Note 47 to the Financial Statement on page 269.

26. CONTINGENT LIABILITIES

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

27. NOTICE OF MEETING

The details of the Annual General Meeting are given in the notice of meeting on page 316 of this Annual Report.

28. ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

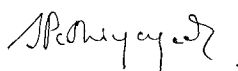
As required by section 168(1)(k) of the Companies Act No 07 of 2007, the Board of Directors hereby acknowledge the contents of this report.



Gerard G. Ondaatjie
Managing Director



Angeline M. Ondaatjie
Director



Ms. Sonali Pethiyagoda
Company Secretary

Colombo

31 May 2021

Directors' Interests in Contracts with the Company

Company	Relationship	Accommodation granted/deposits/ receivable for services rendered/ payable for services obtained	As at 31.03.2021 Rs.'000	As at 31.03.2020 Rs.'000
(A) Mr. G. G. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Chairman	Motor vehicle hire, repairs and others	1,872	2,774
Tangerine Beach Hotels PLC	Director	Deposits	394,818	364,818
		Motor vehicle hire, repairs and others	223	677
Royal Palms Beach Hotels PLC	Director	Deposits	401,142	304,302
		Motor vehicle hire, repairs and others	310	672
The Nuwara Eliya Hotels Company PLC	Deputy	Deposits	772,286	745,507
	Chairman	Motor vehicle hire, repairs and others	328	504
Tangerine Tours (Pvt) Limited	Director	Deposits	150,818	87,427
		Motor vehicle hire, repairs and others	411	931
Nilaveli Beach Hotels (Pvt) Limited	Chairman	Deposits	168,522	150,256
		Motor vehicle hire, repairs and others	5	5
Security Ceylon (Pvt) Limited	Chairman	Deposits	14,726	9,588
		Motor vehicle hire, repairs and others	-	40
		Security expenses	2,493	2,838
Mercantile Orient (Pvt) Limited	Chairman	Deposits	6,458	6,187
Global Films Limited	Chairman	Deposits	1,615	1,533
Fair View Hotel (Pvt) Limited	Chairman	Deposits	140,010	131,355
Mercantile Fortunes Insurance brokers (Pvt) Limited	Chairman	Deposits	20,401	10,000
		Motor vehicle hire, repairs and others	2,146	1,218
		Insurance commission receivable	74,922	61,046
		Insurance premium payable	191,494	163,570
Tangerine Vacations (Pvt) Limited	Director	Deposits	18,332	3,000
(B) Ms. A. M. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	1,872	2,774
Tangerine Beach Hotels PLC	Chairperson & Managing Director	Deposits	394,818	364,818
		Motor vehicle hire, repairs and others	223	677
Royal Palms Beach Hotels PLC	Chairperson & Managing Director	Deposits	401,142	304,302
		Motor vehicle hire, repairs and others	310	672
The Nuwara Eliya Hotels Company PLC	Director	Deposits	772,286	745,507
		Motor vehicle hire, repairs and others	328	504
Tangerine Tours (Pvt) Limited	Chairperson & Managing Director	Deposits	150,818	87,427
		Motor vehicle hire, repairs and others	411	931
Nilaveli Beach Hotels (Pvt) Limited	Director	Deposits	167,522	150,256
		Motor vehicle hire, repairs and others	5	5
Security Ceylon (Pvt) Limited	Director	Deposits	14,726	9,588
		Motor vehicle hire, repairs and others	-	40
		Security expenses	2,493	2,838

Directors' Interests in Contracts with the Company

Company	Relationship	Accommodation granted/deposits/ receivable for services rendered/ payable for services obtained	As at 31.03.2021 Rs.'000	As at 31.03.2020 Rs.'000
Mercantile Orient (Pvt) Limited	Director	Deposits	6,458	6,187
Global Films Limited	Director	Deposits	1,615	1,533
Fair View Hotel (Pvt) Limited	Director	Deposits	140,010	131,355
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	20,401	10,000
		Motor vehicle hire, repairs and others	2,146	1,218
		Insurance commission receivable	74,922	61,046
		Insurance premium payable	191,494	163,570
Tangerine Vacations (Pvt) Limited	Chairperson	Deposits	18,332	3,000
(C) Mr. T. J. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	1,872	2,774
Tangerine Beach Hotels PLC	Director	Deposits	394,818	364,818
		Motor vehicle hire, repairs and others	223	677
Royal Palms Beach Hotels PLC	Director	Deposits	401,142	304,302
		Motor vehicle hire, repairs and others	310	672
The Nuwara Eliya Hotels Company PLC	Director	Deposits	772,286	745,507
		Motor vehicle hire, repairs and others	328	504
Tangerine Tours (Pvt) Limited	Director	Deposits	150,818	87,427
		Motor vehicle hire, repairs and others	411	931
Nilaveli Beach Hotels (Pvt) Limited	Managing Director	Deposits	167,522	150,256
		Motor vehicle hire, repairs and others	5	5
Security Ceylon (Pvt) Limited	Director	Deposits	14,726	9,588
		Motor vehicle hire, repairs and others	-	40
		Security expenses	2,493	2,838
Mercantile Orient (Pvt) Limited	Director	Deposits	6,458	6,187
Global Films Limited	Director	Deposits	1,615	1,533
Fair View Hotel (Pvt) Limited	Director	Deposits	140,010	131,355
Tangerine Vacations (Pvt) Ltd	Director	Deposits	18,332	3,000
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	20,401	10,000
		Insurance commission receivable	74,922	61,046
		Insurance premium payable	191,494	163,570
		Motor vehicle hire, repairs and others	2,146	1,218
(D) Mr. S. H. Jayasuriya				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	1,872	2,774
Security Ceylon (Pvt) Limited	Director	Deposits	14,726	9,588
		Motor vehicle hire, repairs and others	-	40
		Security expenses	2,493	2,838
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	20,401	10,000
		Insurance commission receivable	74,922	61,046
		Insurance premium payable	191,494	163,570
		Motor vehicle hire, repairs and others	2,146	1,218

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 Board Audit Committee. The Audit Committee Report is given on pages 181 to 182 of this Integrated Annual Report. The Financial Statements consisting of the Statement of Financial Position as at 31st March 2021 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 Integrated 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 206 to 209, 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 are responsible for the implementation of an adequate and effective internal control mechanisms at Mercantile Investments and Finance PLC 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 Board 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 Integrated Risk Management Committee (Refer the IRMC Report given on pages 177 to 178).

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.

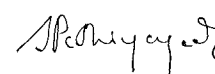
The Directors also confirm that as per the Section 166(1) and 167(1) of the Companies Act No. 07 of 2007, Directors of the Company prepared the Annual Report on time and ensured that copies are sent to the shareholders within the specified period of time required by Rule No. 7.5 (a) & (b) of Listing 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 are reasonably satisfied that the Company possesses adequate resources to continue in operation for the foreseeable future.

Messrs. Ernst & Young, Chartered Accountants, the Auditors of the Company, have examined the Financial Statements made available by the Board of Directors together with all financial records, related data and minutes of shareholders and Directors' meetings and express their opinion which appears as reported by them on pages 201 to 204 of this Integrated 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



Mrs. Sonali Pethiyagoda
Company Secretary

07 June 2021

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 Lanka 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, 2020.

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 the Company's state of affairs. To ensure this, the Company has taken sufficient care in installing a system of Internal Controls 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 the 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 2021, as required by the Finance Companies (Corporate Governance) Direction on No. 3 of 2008, results of which is given on pages 198 to 199 of this Integrated Annual Report, the 'Directors Statement on Internal Controls.

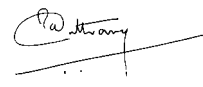
The Board Audit Committee met periodically with the Internal and External Auditors to review the manner in which the auditors carry out their responsibilities in performing their duties and to discuss audit findings, and any deficiencies in internal controls that may impact the accuracy and completeness 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 201 to 204 of this Integrated 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 Board 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 Mercantile Investments and Finance PLC other than those disclosed in Note 47 of the Financial Statements in this Integrated Annual Report. All taxes, duties and statutory payments by the Company and in respect of the employees of the Company as at 31 March 2021 have been paid or where relevant accrued.



Deva Anthony
Chief Financial Officer/Senior General Manager



Gerard G. Ondaatjie
Managing Director

07 June 2021

Report by the Board on Internal Controls

BOARD'S RESPONSIBILITY

This Report on internal control has been presented in accordance with Section 10.2 (b) of the Finance Companies (Corporate Governance) Direction, No. 03 of 2008 and Corporate Governance – Amendment Direction No. 06 of 2013.

The Board of Directors are responsible for the adequacy and effectiveness of the Company's system of internal controls. The system of internal controls have been however, designed to manage the Company's key risk areas within an acceptable risk profile, rather than to eliminate the risk of failure to achieve Company's policies and objectives. Hence, MI's internal control system can only provide reasonable but not absolute assurance against material misstatements of management and financial information and records or against financial losses.

The Board has established a mechanism for identifying, evaluating and managing material risks. This process includes enhancing the system of internal controls when needed in-line with changes in the business environment or regulation. The management of MI assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to control risks.

BROAD PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL MECHANISM ON FINANCIAL REPORTING

The salient processes that have been established in reviewing the adequacy and integrity of the system of internal controls pertaining to financial reporting are as follows:

- Relevant Heads of Divisions have been delegated the task of maintaining a strong control environment to capture their related transactions on to a defined and structured recording information system that supports in financial

reporting. The Finance Department headed by the Finance Director has been delegated the task of preparing the Annual Financial Statements and other periodic financials reports in line with Sri Lanka Accounting Standards and other applicable regulations. The Company reviewed the existing models in use to ascertain the potential implication of COVID- 19 pandemic and the moratorium schemes introduced to support the recovery of the economy

- MI's own Internal Audit Division have been 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 2020/21.
- 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.

Report by the Board on Internal Controls

- 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 2021 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,



P. D. D. Perera
*Acting Chairman / Chairman –Board
Audit Committee*



Gerard G. Ondaatjie
Managing Director

07 June 2021

Independent Assurance Report on the Directors' Statement on Internal Control



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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF MERCANTILE INVESTMENTS AND FINANCE PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Mercantile Investments and Finance PLC ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2021.

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.

07 June 2021
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 Hutangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Independent Auditor's Report



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BW/UM/DM

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

Report on the audit of the Financial Statements

We have audited the financial statements of Mercantile Investments and Finance PLC ("The Company"), which comprise the statement of financial position as at 31 March 2021, 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 2021, 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 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 G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajjewanani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

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Independent Auditor's Report



Key audit matters specific to Company

Key Audit Matter

Impairment allowance for loans & receivables and lease rentals receivable & hire purchase

As described in Note(s) 23 to 25, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments.

This was a key audit matter due to:

- materiality of the reported impairment allowance which involved complex calculations; and
- the degree of assumptions, judgements and estimation uncertainty associated with the calculations.

Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following;

- the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Company); and
- forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.

IT systems and controls relevant to financial reporting

The Company uses multiple IT systems in its operations. We selected IT systems and controls relevant to financial reporting as a key audit matter due to:

- The Company's financial reporting process being heavily dependent on information derived from its IT systems and
- Key financial statement disclosures involving the use of multiple system generated reports and calculations there on
- A changed working environment of increased remote access.

How our audit addressed the matter

We assessed the alignment of the Company's expected credit loss computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following:

- We evaluated the design and implementation of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management.
- We assessed the completeness and relevance of the underlying information used in the impairment calculations; Our procedures included,
 - evaluating whether the underlying historical information was up to the reporting date.
 - testing the accuracy of underlying calculations.
 - checking the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the Company.
- As relevant, we assessed the reasonableness of the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic including the provisions that were made by the Company with a particular focus on the impact of COVID-19 on high risk industries.
- We also considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included evaluating assumptions and estimates made by management, forward-looking information used, and weightages assigned to possible economic scenarios.

We assessed the adequacy of the related financial statement disclosures as set out in Note(s), 23 to 25 of the financial statements.

Our audit procedures included the following;

- Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access.
- Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and gathering of required information in calculating the significant information for financial statements disclosures.
- Checking the source data of the reports used to generate significant disclosures for accuracy and completeness.
- Assessing the reasonability of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant.

Independent Auditor's Report



Key Audit Matter

Impact of moratoriums and other relief measures on recognition of interest income

Moratoriums and other relief measures were granted by the Company to customers affected by the COVID – 19 Pandemic.

Impact of moratoriums and other relief measures on the recognition of interest income on loans & receivables, lease rentals receivable & hire purchase was a key audit matter due to:

- Significant judgments that were applied in determining whether such moratoriums and other relief measures have resulted in substantial modifications or not, to contracts with customers as set out in Note 3.2 (iii) to the financial statements.
- Use of various calculations by management to quantify the impacts of such moratoriums and other relief measures on the amount of revenue recognized for the period .

How our audit addressed the matter

Our audit procedures (amongst others) included the following;

- We gained an understanding of the process adopted by the Company to grant, record and account for moratoriums and other relief measures provided to customers.
- We assessed the reasonableness of judgements applied by management in determining whether moratoriums and other relief measures have resulted in substantial modifications or not, to customer contracts, on a sample basis. This included evaluating whether interest income on modified contracts have been recognized in line with its accounting policy for interest income recognition.
- We tested the accuracy of underlying calculations. Our procedures included testing the completeness and accuracy of the data used in such calculations, by agreeing to source documents and moratorium customer returns, on a sample basis.

Other information included in the 2021 Annual Report

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional

Independent Auditor's Report



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.

07 June 2021
Colombo

Financial Information-Index

	PAGE		PAGE
PRIMARY FINANCIAL STATEMENTS		NOTES TO THE FINANCIAL STATEMENTS – STATEMENT OF FINANCIAL POSITION: LIABILITIES AND EQUITY	
STATEMENT OF COMPREHENSIVE INCOME	206	34. DEPOSITS DUE TO CUSTOMERS	260
STATEMENT OF FINANCIAL POSITION	207	35. DEBTS INSTRUMENTS ISSUED AND OTHER BORROWINGS	260
STATEMENT OF CHANGES IN EQUITY	208	36. OTHER FINANCIAL LIABILITIES	262
STATEMENT OF CASH FLOWS	209	37. DEFERRED TAX LIABILITIES	262
NOTES TO THE FINANCIAL STATEMENTS – GENERAL		38. RETIREMENT BENEFIT OBLIGATIONS	263
1. REPORTING ENTITY	210	39. LEASE LIABILITY	265
2. BASIS OF PREPARATION	210	40. STATED CAPITAL	266
3. SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF ASSETS AND LIABILITIES	213	41. CAPITAL RESERVE - REVALUATION RESERVE	267
4. SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES	219	42. STATUTORY RESERVE FUND	267
5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE	220	43. GENERAL RESERVE	268
6. GROSS INCOME	222	44. RETAINED EARNINGS	268
7. NET INTEREST INCOME	222	45. FAIR VALUE THROUGH OCI RESERVE	268
8. FEE AND COMMISSION INCOME	223	NOTES TO THE FINANCIAL STATEMENTS – OTHER DISCLOSURES	
9. OTHER OPERATING INCOME	223	46. CAPITAL COMMITMENTS	268
10. IMPAIRMENT CHARGES/(REVERSALS) AND OTHER LOSSES	224	47. CONTINGENCIES	269
11. PERSONNEL EXPENSES	225	48. TRUST ACTIVITIES	269
12. DEPRECIATION OF PROPERTY PLANT AND EQUIPMENT (PPE), RIGHT-OF-USE (ROU) ASSETS AND AMORTIZATION OF INTANGIBLE ASSETS	226	49. RELATED PARTY DISCLOSURE	269
13. OTHER OPERATING EXPENSES	227	50. ASSETS PLEDGED	272
14. SHARE OF ASSOCIATES COMPANY'S PROFIT/(LOSS) AFTER TAXATION	228	51. EVENTS AFTER THE REPORTING DATE	273
15. INCOME TAX EXPENSES AND TAX ON FINANCIAL SERVICES	228	52. FINANCIAL REPORTING BY SEGMENTS	273
16. BASIC/DILUTED EARNINGS PER ORDINARY SHARE	229	53. CURRENT AND NON-CURRENT ANALYSIS OF ASSETS AND LIABILITIES	276
17. DIVIDEND PER ORDINARY SHARE	230	54. FINANCIAL RISK MANAGEMENT	277
NOTES TO THE FINANCIAL STATEMENTS – STATEMENT OF FINANCIAL POSITION: ASSETS		55. THE COVID PANDEMIC IMPACT ON BUSINESS	298
18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS	230		
19. FAIR VALUE MEASUREMENT	232		
20. CASH AND CASH EQUIVALENTS	235		
21. PLACEMENT WITH BANKS	235		
22. FINANCIAL INVESTMENTS - AT (FVOCI)	235		
23. LOANS AND RECEIVABLES	238		
24. FINANCE LEASES RECEIVABLES	240		
25. HIRE PURCHASES RECEIVABLES	242		
26. OTHER FINANCIAL ASSETS	244		
27. INVENTORIES	245		
28. OTHER ASSETS	245		
29. INVESTMENT IN ASSOCIATES	246		
30. INVESTMENT PROPERTY	248		
31. PROPERTY, PLANT AND EQUIPMENT	250		
32. LEASEHOLD PROPERTY	258		
33. INTANGIBLE ASSETS	259		

Statement of Comprehensive Income

Year ended 31 March	Note	2021 Rs. '000	2020 Rs. '000
Gross income	6	6,496,631	7,610,170
Interest income	7.1	6,273,624	7,475,320
Interest expenses	7.2	(3,219,671)	(3,842,380)
Net interest income		3,053,953	3,632,940
Fee and commission income	8	74,378	82,943
Net fee and commission income		74,378	82,943
Other operating income	9	148,630	51,906
Total operating income		3,276,961	3,767,789
Impairment (charge)/reversal for loans and receivables and other financial assets	10	(42,134)	(484,009)
Net operating income		3,234,827	3,283,780
Less: Operating expenses			
Personnel expenses	11	(988,823)	(989,859)
Depreciation of PPE and Right-of-use assets and amortization of intangible assets	12	(136,725)	(144,478)
Other operating expenses	13	(956,702)	(1,013,253)
Total operating expenses		(2,082,250)	(2,147,590)
Operating profit before VAT, NBT and DRL on financial services		1,152,577	1,136,190
Value Added Tax ,NBT & DRL on financial services	15.2	(288,422)	(460,859)
Operating profit after VAT, NBT and DRL on financial services		864,155	675,331
Add: Share of associate company's profit / (Loss) net of tax	14	(36,654)	16,459
Profit before taxation from operations		827,501	691,790
Less: Income tax expenses	15	(213,358)	(320,082)
Profit for the year		614,143	371,708
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	45	556,625	(251,709)
Net change in revaluation surplus on Land & Buildings	41.1	213,337	301,201
Deferred tax effect on revaluations surplus on Land & building	37	39,850	(84,336)
Share of other comprehensive income of associates (net of tax)	29.1	11,092	(15,815)
Actuarial gain/(loss) on retirement benefit obligation	38.2	(39,609)	22,339
Deferred tax effect on actuarial gain		15,805	(13,104)
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		797,100	(41,423)
Other comprehensive income/(expenses) for the year (net of tax)		797,100	(41,423)
Total comprehensive income/(expenses) for the year (net of tax)		1,411,243	330,285
Earnings per share			
Basic earnings per share (Rs.)	16	204.31	123.66
Diluted earnings per share (Rs.)	16	204.31	123.66
Dividend per ordinary share (Rs.)	17	-	20.00

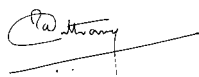
Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 210 to 299 form an integral part of these financial statements.

Statement of Financial Position

As at 31 March	Note	2021 Rs. '000	2020 Rs. '000
Assets			
Cash and cash equivalents	20	1,916,905	1,813,985
Placement with banks at Amortized cost	21	77,139	282,359
Financial investments – At FVOCI (quoted)	22.1	4,138,128	2,682,898
Financial investments – At FVPL	22.2	51,248	-
Loans and receivables at Amortized Cost	23	14,867,319	17,407,591
Finance leases receivables at Amortized Cost	24	14,221,461	13,746,155
Hire purchase receivables at Amortized Cost	25	649,860	1,605,426
Financial investments – at FVOCI (unquoted)	22	70,427	70,427
Other financial assets	26	423,949	438,638
Inventories	27	8,700	9,540
Other assets	28	225,526	45,984
Current tax refunds		79,130	146,042
Investment in associates	29	1,234,582	1,260,144
Investment property	30	237,381	246,166
Property, plant and equipment	31	3,279,866	3,105,781
Right-of-use assets	31.15	180,357	223,255
Leasehold property	32	40,270	40,739
Intangible assets	33	47,299	45,987
Total assets		41,749,548	43,171,119
Liabilities			
Bank overdraft		86,451	86,567
Deposits due to customers at Amortized Cost	34	23,060,274	22,814,923
Debt instruments issued and other borrowings at Amortized Cost	35	6,357,692	9,128,983
Other financial liabilities	36	552,252	855,247
Deferred tax liabilities	37	742,672	807,835
Other liabilities		82,704	54,865
Retirement benefit obligations	38	322,501	254,385
Lease Liability	39	235,431	269,986
Total liabilities		31,439,978	34,272,792
Shareholders' funds			
Stated capital	40	36,000	36,000
Revaluation reserve	41.1 & 41.2	2,589,864	2,325,585
Statutory reserve fund	42	796,400	761,400
General reserves	43	4,086,430	4,086,430
Retained earnings	44	2,723,183	2,016,150
Fair Value through OCI reserve	45	77,693	(327,238)
Total shareholders' funds		10,309,570	8,898,327
Total liabilities and shareholders' funds		41,749,548	43,171,119
Net assets per share (Rs.)		3,430	2,960
Capital commitments and contingencies	46 & 47		

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/Senior General Manager

The Board of Directors are responsible for these Financial Statements. The Financial Statements were authorized for issue by the Directors on 31 May 2021. The Directors have the power to amend and reissue the Financial Statements. Signed for and on behalf of the Board by;



Gerard G. Ondaatjie
Managing Director



Shermal H. Jayasuriya
Finance Director

The significant accounting policies and the notes from pages 210 to 299 form an integral part of these financial statements.

31 May 2021
Colombo

Statement of Changes in Equity

	Note	Stated Capital Rs. '000	Revaluation Reserves Land and Buildings Rs. '000	Associate Company Reserve Rs. '000	Statutory Reserves Rs. '000	General Reserves Rs. '000	Fair Value through OCI Reserve Rs. '000	Retained Earnings Rs. '000	Total Rs. '000
As At 31st March, 2019		36,000	1,527,486	597,049	736,400	4,086,430	(75,529)	1,765,028	8,672,863
Impact on transition of SLFRS 16		-	-	-	-	-	-	(51,590)	(51,590)
Deffered 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	8,628,160
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	(41,423)
Total comprehensive income/(expenses)		-	216,865	(15,815)	-	-	(251,709)	380,944	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
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	614,143	614,143
Other comprehensive income/(expenses)		-	253,187	11,092	-	-	556,625	(23,804)	797,099
Total comprehensive income/(expenses)		-	253,187	11,092	-	-	556,625	590,339	1,411,243
Dividends paid to equity shareholders		-	-	-	-	-	-	-	-
Transfer to retained profit		-	-	-	-	-	(151,694)	151,694	-
Transfer to statutory reserve		-	-	-	35,000	-	-	(35,000)	-
As At 31st March, 2021		36,000	1,997,538	592,326	796,400	4,086,430	77,693	2,723,183	10,309,570

Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 210 to 299 form an integral part of these financial statements.

Statement of Cash Flow

Year ended 31 March	Note	2021 Rs. '000	2020 Rs. '000
Cash flow from operating activities			
Interest and commission receipts		6,348,002	7,558,264
Interest payments		(3,219,671)	(3,842,380)
Cash receipts from customers		114,508	25,523
Cash payments to employees, suppliers and tax authority		(2,247,364)	(2,425,370)
Operating profit before changes in operating assets and liabilities (Note A)		995,475	1,316,037
(Increase)/decrease in operating assets			
Deposits held for regulatory purposes		147,002	115,501
Funds advanced to customers		2,142,178	(1,802,601)
Other receivables		(400,004)	125,402
Increase/(decrease) in operating liabilities			
Other payables		(275,073)	(130,757)
Deposits from customers		245,351	1,638,491
		2,854,930	1,262,073
Income taxes paid		(144,602)	(758,405)
Net cash from operating activities		2,710,328	503,667
Cash flows from investing activities			
Dividends received	9	32,580	20,756
Dividends received from associates	29.1	-	7,930
Net Purchase/Sale of non-dealing securities		45,636	153,528
Proceeds from sale of Property, Plant and Equipment		5,630	28,246
Proceeds from sale of Investment Properties		7,200	22,600
Purchase of Property, Plant and Equipment	31	(107,823)	(57,600)
Purchase of Investment Property		-	(72,000)
Acquisition of intangible assets	33	(20,873)	(1,045)
Net cash from investing activities		(37,650)	102,415
Cash flows from financing activities			
Borrowings obtained during the year		6,315,000	19,837,237
Borrowings repaid during the year		(8,884,642)	(19,665,732)
Dividends paid		-	(60,120)
Net Cash from financing activities		(2,569,642)	111,385
Net increase in cash and cash equivalents		103,036	717,468
Cash and cash equivalents at the beginning of the period		1,727,418	1,009,950
Cash and cash equivalents at the end of the period (Note B)		1,830,454	1,727,418
Reconciliation of profit before tax with cash inflow from operating activities (Note A)			
Profit before tax		827,501	691,791
Capital gain from sale of quoted shares and treasury bonds	9	(36,332)	(11)
Unrealized gain from investments of FVPL	9	(8,735)	-
Dividend from investing securities	9	(32,580)	(20,756)
Share of (profit)/Loss of associate investments	14	36,654	(16,459)
(Profit)/loss on sale of Property, Plant and Equipment	9	1,600	(5,627)
Depreciation of Property, Plant and Equipment	12	81,337	87,855
Depreciation of Investment Property	12	1,665	1,664
Depreciation of ROU assets	12	33,694	35,222
Amortization of leasehold property	12	468	468
Amortization of intangible assets	12	19,561	19,268
Provision for bad and doubtful debts	10	42,134	484,009
Retirement benefit provision	38.1	53,778	47,967
Retirement benefit paid	38.1	(25,270)	(9,355)
		995,475	1,316,037
Cash and cash equivalents at the end of the period (Note B)			
Cash in hand	20	173,337	201,761
Balance with bank	20	184,758	507,909
Money market balances	20	1,558,810	1,104,315
Bank Overdraft		(86,451)	(86,567)
		1,830,454	1,727,418

The significant accounting policies and the notes from pages 210 to 299 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 2021 was 1,110 (1,094 as at 31st March 2020).

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 provision of hotel services.

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 2021 (including comparatives) were approved and authorized for issue by the Board of Directors on 31st May 2021.

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 207.

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 206).
- Statement of financial position providing the information on the financial position of the company as at year end (refer page 207).
- A statement of changes in equity depicting all changes in shareholders' equity during the year under review (refer page 208).
- 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 209).
- Notes to the financial statements which comprise of accounting policies used and other explanatory information (refer pages 210 to 299).

Notes to the Financial Statements

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
Financial investments at FVPL	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.	39

2.4 FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the functional currency).

These financial statements are presented in Sri Lankan Rupees, which is the company's functional and presentation currency except when otherwise indicated.

2.5 PRESENTATION OF FINANCIAL STATEMENTS

The assets and liabilities of the company presented in its statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the financial statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the Note 53 to the financial statements.

2.6 MATERIALITY AND AGGREGATION

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

2.7 ROUNDING

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

2.8 OFFSETTING

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

2.9 COMPARATIVE INFORMATION

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter period comparability. The presentation and classification of the financial statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

2.10 GOING CONCERN BASIS OF ACCOUNTING

The company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.11 SIGNIFICANT ACCOUNTING 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.

Notes to the Financial Statements

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. 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.

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 2021. 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.

Notes 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 (vi) Impairment of Financial Assets.

(iii) Recognition of Loans and Receivables under COVID-19 moratorium scheme

Modifications to the cash flows of loans and receivables due to COVID 19 outbreak considers as ‘non-substantial’, thus does not result in derecognition of the financial assets in accordance with SLFRS 9 “Financial Instruments”. Accordingly, modifications gain/loss shall be charges to profit or loss immediately. In assessing the modifications, the management applied professional judgement by comparing the modification loss against the carrying value of the asset and the decision was taken based on the materiality of the gain/loss.

The above adjustment has been made in profit or loss through the interest income line.

(iv) 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

Notes to the Financial Statements

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.

(v) 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 interest.

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.

(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.

(vi) 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

Notes to the Financial Statements

recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment loss reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Company's policy criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for impairment loss for these Financial Assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off is shown as an income in the Statement of Profit or Loss.

The Company assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, Financial Instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, product type, collateral type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial Assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the Financial Asset discounted by the Effective rate. The

cash shortfall is the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

- Financial Assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective rate.
- Undrawn commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.

For details on the effect of modifications of Loans and Receivables on the measurement of ECL refer to Note 47 on Provision for expected credit loss.

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.

(vii) 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.

(viii) 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.

(ix) 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.

Notes to the Financial Statements

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.

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 Group 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.

Notes to the Financial Statements

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

Notes to the Financial Statements

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

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

3.3.1.1 Operating leases – company as a lessee (Right of Use Assets)

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

Notes to the Financial Statements

- 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

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.

Notes to the Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

Details and recognition criteria of income and expenses are given in the notes 6 to 13 to the financial statements.

4.1 INCOME TAX EXPENSES

Details of income tax expense are given in the note 15 to the financial statements.

5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 March 2021.

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 SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 01 January 2021.

Amendments to SLFRS 16 - COVID – 19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 01 June 2020.

Amendments to SLFRS 3

The amendments update SLFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to SLFRS 3 a requirement that, for obligations within the scope of LKAS 37, an acquirer applies LKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 01 January 2022. Early application is permitted if an entity also applies all other updated references (published together

with the updated Conceptual Framework) at the same time or earlier.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to LKAS 16

In March 2021, the ICASL adopted amendments to LKAS16-Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 01 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to LKAS 37

In March 2021, the ICASL adopted amendments to LKAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 01 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual

Notes to the Financial Statements

reporting period in which it first applies the amendments.

Amendments to LKAS 1: Classification of Liabilities as Current or Non-current

In March 2021, ICASL adopted amendments to paragraphs 69 to 76 of LKAS 1 which specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 01 January 2022 and must be applied retrospectively.

None of the new or amended pronouncements are expected to have a material impact on the financial statements of the company in the foreseeable future.

Notes to the 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	2021 Rs. '000	2020 Rs. '000
Interest income (Note 7.1)	6,273,624	7,475,320
Fee and commission income (Note 8)	74,378	82,943
Other operating income (Note 9)	148,630	51,906
Total	6,496,631	7,610,170

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 Fair Value Through Other Comprehensive Income (FVOCI), interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the interest 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	2021 Rs. '000	2020 Rs. '000
Income from finance lease	2,859,556	3,146,245
Income from hire purchase	211,916	557,348
Income from other loans and receivables	2,989,790	3,583,325
Income from treasury bills and bonds	106,510	158,915
Income from fixed deposits, unit trust and money market investments	105,852	29,488
Total	6,273,624	7,475,320

Notes to the Financial Statements

7.2 INTEREST EXPENSES

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Interest on fixed deposits	2,255,449	2,582,949
Interest on savings deposits	7,961	8,184
Interest on commercial papers	8,649	-
Interest on bank overdraft	10,219	16,916
Interest on bank and securitized borrowings	909,297	1,184,103
Interest on lease liability	28,097	50,228
Total	3,219,671	3,842,380
Net interest income	3,053,953	3,632,941

8. FEE AND COMMISSION INCOME

Accounting policy

The company earns fee and commission income from insurance referral business that is accounted for 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	2021 Rs. '000	2020 Rs. '000
Gross Commission Income	74,378	82,943
	74,378	82,943

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 and 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 from operating leases is accounted for on a straight line basis over the lease terms for ongoing leases.

Notes to the Financial Statements

9. OTHER OPERATING INCOME (CONTD...)

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Dividend from FVOCI - Financial Investments	32,580	20,756
Capital gain from FVPL - Financial Investments	36,332	-
Unrealized gain from FVPL - Financial Investments	8,735	-
Rental income from Properties /Investment properties	11,331	10,724
Net gain/(loss) on disposal of Property, Plant and Equipment	(1,600)	5,627
Operating lease rental income	2,841	5,789
Other income	52,015	3,421
Bad debts recovered	6,396	5,589
Total	148,630	51,906

10. IMPAIRMENT CHARGES/(REVERSALS) AND OTHER LOSSES

Accounting policy

The company recognizes 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 3.1.2.1 (v) to these Financial Statements.

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Charges/(reversals) to the statement of comprehensive income on impairment		
- Loans and receivables (Note 23.4)	(52,652)	164,732
- Finance leases receivables (Note 24.4)	72,162	286,243
- Hire purchase receivables (Note 25.4)	(37,376)	33,035
- Other financial assets (Note 26.1)	60,000	-
Total	42,134	484,009

10.1 ANALYSIS OF IMPAIRMENT CHARGES/(REVERSALS) AND OTHER LOSSES

	2021				2020			
	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
Other Loans and receivables	(16,613)	63,217	(99,256)	(52,652)	5,468	19,124	140,139	164,732
Finance leases receivables	(23,592)	163,907	(68,153)	72,162	(4,075)	2,194	288,125	286,243
Hire purchase receivables	(4,575)	(76)	(32,726)	(37,376)	(14,414)	(7,969)	55,417	33,034
Other financial assets	-	-	60,000	60,000	-	-	-	-
Total	(44,780)	227,048	(140,135)	42,134	(13,021)	13,350	483,681	484,008

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 12% 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 contributions 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	2021 Rs. '000	2020 Rs. '000
Salary and bonus	808,529	785,094
Employer's contribution to EPF	86,462	96,745
Employer's contribution to ETF	20,747	20,003
Defined benefit plan (Note 38)	53,778	47,967
Other allowances and staff related expenses	19,306	40,051
Total	988,823	989,859

Notes to the Financial Statements

12. DEPRECIATION OF PROPERTY PLANT AND EQUIPMENT (PPE), RIGHT-OF-USE (ROU) 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 - 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.

Notes to the Financial Statements

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Depreciation of Investment Property (Note 30)	1,665	1,664
Depreciation of Property, Plant & Equipment (Note 31)	81,337	87,855
Depreciation of ROU Assets (Note 31.15)	33,694	35,222
Amortization of Leasehold Property (Note 32)	468	468
Amortization of Intangible Assets (Note 33)	19,561	19,268
Total	136,725	144,478

The company has reviewed the residual value and the useful lives of the assets as at 31st March 2021 and there were no any material changes with the previous year reassessment.

13. OTHER OPERATING EXPENSES

Accounting policy

Other operating expenses are recognized in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency has been charged to the Statement Of Comprehensive Income in arriving at the profit for the year.

Crop Insurance Levy (CIL)

As per the provision of Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 01st April, 2013 and is payable to the National Insurance Trust Fund.

Currently, the CIL is payable at 1% of the profit after tax and amount relevant for the year is accounted under "others" category of other operating expense.

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Directors' emoluments (Note 13.1)	79,935	82,271
Auditors' remuneration	1,694	1,540
Professional and legal expenses	7,293	7,561
Advertising and business promotion expenses	155,479	113,972
Insurance premium	47,482	45,673
Donations	417	782
Office and building maintenance	33,903	38,556
Computer equipment maintenance	20,096	32,461
Others	610,403	690,436
Total	956,702	1,013,253

13.1 DIRECTORS' EMOLUMENTS

Directors' emoluments represents the fees, salaries and allowances paid to both Executive and Non-Executive Directors of the company.

Notes to the Financial Statements

14. SHARE OF ASSOCIATES COMPANY'S PROFIT/(LOSS) AFTER TAXATION

Accounting policy

Investment in associate companies are accounted for by using the equity method of accounting in terms of the Sri Lanka Accounting Standard - LKAS 28 - Investment in Associates and Joint Ventures.

The company's share of profit/(loss) of an associate is recognized in the Statement of Comprehensive Income.

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Nuwara Eliya Hotels Co. PLC share of Profit/(Loss) after tax (Note 29.1)	(36,654)	16,459
Total	(36,654)	16,459

15. INCOME TAX EXPENSES AND TAX ON FINANCIAL SERVICES

 (GRI 207-4)

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.

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Income tax expenses on profit for the year (Note 15.1)	249,308	398,666
(over)/under provision in respect of previous year	(26,442)	35,084
Deferred tax (reversal)/charged (Note 37)	13,947	(113,668)
Deferred tax impact due to the change of tax rate (reversal)/ charged (Note 37)	(23,454)	-
Total tax expense for the year	213,358	320,082

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.

	2021 Rs. '000	2020 Rs. '000
Accounting Profit before income tax	864,155	675,331
Income tax expense on statutory rates	207,397	182,339
Add: Tax effect on non-deductible expenses	349,860	827,657
Less: Tax effect on deductible expenses	(301,694)	(605,727)
Tax effect on exempt income/profit	(10,816)	(5,604)
Profit and Income tax @ 14%	4,561	-
	249,308	398,666
Effective tax rate (including deferred tax)	30.46%	42.20%
Accounting profit before tax on financial services	1,152,577	1,136,190
Effective tax rate (excluding tax on financial services)	18.51%	28.17%

Current year income tax expense has been recorded on the taxable income at the rate of 24%. The substantially enacted date for the tax rate change was considered to be 26th March 2021. Previous year income tax expense of the company has been recorded for on the taxable income at the rate of 28% for the first nine months and balance three months has been charged at the rate at 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 thereto in determining the taxation on profits for the year.

15.2 VALUE ADDED TAX, NBT & DRL CHARGED ON FINANCIAL SERVICES

	2021 Rs. '000	2020 Rs. '000
Value Added Tax on Financial Services	293,677	306,670
Nation Building Tax on Financial Services	(2,115)	26,417
Debt Repayment Levy on Financial Services	(3,140)	127,772
	288,422	460,859

16. BASIC/DILUTED EARNINGS PER ORDINARY SHARE

Accounting policy

Basic earnings per share is calculated by dividing the net profit after tax for the year attributable to Ordinary Shareholders by the weighted average number of ordinary shares outstanding during the year, as required by Sri Lanka Accounting Standard **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 after tax attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of diluted potential ordinary shares).

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Amount used as the numerator		
Net profit after tax attributable to equity holders of the company	614,143	371,708
Net profit after tax attributable to equity holders of the company for basic and diluted earnings per share	614,143	371,708

Notes to the Financial Statements

16. BASIC/DILUTED EARNINGS PER ORDINARY SHARE (CONTD...)

	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.)	204.31	123.66
Diluted earnings per share (Rs.)	204.31	123.66

17. DIVIDEND PER ORDINARY SHARE

Accounting policy

Provision for final dividends is recognized at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividend payable is recognized when the Board approves such dividend in accordance with the Companies Act No 7 of 2007.

For the year ended 31st March	2021			2020		
	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

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Accounting policy

Financial instruments are measured on an ongoing basis either at fair value or at amortized cost. The summary of significant accounting policies describes how the classes of financial instruments are measured and how income and expense, including fair value gains and losses are recognized. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39/SLFRS 09 - Financial Instruments : Recognition and Measurement and by headings given in the Statement of Financial Position.

Notes to the Financial Statements

18.1 ANALYSIS OF FINANCIAL INSTRUMENT BY MEASUREMENT BASIS AS AT 31ST MARCH 2021

	Financial Instruments at Amortized Cost (AC) Rs. '000	Financial Instruments at Fair Value through Profit and Loss (FVPL) Rs. '000	Financial Instruments at Fair Value through Other Comprehensive Income (FVOCI) Rs. '000	Total Rs. '000
Financial assets				
Cash and cash equivalents	1,916,905	-	-	1,916,905
Placement with banks at Amortized cost	77,139	-	-	77,139
Financial investments - At FVOCI	-	-	4,208,555	4,208,555
Financial investments - At FVPL	-	51,248	-	51,248
Loans and receivables at Amortized Cost	14,867,319	-	-	14,867,319
Finance leases receivables at Amortized Cost	14,221,461	-	-	14,221,461
Hire purchase receivables at Amortized Cost	649,860	-	-	649,860
Other financial assets	423,949	-	-	423,949
Total financial assets	32,156,634	51,248	4,208,555	36,416,436

	At Amortized Cost Rs. '000	Total Rs. '000
Financial liabilities		
Bank overdraft	86,451	86,451
Deposits due to customers at Amortized Cost	23,060,274	23,060,274
Debt instruments issued and other borrowings at Amortized Cost	6,357,692	6,357,692
Other financial liabilities	552,252	552,252
Total financial liabilities	30,056,669	30,056,669

18.2 ANALYSIS OF FINANCIAL INSTRUMENT BY MEASUREMENT BASIS AS AT 31ST MARCH 2020

	Financial Instruments at Amortized 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
Placement with banks at Amortized cost	282,359	-	282,359
Financial investments - At FVOCI	-	2,753,325	2,753,325
Loans and receivables at Amortized Cost	17,407,591	-	17,407,591
Finance leases receivables at Amortized Cost	13,746,155	-	13,746,155
Hire purchase receivables at Amortized Cost	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 at Amortized Cost	22,814,923	22,814,923
Debt instruments issued and other borrowings at Amortized Cost	9,128,983	9,128,983
Other financial liabilities	855,247	855,247
Total financial liabilities	32,885,721	32,885,721

Notes to the Financial Statements

19. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. External valuers are involved for valuation of significant assets such as properties.

19.1 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

For all financial instruments where fair values are determined by referring to externally quoted price or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a trade price may not be possible. In these circumstances the company uses alternative market information to validate the financial instrument's fair value with greater weight given to information that is considered to be more relevant and reliable.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized using the following fair value hierarchy, which reflects the significance of the inputs used in the fair value measurement.

Fair values hierarchy

Level 1 – Quoted market price (unadjusted) : financial instruments with the quoted prices in active markets.

Level 2 – Valuation technique using observable inputs : financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.

Level 3 – Valuation technique with significant unobservable inputs : financial instruments are valued using valuation techniques where one or more significant inputs are unobservable.

19.2 VALUATION FRAMEWORK

The Company has established control framework with respect to the measurement of fair values of all significant assets and liabilities. Specific controls include

- Review and approval process for significant judgements and assumptions
- Periodic review of fair value measurements against observable market data

19.3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AND FAIR VALUE HIERARCHY

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. These amount were based on the values is disclosed in the statement of financial position.

As at 31st March	2021				2020			
	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)	-	-	2,941,934	2,941,934	-	-	2,667,024	2,667,024
	-	-	2,941,934	2,941,934	-	-	2,667,024	2,667,024
Financial assets								
Financial investments – (FVOCI)								
Quoted investments	1,770,973	601,989	-	2,372,963	975,411	-	-	975,411
Unquoted investments (Note 19.3.2)	-	-	70,427	70,427	-	-	70,427	70,427
Government debt securities	1,765,165	-	-	1,765,165	1,707,486	-	-	1,707,486
Financial investments – (FVPL)								
Quoted investments	51,248	-	-	51,248	-	-	-	-
	3,587,386	601,989	70,427	4,259,802	2,682,897	-	70,427	2,753,324

Notes to the Financial Statements

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 2021 & 31st March, 2020.

19.3.2 Value of unquoted shares as at 31st March 2021 categorized under financial investments- (FVOCI) for which 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 2020 and 2021.

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 a 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.

Notes to the Financial Statements

19. FAIR VALUE MEASUREMENT (CONTD...)

19.4.4 The following table shows the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy.

As at 31st March	2021					2020				
	Level 1	Level 2	Level 3	Total fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial assets										
Cash and cash equivalents	-	-	-	1,916,905	1,916,905	-	-	-	1,813,985	1,813,985
Placement with banks	-	-	-	77,139	77,139	-	-	-	282,359	282,359
Loans and receivables	-	-	15,721,376	15,721,376	14,867,319	-	-	17,313,186	17,313,186	17,407,591
Finance leases receivables	-	-	16,018,829	16,018,829	14,221,461	-	-	13,889,062	13,889,062	13,746,155
Hire purchase receivables	-	-	695,967	695,967	649,860	-	-	1,572,511	1,572,511	1,605,426
Other financial assets	-	-	423,949	423,949	423,949	-	-	438,638	438,638	438,638
Total financial assets	-	-	32,860,121	34,854,165	32,156,634	-	-	33,213,397	35,309,741	35,294,155
Financial liabilities										
Bank overdraft	-	-	-	86,451	86,451	-	-	-	86,567	86,567
Deposits due to customers	-	-	23,797,711	23,797,711	23,060,274	-	-	22,929,898	22,929,898	22,814,923
Debt instruments issued and other borrowings	-	-	6,492,234	6,492,234	6,357,692	-	-	9,355,821	9,355,821	9,128,983
Other financial liabilities	-	-	552,252	552,252	552,252	-	-	855,247	855,247	855,247
Total financial liabilities	-	-	30,842,197	30,928,648	30,056,669	-	-	33,140,966	32,227,533	32,885,721

19.5 RECLASSIFICATION OF FINANCIAL ASSETS

There were no reclassifications during the financial years 2019/20 and 2020/21.

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	2021 Rs. '000	2020 Rs. '000
Cash in hand	173,337	201,761
Balances with the banks	184,758	507,909
Money market balances	1,558,810	1,104,315
	1,916,905	1,813,985

As at 31st March 2021, the company had available Rs.3,055 Million (2020-Rs.1,350 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	2021 Rs. '000	2020 Rs. '000
Fixed deposits	77,139	282,359
	77,139	282,359

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(FVPL). 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.

Notes to the Financial Statements

22.1 FINANCIAL INVESTMENTS -AT FAIR VALUE THROUGH OCI (CONTD...)

As at 31st March	2021 Rs. '000	2020 Rs. '000
Government securities, Unit trust and quoted investments		
Government debt securities	1,765,165	1,707,486
Equities (Note 22.1.1)	1,770,973	975,411
Unit Trust Investment (Note 22.1.3)	601,989	-
	4,138,128	2,682,898
Unquoted investments		
Equities (Note 22.1.2)	70,427	70,427
	70,427	70,427
Total financial investments - (FVOCI)	4,808,555	2,933,485

22.1.1 Equities (quoted)

As at 31st March	2021			2020		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Commercial Bank of Ceylon PLC	562	64	44	550	63	33
Sampath Bank PLC	112,104	9,916	6,031	37,368	9,916	4,447
Singer Finance PLC	296,760	14,357	4,066	296,760	14,357	2,552
HNB Assurance PLC	200,000	12,336	11,860			
		36,673	22,001		24,336	7,032
Diversified holdings						
Aitken Spence & Co. PLC	15,000	343	833	15,000	343	461
John Keells Holding PLC	1,514,307	277,644	224,875	1,314,307	243,096	151,671
Vallibel One PLC	3,051,685	87,323	143,734	4,850,250	135,777	58,203
		365,310	369,441		379,217	210,335
Hotels and travels						
Amaya Leisure PLC	1,933,440	60,070	34,415	966,720	60,070	24,168
Eden Hotels PLC	1,049,600	17,738	10,916	1,049,600	17,738	16,164
Fortres Resource PLC	100,000	2,844	1,120	100,000	2,844	780
Hotel Sigiriya PLC	13,340	556	755	13,340	556	486
Light House Hotels PLC	7,736,677	224,407	218,948	7,736,677	224,407	185,680
Plam Garden Hotel PLC	200,000	25,913	5,140	200,000	25,913	3,600
Royal Palms Beach Hotels PLC	8,576,700	124,582	122,647	8,576,700	124,582	108,924
Tangerine Beach Hotels PLC	3,899,644	26,343	157,546	3,899,644	26,343	136,878
		482,451	551,487		482,453	476,680
Manufacturing						
Royal Ceramic PLC	550,000	89,930	141,350	550,000	89,930	30,745
		89,930	141,350		89,930	30,745
Land & property development						
East West Properties PLC	50,000	2,471	495	50,000	2,471	290
		2,471	495		2,471	290

Notes to the Financial Statements

22.1.1 Equities (quoted) (Contd...)

As at 31st March	2021			2020		
	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	8,655	150,000	18,701	6,810
		18,701	8,655		18,701	6,810
Construction & engineering						
Access Engineering	15,171,925	321,643	335,300	12,671,925	266,590	167,269
		321,643	335,300		266,590	167,269
Trading						
Odel PLC	300,000	11,943	5,610	300,000	11,943	5,700
		11,943	5,610		11,943	5,700
Telecommunication						
Dialog Axiata	9,300,000	102,123	120,900	8,300,000	90,070	70,550
		102,123	120,900		90,070	70,550
Capital Goods						
Hemas Holdings PLC	1,000,000	101,131	83,400		-	-
		101,131	83,400		-	-
Materials						
Tokyo Cement Company Lanka PLC	975,000	73,641	59,085			
CIC Holding PLC	1,000,000	64,195	50,900		-	-
		137,836	109,985		-	-
Transportation						
Expo Lanka Holding PLC	500,000	31,347	22,350		-	-
		31,347	22,350		-	-
Total		1,701,559	1,770,973		1,365,710	975,411

22.1.2 Equities (non-quoted)

As at 31st March	2021			2020		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Security Ceylon (Pvt) Ltd	250	200	200	250	200	200
Credit Bureau of Sri Lanka	269	27	27	269	27	27
Finance Houses Consortium	20,000	200	200	20,000	200	200
Fair View Hotels (Pvt) Ltd	7,000,000	70,000	70,000	7,000,000	70,000	70,000
		70,427	70,427		70,427	70,427

Notes to the Financial Statements

22.1 FINANCIAL INVESTMENTS -AT FAIR VALUE THROUGH OCI (CONTD...)

22.1.3 Unit Trust Investment

As at 31st March	2021		2020	
	Cost	Market Value	Cost	Market Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
NDB Wealth Management Ltd	600,000	601,989	-	-
	600,000	601,989	-	-

22.2 FINANCIAL INVESTMENTS - AT FAIR VALUE THROUGH PROFIT AND LOSS (FVPL)

Financial investments at FVPL is comprised of equity investments which are intended to be sold to realize a capital gain with the favorable market condition movements.

Unrealized gains and losses are recognized directly in the Income Statement. When the financial investments are disposed of, the cumulative gain or loss is recognized in the Income Statement.

As at 31st March	2021			2020	
	No. of Shares	Cost	Market Value	Cost	Market Value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Diversified holdings					
Hayleys PLC	842,890	42,513	51,248	-	-
		42,513	51,248	-	-

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 FVOCI
- 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 Effective Interest Rate (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.

Notes to the Financial Statements

23. LOANS AND RECEIVABLES (CONTD...)

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross loans and receivables	19,254,901	23,322,156
Prepaid rentals	(165)	(316)
Unearned interest	(2,906,998)	(4,362,354)
Allowance for impairment (Note 23.4)	(1,244,547)	(1,303,054)
Interest in suspense	(235,871)	(248,840)
Net loans and receivables	14,867,319	17,407,591

23.1 LOANS AND RECEIVABLES-WITHIN ONE YEAR

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross loans and receivables	11,542,643	12,612,341
Prepaid rentals	(78)	(80)
Unearned interest	(1,664,322)	(2,176,302)
Loans and receivables	9,878,243	10,435,960

23.2 LOANS AND RECEIVABLES-FROM ONE TO FIVE YEARS

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross loans and receivables	7,712,258	10,708,888
Prepaid rentals	(87)	(236)
Unearned interest	(1,242,676)	(2,185,800)
Loans and receivables	6,469,495	8,522,852

23.3 LOANS AND RECEIVABLES-AFTER FIVE YEARS

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross loans and receivables	-	927
Unearned interest	-	(252)
Loans and receivables	-	674

23.4 MOVEMENT IN ALLOWANCE FOR IMPAIRMENT

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	1,303,055	1,199,920
Bad debt written off during the year	(5,855)	(61,597)
Charge/(reversal) to the statement of comprehensive income	(52,652)	164,732
Balance at the end of the year	1,244,547	1,303,054

Stagewise impairment provision movement for loan and receivables is disclosed in Note 54 of the financial statements.

Notes to the Financial Statements

23. LOANS AND RECEIVABLES (CONTD...)

23.4.1 Individual impairment

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	753,436	763,865
Bad debt written off during the year	(5,855)	(61,597)
Charge/(reversal) to the statement of comprehensive income	19,081	51,168
Balance at the end of the year	766,662	753,435

23.4.2 Collective impairment

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	549,618	436,055
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	(71,733)	113,563
Balance at the end of the year	477,885	549,618

23.5 SECTOR WISE ANALYSIS OF LOANS AND RECEIVABLES

As at 31st March	2021 Rs. '000	2020 Rs. '000
Agriculture	1,026,030	1,076,307
Industrial	1,455,838	1,725,310
Tourism	549,080	735,042
Trading	4,357,653	5,424,577
Construction	528,092	626,748
Services	9,708,252	11,856,835
Others	1,629,956	1,877,337
	19,254,901	23,322,156

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 a 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 Effective Interest Rate (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 Expected Credit Loss (ECL) approach specified in SLFRS 9.

Notes to the Financial Statements

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross finance leases receivables	19,565,215	19,113,635
Prepaid rentals	(435)	(417)
Unearned interest	(4,472,099)	(4,546,959)
Allowance for impairment (note 24.4)	(853,538)	(798,515)
Interest in suspense	(17,682)	(21,587)
Net finance leases receivables	14,221,461	13,746,155

24.1 FINANCE LEASES RECEIVABLE-WITHIN ONE YEAR

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross finance leases receivables	7,190,664	8,443,623
Prepaid rentals	(130)	(216)
Unearned interest	(2,278,315)	(2,408,684)
Finance leases receivables	4,912,219	6,034,722

24.2 FINANCE LEASES RECEIVABLE-FROM ONE TO FIVE YEARS

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross finance leases receivables	12,374,551	10,658,176
Prepaid rentals	(304)	(201)
Unearned interest	(2,193,784)	(2,137,331)
Finance leases receivables	10,180,463	8,520,643

24.3 FINANCE LEASES RECEIVABLE-AFTER FIVE YEARS

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross finance leases receivables	-	11,836
Unearned interest	-	(944)
Finance leases receivables	-	10,892

24.4 MOVEMENT IN ALLOWANCE FOR IMPAIRMENT

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning the year	798,515	522,447
Bad debt written off during the year	(17,139)	(10,175)
Charge/(reverse) to the statement of comprehensive income	72,162	286,243
Balance at the end of the year	853,538	798,515

Stagewise impairment provision movement for lease receivables is disclosed in Note 54 of the financial statements.

Notes to the Financial Statements

24. FINANCE LEASES RECEIVABLES (CONTD...)

24.4.1 Movement in individual impairment

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	223,704	131,892
Bad debt written off during the year	(17,139)	(10,175)
Charge/(reverse) to the statement of comprehensive income	44,894	101,987
Balance at the end of the year	251,459	223,704

24.4.2 Movement in collective impairment

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	574,811	390,555
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	27,268	184,256
Balance at the end of the year	602,079	574,811

24.5 SECTOR WISE ANALYSIS OF FINANCE LEASES RECEIVABLES

As at 31st March	2021 Rs. '000	2020 Rs. '000
Agriculture	1,982,858	1,740,426
Industrial	1,557,595	2,627,726
Tourism	347,037	448,105
Trading	4,985,058	4,494,663
Construction	342,728	328,779
Services	9,052,496	9,090,181
Others	1,297,444	383,755
	19,565,215	19,113,635

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 under "impairment charge/(reversal) for loans and receivables".

Notes to the Financial Statements

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross hire purchases receivables	982,057	2,202,823
Prepaid rentals	-	(1,259)
Unearned interest	(74,319)	(288,287)
Allowance for impairment (Note 25.4)	(222,399)	(269,607)
Interest in suspense	(35,479)	(38,243)
Net hire purchases receivables	649,860	1,605,426

25.1 HIRE PURCHASES RECEIVABLE-WITHIN ONE YEAR

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross hire purchases receivables	731,220	1,396,192
Prepaid rentals	-	(1,259)
Unearned interest	(64,647)	(173,189)
Hire purchases receivables	666,573	1,221,744

25.2 HIRE PURCHASES RECEIVABLE-FROM ONE TO FIVE YEARS

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross hire purchases receivables	250,837	806,330
Prepaid rentals	-	-
Unearned interest	(9,673)	(115,098)
Hire purchases receivables	241,165	691,233

25.3 HIRE PURCHASES RECEIVABLE-AFTER FIVE YEARS

As at 31st March	2021 Rs. '000	2020 Rs. '000
Gross hire purchases receivables	-	300
Unearned interest	-	(1)
Hire purchases receivables	-	299

25.4 MOVEMENT IN ALLOWANCE FOR IMPAIRMENT

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	269,607	247,136
Bad debt written off during the year	(9,833)	(10,564)
Charge/(reverse) to the statement of comprehensive income	(37,376)	33,035
Balance at the end the year	222,399	269,607

Stage wise impairment provision movement for hire purchase receivables is disclosed in the Note 54 of the financial statements.

Notes to the Financial Statements

25. HIRE PURCHASES RECEIVABLES (CONTD...)

25.4.1 Movement in individual impairment

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	136,967	103,044
Bad debt written off during the year	(9,833)	(10,564)
Charge/(reverse) to the statement of comprehensive income	7,429	44,487
Balance at the end of the year	134,564	136,967

25.4.2 Movement in collective impairment

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	132,639	144,092
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	(44,804)	(11,452)
Balance at the end of the year	87,835	132,639

25.5 SECTOR WISE ANALYSIS OF HIRE PURCHASES RECEIVABLES

As at 31st March	2021 Rs. '000	2020 Rs. '000
Agriculture	48,152	91,004
Industrial	87,885	196,400
Tourism	22,795	61,248
Trading	279,897	575,692
Construction	11,721	31,394
Services	470,417	1,106,719
Others	61,190	140,367
	982,057	2,202,823

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.

Notes to the Financial Statements

As at 31st March	2021 Rs. '000	2020 Rs. '000
Insurance receivables	159,072	114,335
Operating leases receivables	-	535
Investments (Note 26.1)	189,307	249,307
Other receivables	75,571	74,461
	423,949	438,638

26.1 The investment made in “Repurchase Agreements” with a primary dealer appointed by the Central Bank of Sri Lanka for the purpose of complying with the “Liquid Assets Direction No.4 of 2013 issued by the Central Bank of Sri Lanka” has been classified under other financial assets category. The net carrying value was arrived after making an impairment provision of Rs 448 Million as at 31st March 2021 which includes the current year provision of Rs 60 Million.

27. INVENTORIES**Accounting policy**

Inventory consists of spare parts, lubricants, stationary and others. Inventories are valued at the lower of cost and estimated net realizable value, after making due allowance for obsolete and slow moving items, using weighted average cost formula. The cost of inventory is determined at actual cost.

As at 31st March	2021 Rs. '000	2020 Rs. '000
Spare parts	3,606	3,572
Lubricant and others	1,951	1,981
Stationary	3,143	3,987
	8,700	9,540

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	2021 Rs. '000	2020 Rs. '000
Other receivables	22,467	21,629
Deposits and prepayments	203,059	24,355
	225,526	45,984

Notes to the Financial Statements

29. INVESTMENT IN ASSOCIATES

Accounting policy

Investments in associates are accounted for by using the equity method of accounting 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% (2020-26.12%) holding in Nuwera Eliya Hotels Company PLC which is a quoted public company and involved in the business of hotellingiering. The Principal place of business is located in 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	2021 Rs. '000	2020 Rs. '000
Investment in associates - quoted (Note 29.1)	1,234,582	1,260,144
Total	1,234,582	1,260,144

Notes to the Financial Statements

29.1 INVESTMENT IN ASSOCIATES - QUOTED

As at 31st March	2021 Rs. '000	2020 Rs. '000
Nuwara Eliya Hotels Company PLC		
Carrying value at the beginning of the year	1,260,144	1,267,430
Increase/(Decrease) in Investment		
Add: Share of associates Profit/(Loss) after tax (Note 29.1.1)	(36,654)	16,459
Less: Dividend received from associates	-	(7,930)
Current year retained profit/(Loss) net of tax	(36,654)	8,529
Share of Other Comprehensive Income/(Loss)	11,092	(15,815)
Carrying value at the end of the year	1,234,582	1,260,144

Summary of associate's statement of financial position (As per the Audited Financial Statements)

As at 31st March	2021 Rs. '000	2020 Rs. '000
Current assets	1,429,170	1,516,087
Non-current assets	3,863,049	3,906,484
Current liabilities	(132,292)	(154,020)
Non-current liabilities	(433,346)	(444,110)
Net assets	4,726,580	4,824,441
Holding percentage of the company	26.12%	26.12%
Share of net assets of the company	1,234,582	1,260,144
Market value per share (Rs.)	1,025.00	835.10
Total market value of the investment (Rs.'000)	585,345	476,899

Market value of the investment has increased compared to previous year. This investment will be held in the long term considering its strategic advantage in future and measured the investment in associates on the equity method as per LKAS 28.

29.1.1 Summary of Associate's Revenue and Profit after Tax

As at 31st March	2021 Rs. '000	2020 Rs. '000
Revenue	254,955	732,612
Profit/(Loss) after tax	(140,329)	63,013
Share of associate's Profit/(Loss) after tax	(36,654)	16,459

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 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	2021 Rs. '000	2020 Rs. '000
Cost		
Balance at the beginning of the year	256,154	206,754
Additions during the year	-	72,000
Disposals during the year	(7,120)	(22,600)
Balance at the end of the year	249,034	256,154
Less : Accumulated Depreciation		
Balance at the beginning of the year	9,988	8,324
Charge for the year	1,665	1,664
Disposals during the year	-	-
Balance at the end of the year	11,653	9,988
Carrying value	237,381	246,166

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	2021 Rs. '000	2020 Rs. '000
Rental income derived from investment properties	2,031	1,424
Direct operating expenses incurred generating rental income	(957)	(790)
Profit arising from investment properties	1,075	634

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.

Notes to the Financial Statements

30.1 INFORMATION ON THE INVESTMENT PROPERTY OF THE COMPANY

As At 31st March Location	Extent (Perches)	Building (Square Feet)	No. of Buildings	2021		2020	
				Cost	Fair Value	Cost	Fair Value
				Rs. '000	Rs. '000	Rs. '000	Rs. '000
Nilaweli Nilaweli Village, Pulmoddai Road, Trincomalee	438		-	59,000	65,700	59,000	65,700
Kurunegala Sapirimini Jeewa Pohora, Thaththiripitiya, Welipennegahamulla	80		-	2,500	3,000	2,500	3,000
Peliyagoda 151/3A Negombo Road, Peliyagoda	5		-	5,000	5,500	5,000	5,500
Kollupitiya No 75A-23/2, Kollupitiya Road, Colombo 03	-	2,636	1	83,234	89,900	83,234	89,900
Gampaha No 36/426, walipillawa, ganemulla	57.8			-	-	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	2,000	2,000
Nugegoda No 19, Sigiri Mawatha, Kohuwala, Nugegoda	66		-	60,000	60,000	60,000	60,000
Kandana No 72, Theresa Mawatha, Kandana	9.7		-	10,000	10,000	10,000	10,000
Total				249,034	263,400	256,154	270,520

The fair value of the investment properties as at 31st March 2021 was based on market valuations carried out in the year 2014/2015 by a professionally qualified independent valuer Mr. P. P. T. Mohideen, Chartered Valuation Surveyor, Bsc (Hons) Estate Management and Valuation, Executive Diploma in Business Administration, FIV (Sri Lanka) and member of the Royal Institute of Chartered Surveyors - England. Directors are of the view that there is no material change in the fair values as at 31st March 2021 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 recognized 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 capitalized borrowing costs. 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 rates of the Property Plant and Equipment are disclosed in the Note 12 to 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 2021. The rest of the land and buildings, Directors have estimated that the carrying amount as of 31st March 2021 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 recognized 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.

Notes to the Financial Statements

Derecognition

An item of Property, Plant and Equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognized in 'other income/ expenses' in the statement of comprehensive income in the year the asset is derecognized.

When replacement costs are recognized in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognized 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 capitalization. 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.

	At valuation		At cost							Total
	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	
2021 - Current year										
Cost/ valuation										
Balance as at 01.04.2020	1,911,381	755,642	379,689	43,090	170,104	85,133	83,546	23,600	56,440	3,508,625
Additions during the year	-	72,366	11,780	828	9,743	7,908	5,199	-	-	107,823
Disposals during the year	-	-	(11,732)	-	(284)	(285)	(664)	(14,100)	-	(27,063)
Derecognition	-	-	-	-	-	-	-	-	-	-
Surplus on revaluation of property	170,885	42,452	-	-	-	-	-	-	-	213,337
Transfers/ adjustments	-	(10,794)	-	-	-	-	-	-	(56,440)	(67,233)
Cost/ valuation as at 31.03.2021	2,082,266	859,667	379,737	43,918	179,563	92,756	88,081	9,500	-	3,735,489
Accumulated depreciation										
Balance as at 01.04.2020	-	8,994	126,302	29,182	135,575	39,823	46,622	16,346	-	402,845
Charge for the year	-	15,660	25,315	5,953	17,401	8,158	7,423	1,426	-	81,337
Disposals during the year	-	-	(7,045)	-	(274)	(190)	(535)	(9,722)	-	(17,765)
Derecognition	-	-	-	-	-	-	-	-	-	-
Transfers/ adjustments	-	(10,794)	-	-	-	-	-	-	-	(10,794)
Accumulated depreciations at 31.03.2021	-	13,861	144,572	35,135	152,703	47,792	53,511	8,050	-	455,624
Net book value as at 31.03.2021	2,082,266	845,807	235,165	8,782	26,860	44,964	34,570	1,450	-	3,279,866

Notes to the Financial Statements

	At valuation		At cost							Total
	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 - Previous 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 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

31.2 REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

Significant components of the land and buildings were revalued during the financial year 2020/2021 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, 2021. 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.

Notes to the Financial Statements

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 Amount of Buildings (Rs. '000)	Revalued Amount of Land (Rs. '000)	Net Book Value As at 31.03.2021 (Rs. '000)	As a % of Total NBV As at 31.03.2021 (Rs. '000)	Net Book Value As at 31.03.2020 (Rs. '000)	As a % of Total NBV As at 31.03.2020 (Rs. '000)
Kollupitiya - No. 236, Galle Road, Colombo 03	32.56	46,777	1	397,660	765,090	1,162,750	39.71	1,075,000	40.44
Maharagama - No. 176, Lake Road, Maharagama	168.74	10,919	2	27,045	506,220	533,265	18.21	488,400	18.37
Maharagama - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama	104.00	17,364	3	39,900	234,000	273,900	9.35	244,600	9.20
Kohuwala - No. 28, Sunethra Devi Road, Kohuwala	88.00	27,543	2	90,025	383,175	473,200	16.16	420,400	15.82
Kohuwala - No. 30/8, Sunethra Devi Road, Kohuwala	17.80	1,700	1	6,800	44,500	51,300	1.75	46,000	1.73
Borella - No. 219, Dr. N.M. Perera Mw, Colombo 08	9.46	6,264	1	46,248	85,800	132,048	4.51	133,032	5.00
Negombo - No. 26A, Colombo Road, Negombo	13.87	4,500	1	35,513	31,200	66,713	2.28	67,452	2.54
Kollupitiya - No. 75-17/4, Kollupitiya Road, Colombo 03	-	1,210	1	37,318	-	37,318	1.27	38,112	1.43
Kollupitiya - No. 89-28/4 & 89- 28/5, Kollupitiya Road, Colombo 03	-	3,583	1	110,403	-	110,403	3.77	112,752	4.24
Negombo - 814/24 Colombo Road, Negombo.	17.20	-	-	-	13,750	13,750	0.47	13,750	0.52
Negombo - No. 26A, Colombo Road, Negombo	16.22	-	-	-	18,532	18,532	0.63	18,532	0.70
Kurana Property- 814/24, Colombo Road, Kurana, Negombo	17.20	-	1	54,895	-	54,895	2.02	-	-
Total	-	-	-	845,807	2,082,266	2,928,073	100	2,658,030	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, 2021.

Notes to the Financial Statements

31.4.1 Effective Date of Valuation as at 31st March 2021

Location	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for unobservable inputs	NBV Before Revaluation As At 31 March 2021		Revalued Amount of		Revaluation Gain/ (Loss) Recognized on	
			Buildings	Land	Buildings	Land	Buildings	Land
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Kollupitiya - No. 236, Galle Road, Colombo 03.	Open Market Basis		357,642	709,500	397,660	765,090	40,018	55,590
	Price per perch of land	23,500,000.00						
	Price per square foot for building	8,501.19						
Maharagama - No. 176, Lake Road, Maharagama.	Open Market Basis		33,617	464,000	27,045	506,220	(6,572)	42,220
	Price per perch of land	3,000,000.00						
	Price per square foot for building	2,476.88						
Maharagama - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama.	Open Market Basis		35,868	208,000	39,900	234,000	4,032	26,000
	Price per perch of land	2,250,000.00						
	Price per square foot for building	2,297.86						
Kohuwala - No. 28, Sunethra Devi Road, Kohuwala.	Open Market Basis		85,970	340,600	90,025	383,175	4,055	42,575
	Price per perch of land	4,500,000.00						
	Price per square foot for building	3,268.53						
Kohuwala - No. 30/8, Sunethra Devi Road, Kohuwala.	Open Market Basis		5,880	40,000	6,800	44,500	920	4,500
	Price per perch of land	2,500,000.00						
	Price per square foot for building	4,000.00						
Total			518,978	1,762,100	561,430	1,932,985	42,452	170,885

Notes to the Financial Statements

31.4.2 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 As At 31 March, 2020		Revalued Amount of		Revaluation Gain/ (Loss) Recognized on	
			Buildings	Land	Buildings	Land	Buildings	Land
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Kollupitiya - No. 236, Galle Road, Colombo 03.	Open Market Basis		363,733	651,000	365,500	709,500	1,767	58,500
	Price per perch of land	22,000,000.00						
	Price per square foot for building	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	2,750,000.00						
	Price per square foot for building	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	2,000,000.00						
	Price per square foot for building	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	4,000,000.00						
	Price per square foot for building	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	2,250,000.00						
	Price per square foot for building	3,529.41						
Total			463,549	1,509,650	512,300	1,762,100	48,751	252,450

Notes to the Financial Statements

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 foot 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 foot 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	2021			2020		
	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	99,717	156,038	255,755	94,624	161,131
	416,276	99,717	316,559	416,276	94,624	321,652

31.6 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value (excluding capital working progress) of Rs.107,823,113/- (2020 - Rs.54,121,155/-).

Cash payments amounting to Rs.107,823,113/- (2020- Rs.54,121,155/-) 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 2021 was Rs 1,450,086/- (2020 - Rs7,253,982/-), on which the accumulated depreciation as at 31st March 2021 was Rs 8,049,914.17/- (2020-16,346,018/-) .

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 2021				
Future Operating Lease Receivable	-	-	-	-
As at 31st March 2020				
Future Operating Lease Receivable	3,519	-	-	3,519

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.261,167,579.68/- (2020- Rs.197,542,693/-).

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.

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, 2021.

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 of 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.

Notes to the Financial Statements

31.15.a Movement in right-of-use assets

	2021 Rs. '000	2020 Rs. '000
Cost		
Balance at the beginning of the year	359,871	-
Day 1 impact from the application of SLFRS 16	-	253,204
Opening balance of Advance Payments for the Right -of -Use Assets	-	64,317
Balance/Restated Balance as at 1st April	359,871	317,521
Modifications	(31,808)	-
Additions/renewal of operating leases during the year	17,168	42,351
Balance at the end of the year	345,231	359,871
Accumulated amortization and impairment		
Balance at the beginning of the year	136,616	-
Day 1 impact from the application of SLFRS 16	-	101,394
Balance/Restated Balance as at 1st April	136,616	101,394
Amortization for the year	33,694	35,222
Modifications	(5,436)	-
Impairment	-	-
At the end of the year	164,874	136,616
Net book value as at 31st March	180,357	223,255

32. LEASEHOLD PROPERTY

	2021 Rs. '000	2020 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	5,615	5,147
Amortization for the year	468	468
Disposals	-	-
Impairment	-	-
At the end of the year	6,084	5,615
Net book value as at 31st March	40,270	40,739

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.

	2021 Rs. '000	2020 Rs. '000
Cost		
At the beginning of the year	115,396	114,352
Additions	20,873	1,045
Disposal	-	-
At the end of the year	136,269	115,396
Accumulated amortization and impairment		
At the beginning of the year	69,409	50,141
Amortisation for the year	19,561	19,268
Disposal	-	-
At the end of the year	88,970	69,409
Net book value as at 31st March	47,299	45,987

Notes to the Financial Statements

33.1 Net book value of Intangible assets reported as of 31st March 2021 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. 39,854,880/- (2020- Rs. 23,743,312-).

34. DEPOSITS DUE TO CUSTOMERS

These include fixed deposits and savings deposits. Subsequent to initial recognition deposits are measured at their amortized cost using the Effective Interest Rate method (EIR). Interest paid/payable on these deposits are recognized in the statement of comprehensive income.

As at 31st March	2021 Rs. '000	2020 Rs. '000
Fixed deposits (note 34.1)	22,899,003	22,571,556
Savings deposits	161,271	243,367
	23,060,274	22,814,923

34.1 ANALYSIS OF FIXED DEPOSITS BY MATURITY DATE

As at 31st March	2021 Rs. '000	2020 Rs. '000
1 to 90 days	6,002,876	8,028,384
91 to 365 days	12,243,897	10,477,828
More than 365 days	4,652,230	4,065,345
	22,899,003	22,571,556

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 to safeguard customer rights and confidence. The company has paid Rs. 28,932,285 as the premium for the above insurance scheme during the year. (2020 - Rs. 27,054,195).

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	2021 Rs. '000	2020 Rs. '000
Short term borrowings (Note 35.1)	1,500,000	1,958,333
Long term borrowings (Note 35.2)	4,631,341	6,742,650
Interest payable	226,351	428,000
	6,357,692	9,128,983

Notes to the Financial Statements

35.1 SHORT TERM BORROWINGS

	Terms of Repayment			2021 Rs. '000	2020 Rs. '000
	Interest Rate %	Period	Payment terms		
Seylan Bank PLC	7.75	1 Year	At maturity	500,000	-
Seylan Bank PLC	7.00	1 Year	At maturity	500,000	-
Nation Trust Bank PLC	7.00	1 Year	At maturity	500,000	-
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
				1,500,000	1,958,333

35.2 LONG TERM BORROWINGS

	Terms of Repayment			2021 Rs. '000	2020 Rs. '000
	Interest Rate %	Period	Payment terms		
Securitized Borrowings	8.30 - 13.00	3 Years	Variable Installment	2,093,080	2,952,475
Cargills Bank Limited	AWPLR+2.75	2 Years	Fixed monthly Installment	31,250	156,250
Cargills Bank Limited	AWPLR+1.65	5 Years	Fixed monthly Installment	3,551	54,540
Commercial Bank of Ceylon PLC	15.00	4 Years	Fixed monthly Installment	-	249,400
Commercial Bank of Ceylon PLC	13.50	4 Years	Fixed monthly Installment	-	500,800
Sampath Bank PLC	13.25	2 Years	Fixed monthly Installment	-	249,999
Public Bank of Behard (Sri Lanka)	AWPLR+1.5	2 Years	Fixed monthly Installment	-	79,187
Hatton National Bank PLC	AWPLR+1.5	2 Years	Fixed monthly Installment	249,994	749,998
Seylan Bank PLC	AWPLR+1.9	4 Years	Fixed monthly Installment	385,410	250,000
National Development Bank PLC	13.50	4 Years	Annually	-	1,500,000
Sampath Bank PLC	9.00	4 Years	Fixed monthly Installment	687,500	-
Peoples Bank	AWPLR+1.5	3 Years	Fixed monthly Installment	694,444	-
National Development Bank PLC	9.00	3 Years	Fixed monthly Installment	486,112	-
				4,631,341	6,742,650

Maturity analysis of borrowings and assets pledged details are given in note 53 and 50 to the financial statements respectively.

Notes to the Financial Statements

36. OTHER FINANCIAL LIABILITIES

As at 31st March	2021 Rs. '000	2020 Rs. '000
Vendor payable	228,508	605,041
Insurance payable	191,494	163,570
Other payable	132,249	86,637
	552,252	855,247

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.

Unrecognized 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.

Notes to the Financial Statements

As at 31st March	2021		2020	
	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	2,885,124	807,835	2,967,677	830,950
SLFRS Adjustments	-	-	(24,598)	(6,887)
Tax effect due to change of tax rate on opening deductible temporary difference (Refer Note 15)	-	(23,454)	-	-
Tax effect due to change of tax rate on opening revaluation surplus on PPE	-	(91,051)	-	-
Tax effect due to change of tax rate on opening actuarial gain	-	(900)	-	-
Amount originating/(reversing) during the year(Refer Note 15)	58,112	13,947	(405,956)	(113,668)
Deferred tax effect on revaluation surplus on PPE	213,337	51,201	301,201	84,336
Deferred tax effect on actuarial gain	(62,104)	(14,905)	46,800	13,104
Balance at the end of the year	3,094,469	742,672	2,885,124	807,835
Deferred tax asset				
Retirement benefit obligation	322,501	77,400	254,385	71,228
Unclaimed impairment provision	(59,143)	(14,194)	406,456	113,808
Lease Liability	55,074	13,218	46,730	13,084
	318,432	76,424	707,571	198,120
Deferred tax liability				
Accelerated depreciation for tax purpose - leased assets	(589,877)	(141,570)	(1,010,387)	(282,908)
Accelerated depreciation for tax purpose - owned assets	(333,418)	(80,020)	(306,039)	(85,691)
Deferred tax effect on revaluation surplus	(2,489,606)	(597,505)	(2,276,268)	(637,355)
	(3,412,901)	(819,096)	(3,592,694)	(1,005,954)
Net temporary difference and deferred assets/(tax liability)	(3,094,469)	(742,672)	(2,885,124)	(807,835)

38. RETIREMENT BENEFIT OBLIGATIONS

 (GRI 201-3)
Accounting policy

The company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit (PUC) method as required by Sri Lanka Accounting Standard LKAS No. 19 - on 'Employees Benefits'. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflow using interest rates that apply to the currency in which the benefits will be paid.

The company policy is to perform actuarial valuation in every year.

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS 19 on 'Employees Benefits'.

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.

Notes to the Financial Statements

38.1 PROVISION FOR RETIREMENT BENEFIT OBLIGATIONS

As at 31st March	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	254,385	238,112
Expenses recognized during the year (note 38.2)	93,387	25,628
Payments made during the year	(25,270)	(9,355)
Balance at the end of the year	322,501	254,385

38.2 EXPENSES RECOGNIZED IN THE STATEMENT OF COMPREHENSIVE INCOME

As at 31st March	2021 Rs. '000	2020 Rs. '000
Interest cost - statement of comprehensive income	25,947	27,859
Current service cost - statement of comprehensive income	27,831	20,108
	53,778	47,967
Actuarial (gain) / loss - other comprehensive income	39,609	(22,339)
	93,387	25,628

Actuarial valuation of the gratuity liability was carried out as at 31st March, 2021 by Messer 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 20% used in this valuation have been determined based on the staff turnover statistics of the company. (Previous year 18%).

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. (2020 - 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 8.60% has been used having given weightage to the anticipated long term rate of inflation. (Previous year 10.2%).

Salary increases

A 10% p.a salary increment rate has been used in respect of the active employees. (Previous year 8%).

Notes to the Financial Statements

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 2021, sensitivity analysis has been carried out as follows:

Discount Rate	Salary Escalation Rate	Present Value of Defined Benefit Obligation	
		2021 Rs. '000	2020 Rs. '000
1% Increase	As the Rate Above	311,586	243,679
1% Decrease	As the Rate Above	334,322	266,171
As the Rate Above	1% Increase	332,725	265,149
As the Rate Above	1% Decrease	312,872	244,445

38.5 MATURITY PROFILE OF THE DEFINED BENEFIT OBLIGATION

	2021 Rs. '000	2020 Rs. '000
Within the next 12 Months	68,580	48,727
Between 1 - 2 years	103,231	85,545
Between 2 - 5 years	85,819	51,151
Beyond 5 years	64,871	68,963
	322,501	254,385

Weighted Average duration of Defined Benefit Obligation as at 31st March 2021 is 3.78 years. (4.81 years in 2020).

39. LEASE LIABILITY

The company recognizes 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 9%. (2020 - 14%).

	2021 Rs. '000	2020 Rs. '000
Lease Liability (Note 39.1.1)	235,431	269,986

39.1.1 Movement in Operating lease liabilities

	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	269,986	-
Day 1 impact from the application of SLFRS 16	-	253,204
Balance/Restated Balance as at 1st April	269,986	253,204
Modification to Lease Liability	(6,672)	-
Disposals during the year	(6,748)	-
Additions/renewal operating leases during the year	17,168	30,290
Accretion of the Interest	28,097	50,228
Payment to lease creditors	(66,400)	(63,736)
Balance at the end of the year	235,431	269,986

Notes to the Financial Statements

39.1.2 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 2021.

Increase/(Decrease) in Incremental Borrowing Rate	2021 (Rs. '000)		2020 (Rs. '000)	
	Sensitivity effect on Lease Liability Increase / (Reduction) in the Liability	Sensitivity effect on Interest Expense Increase / (Reduction) in profit for the year	Sensitivity effect on Lease Liability Increase / (Reduction) in the Liability	Sensitivity effect on Interest Expense Increase / (Reduction) in profit for the year
1bp Up	(5,092)	4,495	(6,759)	4,184
1bp Down	5,261	(4,641)	7,019	(4,253)

39.1.3 Contractual Maturity Analysis of Lease Liability

As at 31 March 2021	With in One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Lease Liability	518	216,378	18,535	235,431

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

40. STATED CAPITAL

As at 31 March	2021 Rs. '000	2020 Rs. '000
Value		
Ordinary shares	36,000	36,000
	36,000	36,000

	2021 Rs. '000	2020 Rs. '000
Number of shares in issue		
Ordinary shares (no par value)	3,006	3,006
	3,006	3,006

Notes to the Financial Statements

41. 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.

	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	2,325,585	2,124,535
Increase during the year through FVTOCI	224,429	285,386
Deferred tax effect	39,850	(84,336)
Balance at the end of the year	2,589,864	2,325,585

41.1 REVALUATION RESERVE- COMPANY

	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	1,744,351	1,527,486
Increase during the year due to revaluation	213,337	301,201
Deferred tax effect	39,850	(84,336)
Balance at the end of the year	1,997,538	1,744,351

41.2 ASSOCIATE COMPANY RESERVE

	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	581,234	597,049
Increase during the year through FVTOCI	11,092	(15,815)
Deferred tax effect	-	-
Balance at the end of the year	592,326	581,234

Revaluation reserve (Company & Associates) can be utilized for dividend distribution upon realization.

42. STATUTORY RESERVE FUND

	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	761,400	736,400
Transfers during the year	35,000	25,000
Balance at the end of the year	796,400	761,400

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.

Notes to the Financial Statements

43. GENERAL RESERVE

	2021 Rs. '000	2020 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.

44. RETAINED EARNINGS

	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	2,016,150	1,765,028
Transitional Provision as per SLFRS 16	-	(44,703)
Total comprehensive income		
Profit for the year	614,143	371,708
Other comprehensive income	(23,804)	9,235
Transfer to statutory reserve	(35,000)	(25,000)
Transfer from OCI reserve	151,694	-
Dividend paid	-	(60,120)
Balance at the end of the year	2,723,183	2,016,150

45. FAIR VALUE THROUGH OCI RESERVE

	2021 Rs. '000	2020 Rs. '000
Balance at the beginning of the year	(327,238)	(75,529)
Transfer to retained earning	(151,694)	-
Net gain and losses on remeasuring of FVOCI*	556,625	(251,709)
Balance at the end of the year	77,693	(327,238)

* Net gain from equity investment of Rs. 561 Mn was recorded during the year on remeasurement and net loss from Government Securities of Rs. 5 Mn was recorded during the year on remeasurement.

Fair Value through OCI reserve comprises the cumulative net change in fair value of financial investment, until such investment are derecognized or impaired.

46. CAPITAL COMMITMENTS

There are no significant capital commitments which have been approved or contracted for by the company as at 31st March 2021.

Notes to the Financial Statements

47. CONTINGENCIES

47.1 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, 2021 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, 2021 is Rs. 322,501,482/-. If the company had provided for gratuity on the basis of Gratuities Act No.12 of 1983, the liability would have been Rs. 303,814,375/-. Hence, there is no contingent liability , which would crystallize 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 2,000,000/- as at 31 March 2021(2020 - Rs 1,500,000/-).

47.2 CONTINGENT ASSETS

There are no contingent assets as at the date of statement of financial position.

48. TRUST ACTIVITIES

The company is not engaged in any trust activities which may have an impact on its financial results, financial position or liquidity of the company.

49. RELATED PARTY DISCLOSURE

The company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Except for the transactions that key management personnel (KMPs) have made with the company under schemes uniformly applicable to all the staff at concessionary rates, transactions with the related parties listed below have been at commercial rates on an arms length basis.

49.1 PARENT AND ULTIMATE CONTROLLING PARTY

The company does not have an identifiable parent of its own.

49.2 TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL (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 amounted to Rs. 2.349 Million (FY 2020 - Rs. 2.349 Million).

Notes to the Financial Statements

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Short - term employee benefits	95,947	113,691
Post employee benefits	72,653	76,059
	168,600	189,750

49.3 Transactions involving Key Management Personnel (KMPs) and their close family members (CFMs)

Close family members (CFM) are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include children, spouse or domestic partner of KMP.

	2021 Rs. '000	2020 Rs. '000
Statement of financial position		
Liabilities		
Deposits	839,023	783,459
	839,023	783,459
Statements of comprehensive income		
Interest expenses	108,327	90,412
Other Expenses	-	886
Other transactions		
Dividend paid on shareholding	-	28,833

49.4 Transactions with the entities which are controlled by Key Management Personnel (KMPs) and their close family members (CFMs).**49.4.1** Statement of financial position

As at 31st March	2021 Rs. '000	2020 Rs. '000
Assets		
Insurance Commission Receivable	74,923	61,046
Other receivables	5,293	6,821
Total	80,216	67,867
Accommodation as a % of capital funds	0.88%	0.81%
Liabilities		
Deposits	2,089,680	1,813,974
Insurance Premium Payable	191,494	163,570
Accrued expenses	2,493	2,838
	2,283,667	1,980,382

Notes to the Financial Statements

Statements of comprehensive income

For the year ended 31st March	2021 Rs. '000	2020 Rs. '000
Interest income on loans and advances	84	-
Interest expenses on fixed deposits	242,084	163,033
Insurance Commission Income	83,009	82,943
Rent income	9,300	9,300
Other Expenses	2,592	3,542
Other income	3,555	7,629
Security expenses	29,593	31,803
Other Transactions		
Dividend Paid on shareholding	-	24,971

49.4.2 Transactions with Associate

Statement of financial position

As at 31st March	2021 Rs. '000	2020 Rs. '000
Assets		
Other assets	328	504
Liabilities		
Deposits	772,287	745,507

Statements of comprehensive income

As at 31st March	2021 Rs. '000	2020 Rs. '000
Interest expenses on fixed deposits	91,358	88,053
Rent income	1,560	1,500
Other income	1,145	1,288
Other transactions		
Dividend income	-	7,930

Notes to the Financial Statements

50. 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 31.03.2021 (Rs.000)	Securities/ mortgages
Cargills Bank	Term Loan	250 Million	31,250	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.5 times
	Term Loan	250 Million	3,551	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.5 times
Hatton National Bank	Overdraft	347 Million	63,786	Mortgaged over investments in quoted shares by the company and over immovable property No. 28, Sunethradevi Road, Kohuwala
	Term Loan	1 Billion	249,994	Mortgaged over hire purchases, leases and vehicle loan receivables for 140%
NDB	Term Loan	500 Million	486,112	Mortgaged over leases and vehicle loan receivables for 1.5 times
Sampath Bank	Overdraft	100 Million	20,526	Mortgaged over property at Vajiragnana Mawatha, Maharagama
	Term Loan	750 Million	687,500	Mortgaged over leases receivables for 1.5 times
Seylan Bank	Short Term Loan	500 Million	500,000	Mortgaged over leases and vehicle loan receivables for 1.5 times
	Short Term Loan	500 Million	500,000	Mortgaged over leases and vehicle loan receivables for 1.5 times
	Term Loan	500 Million	385,410	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.5 times
Nations Trust Bank	Overdraft	50 Million	-	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
	Short Term Loan	500 Million	500,000	Mortgaged over leases receivables for 1.3 times
People's Bank	Term Loan	1 Billion	694,444	Mortgaged over leases and vehicle loan receivables for 130%
Securitized borrowings	Trust Loan	917 Million	280,013	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
	Trust Loan	784 Million	538,066	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
	Trust Loan	1 Billion	675,000	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
	Trust Loan	600 Million	600,000	Mortgaged over vehicle loan receivables for 130%

Notes to the Financial Statements

51. EVENTS AFTER THE REPORTING DATE

Accounting policy

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are 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.

As the third wave of the COVID-19 pandemic evolves, government is implementing additional measures to address the resulting public health issues and economic impacts. Considering the difficulties and constraints faced by businesses and individuals engaged in passenger transportation services and tourism industry due to the ongoing COVID-19 pandemic, the Central Bank of Sri Lanka (CBSL) has requested to provide concessions for lease facilities obtained by such businesses and individuals commencing from 1 April 2021. Management will continue to assess the situation and take necessary actions to minimize potential impacts as the situation evolves. The Company would continue its efforts in providing support to affected customers as requested by CBSL.

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosures in the financial statements.

52. FINANCIAL REPORTING BY SEGMENTS

Accounting policy

An operating segment is a component of the company that engages in business activities from which it may earn revenues and incur expenses, including revenues and incur expenses, that relate to transactions with any of the company's other components, whose operating results are reviewed regularly by the company management committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

As per the provisions of Sri Lanka Reporting Standard - SLFRS 8, the operating segments of the company has been identified based on the products and services offered by the company of which level of risk and rewards are significantly differ from one another and management believes that information about the segment would be useful to users of the financial statements.

The operating business are 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, 2021 and comparative figures for the year ended 31st March, 2020.

Notes to the Financial Statements

FINANCIAL REPORTING BY SEGMENTS AS PER THE PROVISIONS OF SRI LANKA FINANCIAL REPORTING STANDARD - SLFRS 08

For the year ended 31st March	Finance Lease		Hire Purchase		Loans & Advances	
	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
External operating income						
Interest income	2,859,556	3,146,245	211,916	557,348	2,989,790	3,583,325
Interest expenses	1,417,170	1,588,541	105,024	281,405	1,481,712	1,809,223
Net interest income/(expenses)	1,442,386	1,557,704	106,893	275,943	1,508,077	1,774,102
Fee and commission income	-	-	-	-	-	-
Capital gains	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total operating income	1,442,386	1,557,704	106,893	275,943	1,508,077	1,774,102
Impairment charge/(reversal) for loans and receivables / Equity Investments	72,162	286,243	(37,376)	33,035	(52,652)	164,732
Net operating income	1,370,224	1,271,461	144,268	242,908	1,560,729	1,609,370
Personnel expenses	435,240	409,234	32,255	72,495	455,062	466,085
Commission	76,356	92,794	246	222	16,871	38,254
Depreciation and amortisation	60,181	59,731	4,460	10,581	62,922	68,029
Disallowed VAT on expenses	7,990	19,757	592	3,500	8,354	22,502
Other overheads	371,969	344,878	27,566	61,094	388,909	392,789
	951,735	926,394	65,118	147,891	932,118	987,659
Operating profit before value added tax on financial services	418,489	345,066	79,150	95,017	628,611	621,712
Value added tax and NBT on financial services	126,952	190,531	9,408	33,752	132,733	217,000
Operating profit after value added tax on financial services	291,537	154,535	69,742	61,265	495,878	404,711
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	14,221,461	13,746,155	649,860	1,605,426	14,867,319	17,407,591
Segment liabilities	10,709,635	14,169,274	489,385	2,510,044	11,196,006	16,137,686
Net assets	3,511,826	(423,119)	160,476	(904,618)	3,671,313	1,269,905

Notes to the Financial Statements

Investments		Others		Total	
2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
212,362	188,403	-	-	6,273,624	7,475,320
121,391	105,604	94,374	57,606	3,219,671	3,842,380
90,971	82,798	(94,374)	(57,606)	3,053,953	3,632,941
-	-	74,378	82,943	74,378	82,943
-	-	-	-	-	-
32,580	20,756	-	-	32,580	20,756
-	-	116,050	31,150	112,908	31,150
123,551	103,554	96,054	56,488	3,276,960	3,767,790
-	-	60,000	-	42,134	484,009
123,551	103,554	36,054	56,488	3,234,826	3,283,780
37,281	27,205	28,984	14,840	988,823	989,859
-	-	-	-	93,473	131,270
5,155	3,971	4,008	2,166	136,725	144,478
684	1,313	532	716	18,152	47,789
31,862	22,927	24,771	12,506	845,076	834,194
74,983	55,417	58,295	30,229	2,082,249	2,147,590
48,569	48,138	(22,241)	26,258	1,152,577	1,136,190
10,874	12,666	8,454	6,909	288,422	460,859
37,694	35,471	(30,695)	19,349	864,155	675,331
				(36,654)	16,459
				827,501	691,791
				(213,358)	(320,082)
				614,143	371,708
5,520,275	4,295,827	6,490,632	6,116,119	41,749,548	43,171,119
4,157,107	941,956	4,887,846	513,826	31,439,979	34,272,792
1,363,168	3,353,871	1,602,786	5,602,293	10,309,570	8,898,327

Notes to the Financial Statements

53. CURRENT AND NON-CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of Assets and Liabilities analyzed according to when they are expected to be recovered or settled.

As at 31st March	2021			2020		
	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	1,916,905	-	1,916,905	1,813,985	-	1,813,985
Placement with banks	75,764	1,375	77,139	281,015	1,344	282,359
Financial investments-at FV through OCI	3,729,427	479,129	4,208,555	2,298,657	454,668	2,753,325
Financial investments - At FVPL	51,248	-	51,248	-	-	-
Loans and receivables	7,393,769	7,473,550	14,867,319	7,661,181	9,746,411	17,407,592
Finance lease receivables	5,027,243	9,194,218	14,221,461	5,381,276	8,364,879	13,746,155
Hire purchase receivables	318,176	331,685	649,861	860,323	745,103	1,605,426
Other financial assets	234,642	189,307	423,949	189,331	249,307	438,638
Total financial assets	18,747,175	17,669,262	36,416,437	18,485,768	19,561,712	38,047,480
Non-financial assets						
Inventories	-	8,700	8,700	-	9,540	9,540
Current tax refunds	-	79,130	79,130	-	146,042	146,042
Investment in associates	-	1,234,582	1,234,582	-	1,260,144	1,260,144
Other assets	22,467	203,059	225,526	21,629	24,355	45,984
Property, plant and equipment	-	3,279,866	3,279,866	-	3,105,781	3,105,781
Leasehold property	-	40,270	40,270	-	40,739	40,739
Intangible assets	-	47,299	47,299	-	45,987	45,987
Investment property	-	237,381	237,381	-	246,166	246,166
Right-of-use assets	-	180,357	180,357	-	223,255	223,255
Total non-financial assets	22,467	5,310,645	5,333,112	21,629	5,102,008	5,123,637
Total assets	18,769,642	22,979,907	41,749,549	18,507,397	24,663,721	43,171,119
Liabilities						
Financial liabilities						
Bank overdraft	86,451	-	86,451	86,567	-	86,567
Deposits due to customers	18,407,998	4,652,277	23,060,275	18,749,579	4,065,345	22,814,923
Debt instruments issued and other borrowings	3,496,992	2,860,699	6,357,692	5,622,762	3,506,222	9,128,983
Other financial liabilities	531,526	20,725	552,251	855,247	-	855,247
Total financial liabilities	22,522,968	7,533,701	30,056,670	25,314,155	7,571,566	32,885,721
Non-financial liabilities						
Deferred tax liability	-	742,672	742,672	-	807,835	807,835
Other liabilities	82,704	-	82,704	54,865	-	54,865
Retirement benefit obligation	-	322,501	322,501	-	254,385	254,385
Lease Liability	-	235,431	235,431	-	269,986	269,986
Total non-financial liabilities	82,704	1,300,605	1,383,309	54,865	1,332,206	1,387,071
Total liabilities	22,605,672	8,834,306	31,439,979	25,369,020	8,903,772	34,272,792
Net assets/ liabilities	(3,836,030)	14,145,600	10,309,570	(6,861,623)	15,759,949	8,898,327

Notes to the Financial Statements

54. FINANCIAL RISK MANAGEMENT

Note Ref.	Description	Page No.
54.1	Risk Index	277
54.2	Introduction	277
54.2.1	Board's Role in Risk Management	277
54.2.2	Risk Measurement and Reporting	278
54.2.3	MI's Integrated Risk Management Framework	278
Key Risk Considerations;		
54.3	Credit Risk	278
54.3.1	Credit quality by class of financial assets	279
54.3.2	Credit Impaired Financial Assets	285
54.3.3	Sensitivity of impairment provision on loans and advances to other customers	286
54.3.4	Types of Collateral Taken to Minimise Credit Exposure	286
54.3.5	Analysis of Risk Concentration	288
54.4	Liquidity Risk	290
54.4.1	Exposure to liquidity risk	290
54.4.2	Financial assets and liabilities by remaining contractual maturities	290
54.4.3	Performance in statutory liquidity position	291
54.4.4	Key definitions related to liquidity risk management	292
54.4.5	Daily liquidity management	292
54.5	Market Risk	292
54.5.1	Interest rate risk	292
54.5.2	Equity risk	294
54.6	Operational Risk	295
54.6.1	Nature of relationship between the associate and the company	295
54.6.2	Defined benefit plan associated risks	295
54.7	Capital Management Risk	295
54.7.1	Objective	295
54.7.2	New Basel II Capital Adequacy(CAR) Framework	296
54.7.3	Prompt Corrective Action Framework (PCA)	296
54.7.4	Total Capital Base Computation	297

54.2 INTRODUCTION

The LFCs sector is inherently exposed to various risks as the nature of its business model is to deal with people at the base of the pyramid, those in need of credit with relatively lower earnings capacity, thus being exposed to higher financial risk. By instilling various controls and strategies, management continuously strived to mitigate those risks in the attempt of generating higher profits and minimizing unexpected losses despite huge challenges faced during the financial year under review. This detail disclosure note given herewith illustrates MI's exposure to each identified key risks and outlines management procedure for the identification, analyzing, measurement and monitoring of such risks and associated considerations by referring to the unique business model we adopt.

54.2.1 Board's Role in Risk Management

MI's Board has delegated the oversight of entity's risk function to two key Board Subcommittees namely the Integrated Risk Management Committee (IRMC) and the Audit Committee. In addition, other board subcommittees and 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 the IRMC in ensuring sound risk governance prevails across key functions of MI's business operation.

Notes to the Financial Statements

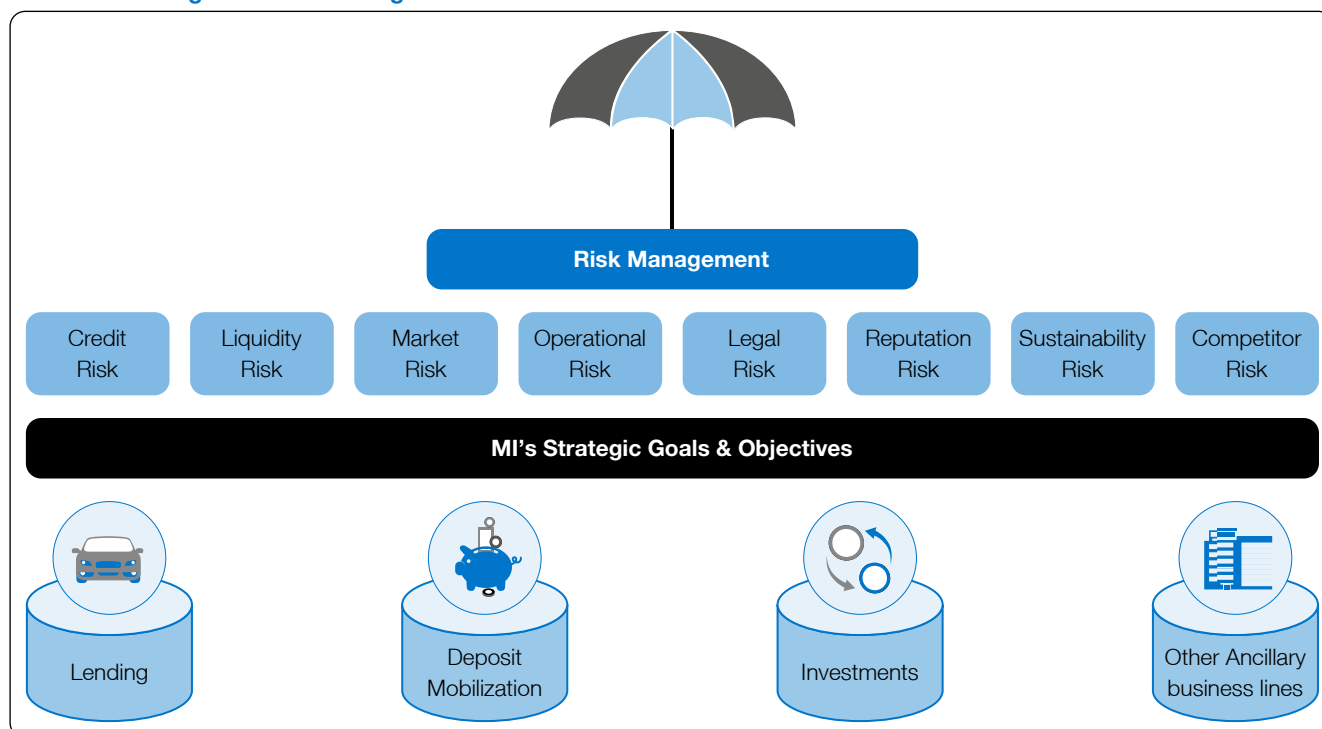
We believe that our risk management policies and procedures are properly aligned to our overall businesses strategy. Based on proper understanding of our operating context, management has established risk appetite levels sanctioned by the IRMC. Any negative deviations and exceeding of limits are captured through a sound risk monitoring process that regularly measures and reports such instances to the Board for their guidance and instructions.

54.2.2 Risk measurement and reporting

We have established reasonable cut off policy limits within the risk appetite levels accepted by the MI Board, that have been set forth, applying best in industry accepted norms and sound financial understanding. These limits depict the business strategy and market context of the Company as well as the level of risk tolerance. Tolerance limits of each risk category with current status is illustrated in the Statement of Risk Management of the Annual Report. MI's exposure 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. Eventually, The derived respective risk measurement outputs are reported to the IRMC periodically by the Head of Compliance and Risk Management.

54.2.3 MI's Integrated Risk Management Framework



54.3 CREDIT RISK

In general, Credit risk arises due to failure of a customer or counterparty to honor their financial or contractual obligations to the Company. As a finance company, managing of Credit Risk is the most vital element of our overall risk management strategy. Since MI possesses an over Rs. 29 billion loans and advances portfolio and other comparable financial instruments including investments in debt securities, MI remains exposed to credit risk needing close monitoring and vigilance and prompt actions, when asset quality is threatened.

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.)

Notes to the Financial Statements

54.3.1 Credit Quality by Class of Financial Assets

MI's credit quality categorisation methodology has been developed based on a contract's debt servicing status, available collateral buffer and loss rate indicators in keeping to accounting standards and industry applied credit risk evaluation models 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 2020/21.

54.3.1.A Credit Quality by Class of Financial Assets – As at 31st March 2021 (as per SLFRS 9)

Financial Assets	Not Subject to ECL	12 Month ECL (Stage 1)	Life time ECL - not credit impaired (Stage 2)	Life time ECL - credit impaired (Stage 3)	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Cash and Cash Equivalents	1,916,905	-	-	-	1,916,905
Placements with banks	77,139	-	-	-	77,139
Financial Assets Measured at FVOCI	4,208,555	-	-	-	4,208,555
Financial Assets Measured at FVPL	51,248	-	-	-	51,248
Other Financial Assets	423,949	-	-	-	423,949
Hire Purchase Receivable	-	201,095	228,929	477,713	907,738
Finance Lease Receivables	-	8,730,390	4,788,592	1,574,134	15,093,116
Loans & Advances	-	9,726,362	3,676,274	2,945,102	16,347,738
	6,677,795	18,657,847	8,693,795	4,996,949	39,026,387

Commentary

Out of MI's total financial assets portfolio, 48% comprises of ECL stage 1 assigned loans and receivables (FY 2019/20 it was 64%). This downward movement of the asset quality of the portfolio from stage 1 to higher stages mainly arose due to the hit from the first and second waves of COVID to the economy, impacting repayment capacity of borrowers temporarily. However, the Company's recovery division exercised staunch recovery actions to manage overall asset quality by focusing on both individual and collective impaired, ECL stage 2 and 3 accounts.

54.3.1.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 2021 (as per SLFRS 9)

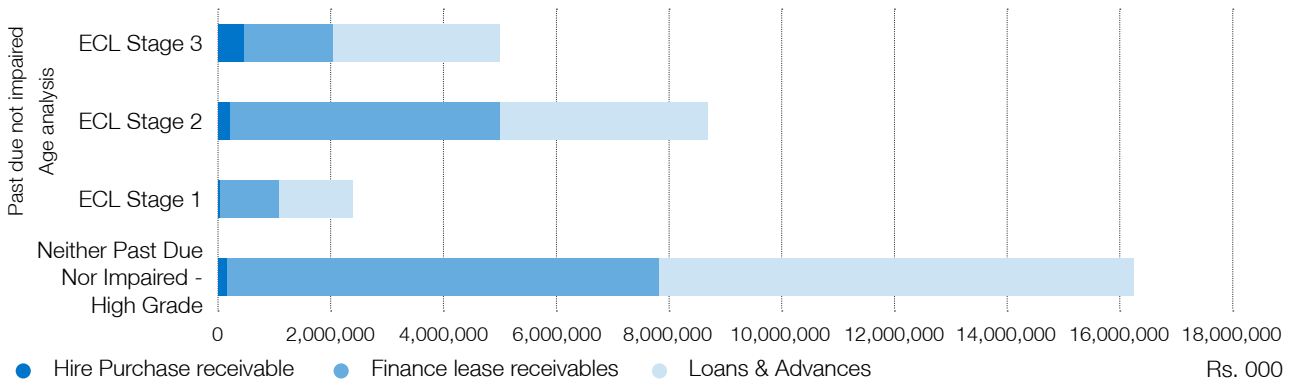
	Neither Past Due Nor Impaired - High Grade Rs. '000	Past due not impaired Age analysis		
		ECL Stage 1 Rs. '000	ECL Stage 2 Rs. '000	ECL Stage 3 Rs. '000
Hire Purchase receivable	167,210	33,886	228,929	477,713
Finance lease receivables	7,671,739	1,058,651	4,788,592	1,574,134
Loans & Advances	8,418,736	1,307,625	3,676,274	2,945,102
	16,257,685	2,400,162	8,693,795	4,996,949

Notes to the Financial Statements

Commentary

Over 50% of the customer base of MI remained in the “high grade performing” customer group with zero past due basis. Nonetheless, shifting of arrears stages towards longer duration was notably experienced during the financial year under review. Recovery Actions have been initiated especially to these long term 90 days and above past due accounts to manage this situation and MI Board is confident of gradually bringing down the stage values, as the prevailing pandemic is brought to a full control and economic activity revives in the near future.

Neither Past Due & Past due not impaired Age analysis 2020/21



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 214 to 215 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, are 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.
- **Stage 1:** Company determines 12 month ECL from customers who are not significantly credit deteriorated, (i.e. 0 to 30 days past due)
- **Stage 2 :** Significant credit 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:** Credit impaired stage is measured through the rebuttable presumption of more than 90 days past due in line with the requirements of the standard.

Notes to the Financial Statements

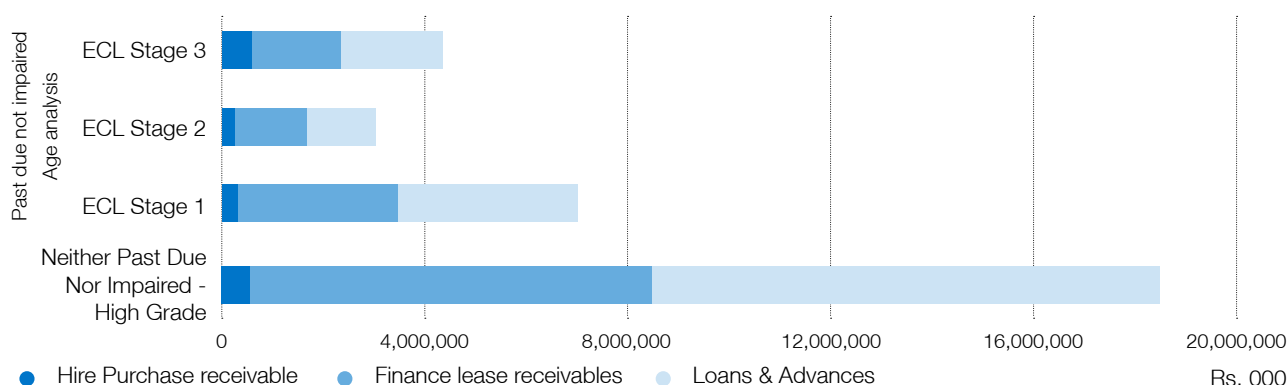
54.3.1.C Credit Quality by Class of Financial Assets – As at 31st March 2020 (as per SLFRS 9)

Financial Assets	Not Subject to ECL	12 Month ECL (Stage 1)	Life time ECL - not credit impaired (Stage 2)	Life time ECL - credit impaired (Stage 3)	Total
	Rs. '000	Rs. '000	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

54.3.1.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 2020 (as per SLFRS 9)

	Neither Past Due Nor Impaired - High Grade Rs. '000	Past due not impaired Age analysis		
		ECL Stage 1 Rs. '000	ECL Stage 2 Rs. '000	ECL Stage 3 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

Neither Past Due & Past due not impaired Age analysis 2019/20



Notes to the Financial Statements

54.3.1.E Credit Exposure Movement - ECL Stage Wise (as per SLFRS 9)- As at 31st March 2021

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts by class of financial instrument.

	Carrying Amount	Not Subject to ECL	12 Month ECL (Stage 1)	Life time ECL - not credit impaired (Stage 2)	Life time ECL - credit impaired (Stage 3)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents					
Gross carrying amount as at April 1, 2020	1,813,985	1,813,985	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	102,920	102,920	-	-	-
Financial assets derecognized or repaid (excluding write-offs)					
As at March 31, 2021	1,916,905	1,916,905	-	-	-
Placements with banks					
Gross carrying amount as at April 1, 2020	282,359	282,359	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(205,220)	(205,220)	-	-	-
As at March 31, 2021	77,139	77,139	-	-	-
Financial assets at amortised cost – Other Loans & Advances					
Gross carrying amount as at April 1, 2020	18,959,485	-	13,933,232	1,346,666	3,679,587
Transfer to Stage	-	-	(2,469,569)	2,369,517	100,053
New assets originated or purchased	6,518,808	-	5,685,840	723,358	109,609
Financial assets derecognised or repaid (excluding write-offs)	(9,124,700)	-	(7,423,141)	(763,267)	(938,291)
Write-offs	(5,855)	-	-	-	(5,855)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2021	16,347,738	-	9,726,362	3,676,274	2,945,102
Financial assets at amortised cost – Finance Leases					
Gross carrying amount as at April 1, 2020	14,566,258	-	11,089,142	1,433,292	2,043,824
Transfer to Stage	-	-	(3,636,171)	3,427,793	208,378
New assets originated or purchased	6,971,123	-	5,675,806	1,227,868	67,449
Financial assets derecognised or repaid (excluding write-offs)	(6,427,125)	-	(4,398,387)	(1,300,361)	(728,378)
Write-offs	(17,139)	-	-	-	(17,139)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2021	15,093,116	-	8,730,390	4,788,592	1,574,134

Notes to the Financial Statements

	Carrying Amount	Not Subject to ECL	12 Month ECL (Stage 1)	Life time ECL - not credit impaired (Stage 2)	Life time ECL - credit impaired (Stage 3)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial assets at amortised cost – Hire Purchase					
Gross carrying amount as at April 1, 2020	1,913,277	-	883,534	255,820	773,923
Transfer to Stage	-	-	(149,345)	184,143	(34,798)
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(995,707)	-	(533,094)	(211,034)	(251,579)
Write-offs	(9,833)	-	-	-	(9,833)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2021	907,738	-	201,095	228,929	477,713
Other Financial Assets					
Gross carrying amount as at April 1, 2020	438,638	438,638	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(14,689)	(14,689)	-	-	-
Write-offs	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2021	423,949	423,949	-	-	-
Financial assets measured at FVOCI					
Gross carrying amount as at April 1, 2020	2,753,325	2,753,325	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	1,455,230	1,455,230	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2021	4,208,555	4,208,555	-	-	-
Financial assets measured at FVPL					
Gross carrying amount as at April 1, 2020	-	-	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	51,248	51,248	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2021	51,248	51,248	-	-	-

Notes to the Financial Statements

Commentary

The unprecedented COVID waves that occurred during the commencement and later part of the financial year under review had a negative bearing on MI's credit quality in Leases, Hire Purchase and Other loans, with greater shifting towards Stage- 2 and 3 age buckets, on account of the recorded downward market conditions that slowed collections of borrowers. Hence, management resorted to initiate bucket specific recovery strategies to control asset quality erosion and propel the recovery process by enhancing collections to mitigate losses.

54.3.1.F Provision for Impairment (ECL) Movement (as per SLFRS 9) – As at 31st March 2021

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, 2020			103,595	60,310	1,139,149	1,303,055
Transfer to Stage			(107,507)	48,769	58,738	-
Net remeasurement of impairment			73,856	(1,860)	(56,630)	15,366
New assets originated or purchased			71,762	46,567	19,854	138,183
Financial assets derecognised or repaid (excluding write-offs)			(57,036)	(28,600)	(120,565)	(206,201)
Write offs and Recoveries			-	-	(5,855)	(5,855)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2021	23.4	239	85,243	123,376	1,035,928	1,244,547
Financial assets at amortised cost – Finance Leases						
Provision for impairment (ECL) as at April 1, 2020			109,395	71,881	617,240	798,515
Transfer to Stage			(4,487)	74,195	(69,708)	-
Net remeasurement of impairment			-	-	-	-
New assets originated or purchased			833	176,358	54,281	231,472
Financial assets derecognised or repaid (excluding write-offs)			(19,938)	(86,647)	(52,725)	(159,311)
Write offs and Recoveries			-	-	(17,139)	(17,139)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2021	24.4	241	85,802	235,787	531,948	853,538

Notes to the Financial Statements

	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 – Hire Purchase						
Provision for impairment (ECL) as at April 1, 2020			5,716	6,310	257,580	269,606
Transfer to Stage			5,114	8,981	(14,095)	-
Net remeasurement of impairment			-	-	-	-
New assets originated or purchased			(49)	1,912	1,875	3,737
Financial assets derecognised or repaid (excluding write-offs)			(9,640)	(10,968)	(20,503)	(41,112)
Write offs and Recoveries			-	-	(9,833)	(9,833)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2021	25.4	243	1,141	6,234	215,023	222,399
54.3.2 Credit Impaired Financial Assets (as per SLFRS 9)						

Reconciliation of changes in the net carrying amount of life time ECL credit impaired (Stage 3) leases, hire purchases and other loans and advances are detailed below;

As at March 31, 2021	Loans and Advances Rs. '000	Leases Rs. '000	Hire Purchases Rs. '000	Total Rs. '000
Stage 3 loans and advances of customers as at April 1,	3,679,587	2,043,824	773,923	6,497,334
Newly classified as impaired loans and advances during the year	(50,382)	602,568	42,062	594,248
Net change in already impaired loans and advances during the year	982,240	(467,814)	(123,447)	390,978
Net payment, write-off and recoveries and other movement during the year	(1,666,343)	(604,444)	(214,825)	(2,485,612)
Impaired loans and advances of customers as at March 31,	2,945,102	1,574,134	477,713	4,996,949

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 of 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	315,880	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 of customers as at March 31,	3,679,587	2,043,824	773,923	6,497,334

Notes to the Financial Statements

54.3.3 Sensitivity of impairment provision on loans and advances to other customers (as per SLFRS 9)

Company has estimated the impairment provision on loans and advances as at 31st March 2021 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 2021 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 Rs. '000
	Stage 1	Stage 2	Stage 3	Total	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
PD 1% increase across all age buckets	43,473	26,147	-	69,620	(69,620)
PD 1% decrease across all age buckets *	(43,473)	(26,147)	-	(69,620)	69,620
LGD 5% increase	37,109	60,174	177,583	274,866	(274,866)
LGD 5% decrease *	(37,109)	(60,174)	(177,583)	(274,866)	274,866
Probability weighted Economic Scenarios	-	-	-	-	-
Base case 10% increase, worst case 5% decrease and best case 5% decrease	2,084	10,906	-	12,990	(12,990)
Base case 10% decrease, worst case 5% increase and best case 5% increase	(1,933)	(10,815)	-	(12,748)	12,748

* 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. 70 Million and Rs.275 Million respectively.

54.3.4 Types of Collateral Taken to Minimise Credit Exposure

54.3.4.A Collateral Held

Type of Lending	Collateral generally obtained
Lease	Agricultural land and vehicles, Commercial property, Computer hardware and equipment, Dual purpose vehicles, Land vehicles, Motor bicycles, Motor cars, Motor coaches, Motor lorries, Motor Tricycles, Non- agricultural land vehicles, Other equipment, Other machinery, Prime movers, Tractor three wheels and tractor four wheels.
Hire Purchase	Same as above
Personal Loans/Term Loans	Same as above except Residential property.
Micro Finance, Cheque Loans	Promissory notes

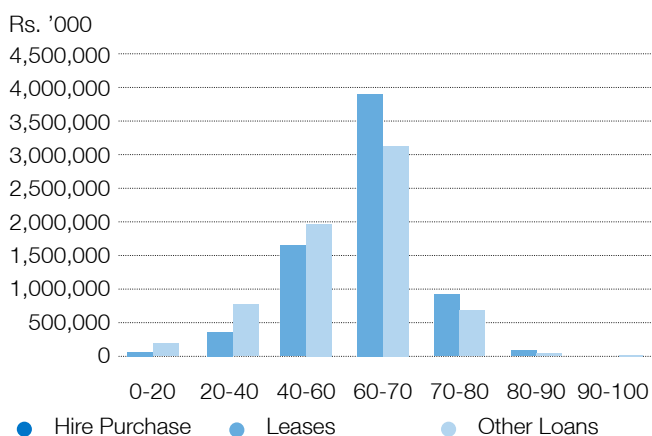
54.3.4.B Credit Portfolio Classification Based on Loan to Value Ratio (LTV)

The table below specifies eligible credit exposures by ranges of loan-to-value (LTV) ratios. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral.

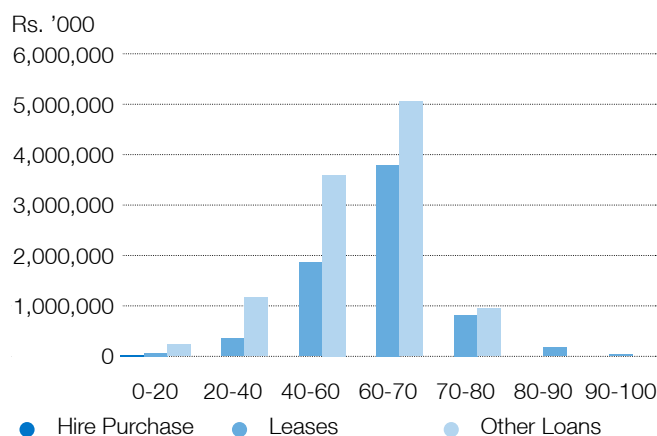
Notes to the Financial Statements

LTV Ratio %	Rs. '000							
	2020/21				2019/20			
	Hire Purchase	Lease	Other Loans	Total	Hire Purchase	Lease	Other Loans	Total
0-20	3,117	63,681	188,369	255,166	25,000	64,810	229,340	319,151
20-40	-	360,425	775,435	1,135,861	-	348,123	1,172,162	1,520,285
40-60	-	1,656,961	1,971,205	3,628,166	2,488	1,858,852	3,602,386	5,463,726
60-70	-	3,909,861	3,141,269	7,051,129	-	3,806,987	5,064,015	8,871,002
70-80	-	918,007	682,162	1,600,169	-	815,200	951,433	1,766,633
80-90	-	83,094	36,988	120,082	-	171,920	8,830	180,750
90-100	-	-	1,344	1,344	-	29,700	15,598	45,297
	3,117	6,992,029	6,796,771	13,791,917	27,488	7,095,592	11,043,764	18,166,843

LTV Ratio 2020/21



LTV Ratio 2019/20



54.3.4.C Maximum Net Exposure of the Financial Assets

The following table shows the company's net exposure to credit risk.

	31st March 2021		31st March 2020	
	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)	1,743,568	1,743,568	1,813,985	1,813,985
Placements with Banks	77,139	77,139	282,359	282,359
Financial Assets Measured at FVOCI	4,208,555	4,208,555	2,754,325	2,754,325
Financial Assets Measured at FVPL	51,248	51,248	-	-
Loans and receivables	29,738,640	-	32,759,173	-
Other Financial assets	423,949	423,949	438,638	438,638
	36,243,100		38,047,480	-

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.

Notes to the Financial Statements

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

- LTV remained below 60% for approximately 40% of new lending business carried out during the year, . This indicates adequate collateral backing to cover against the remaining credit exposure.
- Lease business is 100% backed by collaterals.

54.3.5 Analysis of Risk Concentration

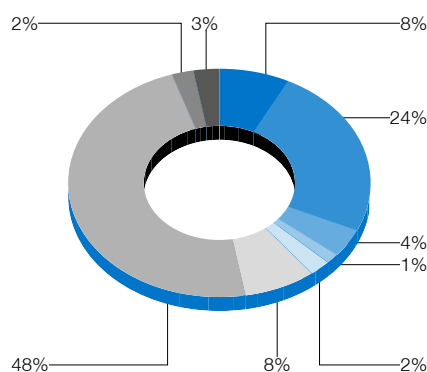
The company monitors its credit concentration risk by referring to the degree of credit exposure by MI to various sectors and by geographic locations.

54.3.5. A Sector Wise Analysis

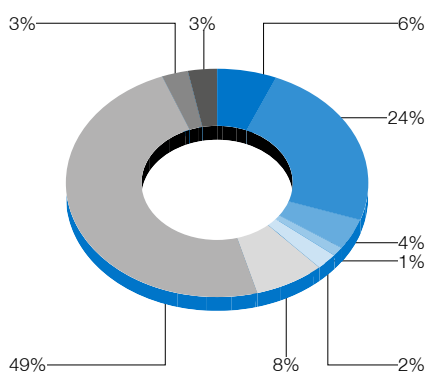
Outlined below are the maximum credit exposures of MI's loans and advances to various sectors, as at the end of the underlined financial year;

Industry	31.03.2021	%	31.03.2020	%
Agriculture	2,433,942	8	2,259,132	6
Commercial	7,859,424	24	8,464,619	24
Consumption	1,305,886	4	1,549,238	4
Finance	455,923	1	459,104	1
Housing And Property	737,591	2	815,457	2
Industrial	2,479,137	8	2,652,192	8
Services	15,429,817	48	17,147,273	49
Tourism	754,799	2	987,004	3
Others	891,638	3	1,105,001	3
Grand Total	32,348,157	100	35,439,020	100

Sector-Wise Credit Concentration 2020/21



Sector-Wise Credit Concentration 2019/20



Measurement Assumptions

- Sector-wise credit concentration is measured using the information submitted by customers.

Notes to the Financial Statements

Commentary

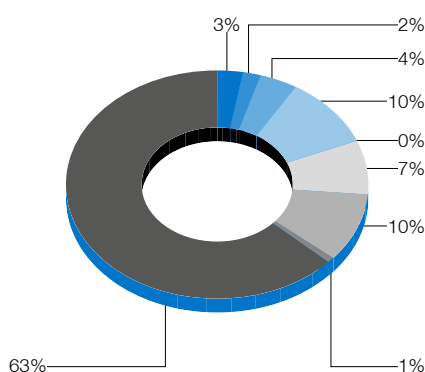
There is a high concentration of lending towards the Services sector which is close to 50% of total lending value. This is mainly attributable to the lending's carried out for transportation services, health care and professional services. The COVID hit Tourism sector exposure stood at 2% with minimal exposure for MI. Nevertheless, management monitored closely this segment for credit impairment and also monitored the risk levels attached to all other sectors especially in the back drop of the ongoing COVID pandemic.

54.3.5. B Province Wise Analysis

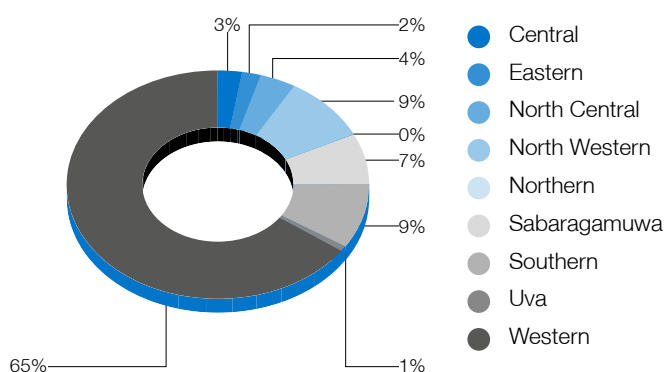
This table below discloses MI's geographic credit exposure;

Province	31.03.2021	%	31.03.2020	%
Central	888,432	3	916,333	3
Eastern	623,069	2	709,013	2
North Central	1,294,756	4	1,347,400	4
North Western	3,236,469	10	3,292,125	9
Northern	19,464	0	28,772	0
Sabaragamuwa	2,466,489	8	2,531,386	7
Southern	3,154,591	10	3,263,888	9
Uva	251,972	1	267,992	1
Western	20,412,915	63	23,082,111	65
Total	32,348,157	100	35,439,020	100

Province-Wise Credit Concentration 2020/21



Province-Wise Credit Concentration 2019/20



Measurement Assumptions

- Geographical credit concentration is measured based on the credit disbursement geographic spread of MI's branch network.

Commentary

Western Province yet again has provided the largest contribution of 63% towards MI's total lending, with a marginal decrease compared to last financial year contribution of 65%. 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 and North Western Provinces.

Moreover, Colombo and Gampaha region's contracts were closely monitored, during the two COVID waves, to ensure smooth recovery of dues and for the adequacy of impairment calculations.

Notes to the Financial Statements

54.4 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.

54.4.1 Exposure to Liquidity Risk

Ratio	2021 %	2020 %
Net Loans/Customer Deposits	129	144
Net Loans/Total Assets	71	76

Commentary

MI's net loans to deposits ratio remained at 129% level which is within the risk appetite level of 120% to 140% range. This ratio dipped in the back drop of the COVID pandemic where the Company experienced a stagnant loan book for the financial year under review.

54.4.2 Financial Assets and Financial 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 2021 (Gross basis).

	On demand Rs. '000	Up to 3 Months Rs. '000	4-12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Unclassified Rs. '000	Total Rs. '000
Financial Assets								
Cash & Cash Equivalents	1,916,905	-	-	-	-	-	-	1,916,905
Placement with Banks	-	22,802	54,410	-	-	-	-	77,211
Financial Investments FVTOCI	601,989	1,362,272	1,765,165	-	-	-	479,129	4,208,554
Financial Investments FVTPL	51,248	-	-	-	-	-	-	51,248
Loans and Receivables	3,979,297	1,844,853	5,718,231	6,470,073	1,242,185	262	(1,244,547)	18,010,354
Finance Lease Receivables	414,798	2,333,932	5,291,281	9,352,376	2,168,978	3,850	(853,538)	18,711,677
Hire Purchase Receivables	233,505	157,525	291,486	283,064	16,416	60	(222,399)	759,659
Other Financial Assets	-	234,642	-	-	-	-	189,307	423,949
Total Financial Assets	7,197,743	5,956,026	13,120,573	16,105,513	3,427,579	4,172	(1,652,048)	44,159,558

Notes to the Financial Statements

	On demand Rs. '000	Up to 3 Months Rs. '000	4-12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Unclassified Rs. '000	Total Rs. '000
Financial Liabilities								
Bank Overdraft	86,451	-	-	-	-	-	-	86,451
Deposits Due to Customers	161,226	6,287,607	13,327,572	5,598,806	801,330	-	-	26,176,541
Debt Instruments Issued and Other Borrowings	-	916,659	2,833,933	3,088,663	167,078	-	-	7,006,333
Other Financial Liabilities	69,638	404,762	57,127	-	-	-	20,724	552,252
Total Financial Liabilities	317,315	7,609,028	16,218,632	8,687,469	968,408	-	20,724	33,821,577
Net Financial Assets/Liabilities	6,880,428	(1,653,002)	(3,098,060)	7,418,044	2,459,172	4,172	-	-

Measurement Assumptions

- Liquidity gap analysis is prepared based on the contractual maturity of assets and liabilities as at 31st March 2021.
- 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 2021 interest rate or the interest rate cap was used for calculation.

Commentary

Amidst the ongoing pandemic, 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, stringent controls and close monitoring of market fundamentals. Since interest rates remained on a downward trend, mobilizing longer tenure deposits were challenging. However, the treasury division was successful in mobilizing longer tenure fixed rate borrowings, which helped to contract one year cumulative maturity mismatch of the Company further to Rs 4.3 Billion from Rs.6.9 Billion recorded last year (Net basis, refer page no. 169 of the Risk Management Report). Management is confident that the Company possesses adequate unutilized funding lines to meet emerging liabilities and has the ability to meet any contingency funding requirements.

54.4.3 Compliance to the 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 together with Treasury division appraised of the 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.

- 6% of the outstanding value of the time deposits and accrued interest payable at the close of the business on such day.
- 10% of outstanding value of the saving deposit and accrued interest payable at the close of the business on such day.
- 5% of the total outstanding borrowing and any payable.

Further, MI maintained assets in the form of Sri Lankan government treasury bills and government securities equivalent to 8.4% 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.

Notes to the Financial Statements

54.4.4 Key Definitions Related to Liquidity Risk Management

Liquid Assets Assets that are held in cash or in a form that can be readily converted to cash (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 2021	Actual as at 31st March 2021	CBSL minimum requirement as at 31st March 2020	Actual as at 31st March 2020
Total liquid assets (Rs. '000)	1,383,616	3,937,316	1,433,617	3,793,901
Statutory liquid assets ratio (%)	6.00	17.07	6.00	15.99
Minimum approved securities (Rs. '000)	1,055,003	1,765,165	1,043,806	1,697,557

Commentary

The company kept required liquid asset levels well above the regulator requirement throughout the year, maintaining buffer liquidity during COVID peak periods. 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 arising from the COVID hit economic climate and to provide flexibility for the Company to pursue its strategic priorities.

54.4.5 Daily Liquidity Management

In order to meet ongoing financial liabilities and 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 Core funding source remained the mobilization of deposits, sourced from more than 40 MI locations.

54.5 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.

54.5.1 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 income statement and adopted strategies to ensure that interest rate risk is maintained within 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 in 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.

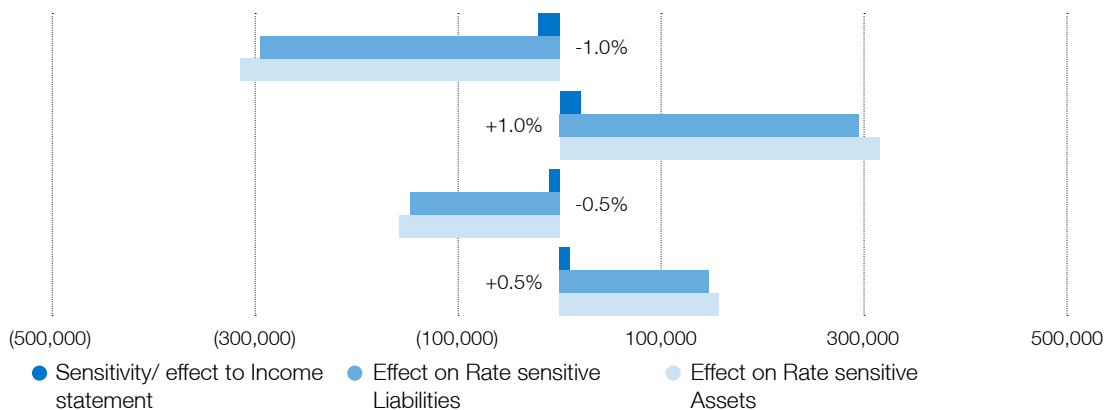
54.5.1. A Interest Rate Sensitivity Analysis

Given below is a sensitivity analysis carried out as at 31st March 2021 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	157,905	(157,905)	315,809	(315,809)
Effect on Rate sensitive Liabilities	147,522	(147,522)	295,044	(295,044)
Sensitivity/ effect to Income statement	10,383	(10,383)	20,765	(20,765)

Notes to the Financial Statements

Interest Rate Sensitivity Analysis

**Commentary**

MI possesses interest rate sensitive assets of Rs.31.5 billion and rate sensitive liabilities of Rs. 29.5 billion. Currently the impact from an interest rate fluctuation of 1%+ or (1%) is moderate at Rs 20.8 Million. In the back drop of a declining market interest rate trend, MI would stand to enjoy better core business spreads especially with cost of funding moving down with the reprising effect coming into play, whereas lending rates are mostly fixed for a longer tenor.

54.5.1. B Financial Assets and Financial Liabilities Exposed to Interest rate Risk

Disclosed below are the company's financial assets and financial liabilities exposed to interest rate risk as at 31st March 2021. The financial assets and financial liabilities so disclosed are at their carrying amounts and categorised by the earlier of contractual re- pricing or maturity dates.

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Non-Interest Bearing Rs. '000	Total Rs. '000
Assets							
Placement with other banks	23,940	53,199	-	-	-	-	77,139
Financial Investments -at FVOCI	-	1,765,165	-	-	-	-	1,765,165
Loan and Advances	1,588,520	5,612,857	5,237,121	902,452	-	1,526,370	14,867,319
Lease receivable	1,653,506	3,354,941	6,825,143	1,892,955	-	494,916	14,221,461
Hire Purchase receivable	109,998	169,181	129,473	(3,144)	-	244,352	649,860
Total Financial Assets	3,375,964	10,955,343	12,191,737	2,792,263	-	2,265,638	31,580,944
Liabilities							
Bank Overdraft	86,451	-	-	-	-	-	86,451
Deposits Due to Customers	6,164,101	12,243,897	4,183,661	468,615	-	-	23,060,274
Debt Instruments Issued and Other Borrowings	778,923	2,718,070	2,668,714	191,986	-	-	6,357,692
Total Financial Liabilities	7,029,475	14,961,967	6,852,375	660,600	-	-	29,504,417
Interest Sensitivity Gap	(3,653,511)	(4,006,624)	5,339,361	2,131,663	-	-	-

Notes to the Financial Statements

Measurement Assumptions

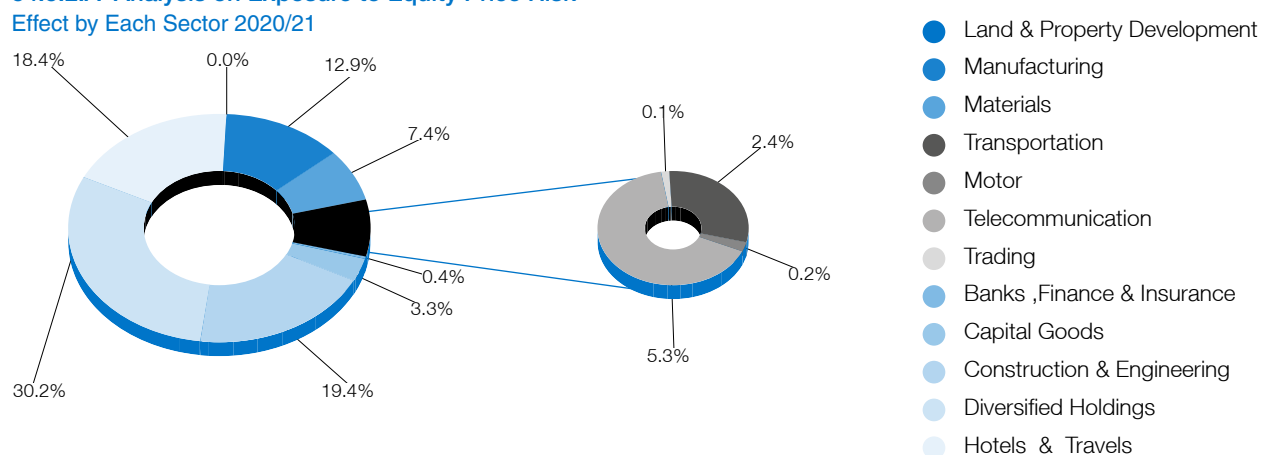
- The interest rates movements have been applied on the basis that both assets & liabilities pricing rates are on a fixed basis. i.e. Assumed minimal impact from floating rates applicable.
- The market rates are predicted with no material changes in the foreseeable future.
- The lending and deposit volumes are assumed to remain unchanged.

54.5.2 Equity Risk

Equity 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.2.4 billion, which has been primarily invested in large blue chips institutions mostly in the hotels and construction sector. MI conducts market-to-market calculations on a weekly, monthly and quarterly basis to identify fair value impacts caused by equity prices fluctuations.

54.5.2.A Analysis on Exposure to Equity Price Risk

Effect by Each Sector 2020/21



The table below summarises the impact on both the Other Comprehensive Income and on the equity in the event the Market drops to the recorded lowest market prices in last 2 years.

Investment Sector	Market Value at Lowest price (Last 2 Years) (Rs. '000)	Effect to the Other Comprehensive Statement of Income if Market drops to the recorded lowest market price (Rs. '000)	Effect to the Other Comprehensive Statement of Income if Market drops to the recorded lowest market price %
Banks, Finance & Insurance	18,829	3,172	0.35
Capital Goods	54,000	29,400	3.27
Construction & Engineering	160,822	174,477	19.42
Diversified Holdings	97,232	272,210	30.30
Hotels & Travels	386,353	165,133	18.38
Land & Property Development	250	245	0.03
Manufacturing	25,850	115,500	12.85
Materials	43,720	66,265	7.38
Motor	6,750	1,905	0.21
Telecommunication	73,470	47,430	5.28
Trading	4,350	1,260	0.14
Transportation	850	21,500	2.39

Notes to the Financial Statements

Commentary

As a result of the aftermath of COVID and economic disruptions, share prices volatility remained significant, especially in the backdrop of a volatile stock market by the end of the financial year with lower foreign participation. However, we closely monitored the market movements and evaluated effects of price movements to ensure related risk was minimised and appropriately informed decisions were made based on such analysis.

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.

	2020/21 Financial investments – at Fair Value through OCI Rs. '000	2019/20 Financial investments – at Fair Value through OCI Rs. '000
Stress Level	Impact on OCI	Impact on OCI
Shock of 10% on equity price (upward)	177,097	97,541
Shock of 10% on equity price (downward)	(177,097)	(97,541)

Commentary

Based on the risk analysis carried out on MI's equity portfolio after considering a possible downward market sentiments resulting especially from the COVID crisis, the maximum amount of equity risk effect to the other comprehensive statement of income (OCI) stood at Rs. 177.09 million as at the end of 31 March 2021, reflecting a 1.74% estimated hit to shareholders funds.

54.6 OPERATIONAL RISK

Operational risk arises due to inadequate or failed internal processes, people and systems or from external events. Operational risk events which include legal and regulatory implications could lead to financial and reputational losses. (Refer Risk Management Report on page 173 operational risk section for further details).

54.6.1 Nature of Relationship between the Associate and the Company

MI has a stake around 26.12% in Nuwara-Eliya Hotels; and the hotel is an associate of the company. Nuwara-Eliya Hotels has a rich history, located in the hill country, and recognized as a renowned 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 expects positive future sustainable growth, as soon as there is easing of tourism lockdowns.

54.6.2 Defined benefit Plans Associated Risk

For the purpose of assessing risks associated with employee benefit plans, the Company obtains an Independent experts' analysis and guidance to identify specific risks and for actuarial valuations and then to incorporate same in the Financial Statements.

Refer Alliance section pages 59 to 62, Financial Statements Note 3.10 which provides a detailed breakdown of defined employment benefit estimates including assumptions made.

54.7 CAPITAL MANAGEMENT RISK**54.7.1 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 and critical area of focus by the MI Board. Maintaining the right level of capital is important for the Company due to following reasons;

- Maintenance of a strong capital buffer against unexpected losses and to possess sufficient capital to meet current and future business needs and stakeholder expectation
- To meet prudential minimum capital requirements set by the regulator

MI's Strong capital base of over Rs. 7 Billion stands as a strong buffer against unforeseen losses and contingencies in the current volatile market conditions. This level of capital provides the company with adequate flexibility to pursue its future business plans and capital Investments and to take risk more confidently without undermining stakeholder returns.

Notes to the Financial Statements

MI board as part of its capital management process regularly monitors MI's capital adequacy which includes minimum capital requirements and has set minimum thresholds in keeping to MI's risk appetite levels, well above even the prudential capital adequacy ratio requirements.

54.7.2 New Basel II Capital adequacy(CAR) framework

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

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 Tier 1 capital & total capital position as at 31st March 2021 (with comparison) and the capital adequacy ratio position are given in Note 54.7.4.

54.7.3 Prompt Corrective Action Framework (PCA)

The Central Bank of Sri Lanka (CBSL) has set out a 'Prompt Corrective Action Framework' for LFCs based on the capital adequacy ratio and shall be applicable with effect from 01st July 2022.

Capital thresholds for each PCA capital adequacy applicable to LFCs with assets less than Rs.100 Billion is as follows;

PCA capital category	Capital Adequacy Ratio (CAR)
Well capitalized	CAR \geq 14%
Adequately capitalized	12.5% \leq CAR $<$ 14%
Undercapitalized	9.5% \leq CAR $<$ 12.5%
Significantly undercapitalized	6.5% \leq CAR $<$ 9.5%
Critically undercapitalized	CAR $<$ 6.5%

Notes to the Financial Statements

54.7.4 Total Capital Base Computation

Item	31st March 2021	31st March 2020
Tier 1 Capital	7,642,013	6,899,980
Stated Capital/assigned capital	36,000	36,000
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	796,400	761,400
Audited retained earnings/(Losses)	2,723,183	2,016,150
(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	1,242,500	955,948
Goodwill (net)	-	-
Other intangible assets (net)	47,299	45,987
Other Comprehensive losses	-	327,238
Deferred tax assets (net)	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	1,190,130	579,207
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	5,071	3,516
Shortfall of capital in Financial subsidiaries	-	-
Tier 1 Capital (after adjustments)	6,399,513	5,944,032
Tier 2 Capital	742,165	742,165
Instruments 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	5,071	3,516
50% Investment in banking & financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	5,071	3,516
Eligible Tier 2 Capital after adjustments	737,095	738,649
Total Capital	7,136,607	6,682,681

54.7.4.1 Capital Adequacy Ratios

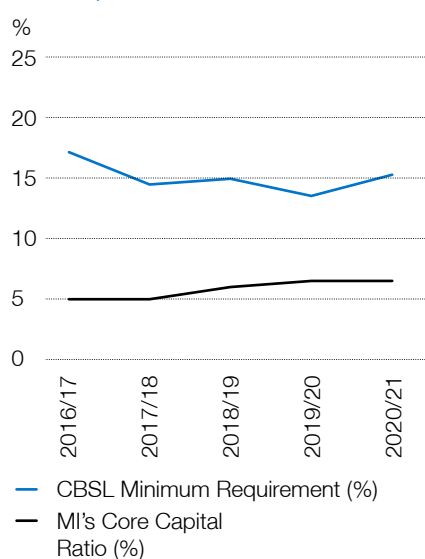
As at 31st March		Strategic Plan (Projected 2021)	2021 %	2020 %
Core Capital Ratio =	Tier 1 Capital			
	Risk Weighted Assets	> 12%	15.31	13.56
Total Risk Weighted capital Ratio =	Capital Base			
	Risk Weighted Assets	> 14%	17.07	15.25

Commentary

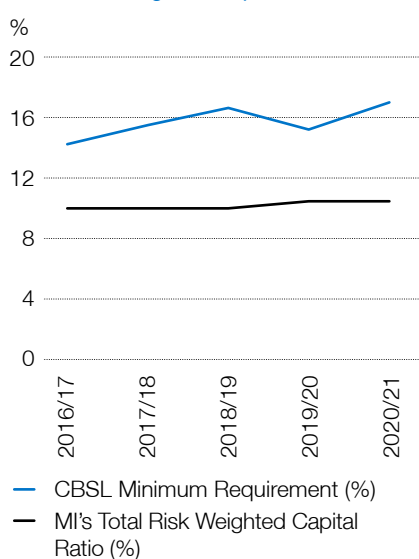
MI's sound capital adequacy levels remain a core competitive advantage when comparing Core Capital and Total Risk Weighted Capital with similar size industry peers. Amidst the impact of downward market conditions due to first and second wave COVID outbreaks and its impact on asset quality, MI was able to increase the prudential Capital Adequacy Ratios by 1.8% compared to last year. Based on current and projected performance targets, MI is confident of maintaining its total Risk Weighted Capital Ratio above 15%, thus safeguarding the "well capitalized" grade status in terms of the regulatory PCA framework (CAR \geq 14%).

Notes to the Financial Statements

Core Capital Ratio



Total Risk Weighted Capital Ratio



54.7.4.2 Impact of COVID-19 on Capital buffers

The Company evaluated market impacts due to COVID on revenue, costs, asset quality and profits to ascertain how MI's capital buffers may be impacted. Based on stress testing which we performed by targeting Capital Adequacy Ratio (CAR), management is confident that the challenges posed would not deplete capital buffers and will be sufficient to continue operation with desired financial strength and stability.

55. THE COVID PANDEMIC IMPACT ON BUSINESS

The COVID -19 pandemic has had a direct impact on economic activities both locally and globally, while pandemic- related uncertainties have affected the overall business landscape of the country. Sri Lanka's efforts to gradually revive its economic activities subsequent to the countrywide lockdown have been once again impeded by the emergence of the pandemic's second wave from October 2020 which has forced isolation of several selected areas and provinces with mobility restrictions being imposed to control a possible community spread.

Under the direction of the Central Bank of Sri Lanka (CBSL) financial institutions which also include Licensed Finance Companies were instructed to grant moratorium reliefs to their borrowers who fulfilled given criteria, especially for individual customers and private business operations in the tourism sector for them to overcome temporary adverse impacts on their sources of income.

During both the first and second COVID waves, MI took immediate measures to manage its business cautiously and provide its services uninterrupted wherever possible adopting work from home measures and other COVID-19 safety precautions to protect employees, customers and the general public, in keeping to best health guideline practices.

MI Board took firm measures to maintain financial solidity, firstly by taking steps to sustain a sufficient flow of funding to meet any urgent needs of customers throughout the year which enabled the Company to meet liabilities falling due during the COVID-19 period. Necessary measures were taken by the treasury division to maintain a strong liquidity position to meet future needs, capitalizing on banking partnerships and strategic funding to further bolster the already solid liquidity foundation sustained by the Company over the years.

The Board also took measures to control costs, focusing on the essentials, cutting down on nonessentials and eliminating wastage. 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 to improve the bottom-line.

Notes to the Financial Statements

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 as well as domestically. 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 judgment 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. The company decided to apply a more prudent basis in the ECL methodology for directly impacted business segments (mainly tourism and transportation segment) loan customers being classified as significantly credit risk increased categories as well as moratorium relief offered segments too being classified on the same prudent risk averse approach, though these borrowers were originally performing loan categories by 31st March 2021.

Impairment of Property Plant and Equipment

The company does not foresee any indication of impairment as at the reporting date due to COVID-19 pandemic. Significant components of Land and Buildings were revalued as at 31st March 2021 and resulting revaluation gain has been adjusted in the financial statement as of 31st March 2021.

Fair Value Measurement of Financial Assets

The Company evaluated the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgment and estimation in determining the carrying values of financial assets at the reporting date. The majority of valuation models the Company used employ only observable market data as inputs. This has not changed as a result of COVID-19 during the year under review.

Impact of COVID-19 on Key Risk Management Dimensions

- Credit Risk (Refer the pages 278 to 288 of Financial Risk Management Note No. 54)
- Liquidity Risk (Refer pages 290 to 292 of Financial Risk Management Note No. 54)
- Market Risk (Refer pages 292 to 295 of Financial Risk Management Note No. 54)
- Capital Adequacy (Refer page 295 of Financial Risk Management Note No. 54)

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SUPPLEMENTARY INFORMATION

Investor Relations – 302-305

Decade at a Glance – 306-307

Glossary – 308-310

List of Abbreviations – 311

Corporate Information – 312

Branch Network – 313-315

Notice of Meeting – 316

Form of Proxy – 317

Voting at Meetings of Shareholders – 318

Stakeholder Feedback Form – 319

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 2021 and the audited Balance Sheet of the Company as at date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

Stock exchange code for Mercantile Investments & Finance PLC share is "MERC".

MI'S INVESTOR BASE

The Company's investor base currently comprises of 3,006,000 voting shares distributed among few large investors as given in the table below. The total number of shareholders stood at 15 in 2020/21(15-2019/20). 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	0	0					0	0	
Total	15	3,006,000	100.00	0	0	0.00	15	3,006,000	100.00

ANALYSIS OF SHAREHOLDERS

Resident/Non-Resident

	31st March 2021			31st March 2020		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Resident	15	3,006,000	100.00	15	3,006,000	100.00
Non-Resident	0	0	0.00	0	0	0.00
Total	15	3,006,000	100.00	15	3,006,000	100.00

Individuals/Institutions

	31st March 2021			31st March 2020		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%
Individuals	12	1,757,449	58.46	12	1,757,449	58.46
Institutions	3	1,248,551	41.54	3	1,248,551	41.54
Total	15	3,006,000	100.00	15	3,006,000	100.00

Supplementary Information

Investor Relations

Public Holding

As per the rule No. 7.6 (iv) of Colombo Stock Exchange, percentage of public holding as at 31st March 2021 was 10.84% ,comprising 09 shareholders.(2020 - 10.51% comprising 08 Shareholders).

MI is in the Second Board 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. 847,211,040.00
- Public Holding Percentage 10.84%
- Number of Public Shareholders 09

The Company is not fully compliant with the minimum public holding requirement as of 31 March 2021.

Steps to be adopted by the company to comply with the rule will be announced in a subsequent market announcement.

TWENTY MAJOR SHAREHOLDERS OF THE MI AS AT 31ST MARCH 2021

Name	% on total capital	No of Shares 2021	% on total capital	No of Shares 2020
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	13.81	415,162
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. Adhietty	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.M. Dominic	0.01	151	0.01	151
R. Vaseeharan	0.00	10	0.00	10
Total	100.00	3,006,000	100.00	3,006,000

Investor Relations

DIRECTORS' SHAREHOLDINGS AS AT 31ST MARCH 2021

Name	Position	31st March 2021		31st March 2020	
		No. of Shares held	%	No. of Shares held	%
Mr. G G Ondaatjie	Managing Director	477,213	15.88	477,213	15.88
Ms. A M Ondaatjie	Director	477,213	15.88	477,213	15.88
Mr. T J Ondaatjie	Director	477,213	15.88	477,213	15.88
Mr. S H Jayasuriya	Director	-	0.00	-	0.00
Mr. P C Guhashanka	Director	-	0.00	-	0.00
Mr. P D D Perera	Director	-	0.00	-	0.00
Mr. A L N Dias (Appointed on 26.03.2021)	Director	-	0.00	-	0.00
Mrs. E D Wickramasuriya (Appointed on 26.03.2021)	Director	-	0.00	-	0.00
Mr. P M Amarasekara (Retired on 01.01.2021)	Deputy Managing Director	-	0.00	-	0.00
Ms. P T K Navaratne (Retired on 17.01.2021)	Director	-	0.00	-	0.00
Mr. N H V Perera (Retired on 09.02.2021)	Director	-	0.00	10,020	0.33
Mr. S M S S Bandara (Retired on 09.02.2021)	Director	-	0.00	-	0.00

SHARE TRADING

Since obtaining listing status under the Diri-Savi Board of the Colombo Stock Exchange and transferred to the second board in 15 November 2019, share trading has been negligible. The share trading details for the year are given below.

	2020/2021	2019/2020
Number of transactions	-	3
Number of shares traded	-	1,012
Value of Shares traded - Rs '000	-	2,631,200

MARKET VALUE

	Highest Rs.	Lowest Rs.	Year End Rs.
2019/2020	2,600.00	2,600.00	2,600.00
2020/2021	-	-	-

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
2019-2020	8,898,327	7,815,600	2,128,266,779	0.37
2020-2021	10,309,570	7,815,600	3,111,250,000	0.25

Supplementary Information

Investor Relations

RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS

No any Related party transactions during the year which exceeds 10% of the equity or 5% of the total assets.

DEBENTURES

The Company did not issue any debentures during the financial year ended 31 March 2021.

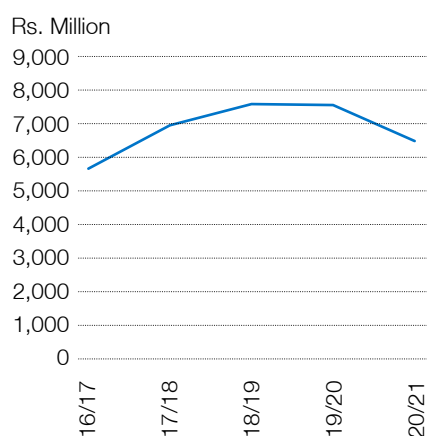
The following table presents the important disclosures made by the company to the Colombo stock exchange during the year 2020/2021.

Date of Disclosure	Details of disclosures
13-May-20	Disclosure regarding impact of COVID-19 on Listed Companies
02-Jun-20	Disclosure interm of circular 03 April 2020
15-Jun-20	Disclosure on Rating
07-Sep-20	Resolution adopted at the Annual General Meeting
02-Oct-20	Disclosure on Annual Rating Review
04-Jan-21	Announcement of Retirement of Deputy Managing Director
19-Jan-21	Announcement of Retirement of Independent Non-Executive Director
17-Feb-21	Announcement of Retirement of Chairperson & Non Executive Director
29-Mar-21	Announcement of Appointment of Directors
29-Mar-21	Announcement of Appointment of Acting Chairperson

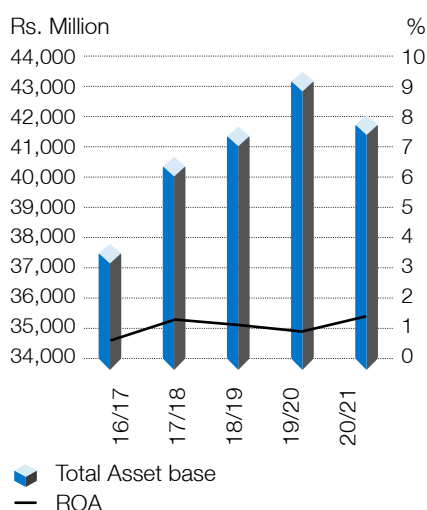
Decade at a Glance

For the year ended 31st March	2021 Rs. '000	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
Operating Results										
Income	6,496,631	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
Interest expense	3,219,671	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
Non Interest expenses	2,449,459	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
Profit before tax	827,501	691,791	786,653	858,771	313,679	802,645	911,884	824,331	732,069	625,755
Provision for taxation	213,358	320,082	328,580	344,706	111,664	297,626	280,612	148,969	101,278	15,667
Net profit for the year	614,143	371,708	458,073	514,065	202,015	505,019	631,272	675,362	630,791	610,088
Dividends	-	60,120	-	45,090	-	21,042	88,677	30,060	82,665	66,132
As at 31st March										
Assets										
Liquid assets	3,937,316	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
Investments	2,316,531	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
Debentures	-	-	-	-	10,200	10,400	10,700	10,700	10,773	-
Advances	29,738,640	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
Other assets	737,306	640,203	619,565	638,866	656,452	226,532	157,544	419,479	718,304	741,769
Property, plant & equipment	3,279,866	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
Right-of-use assets	180,357	223,255	-	-	-	-	-	-	-	-
Leasehold Property	40,270	40,739	41,207	41,672	42,140	42,609	43,076	43,545	44,013	44,481
Intangible Assets	47,299	45,987	64,211	48,979	12,578	12,386	3,344	3,714	4,681	2,855
Investment Property	237,381	246,166	198,431	172,795	158,340	448,234	198,769	-	-	-
Investment in Associates	1,234,582	1,260,144	1,267,430	1,006,506	995,977	927,318	794,381	777,127	695,670	628,397
Total Assets	41,749,548	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
Liabilities										
Bank overdraft	86,451	86,567	186,276	254,238	1,092,434	412,472	272,634	279,269	999,036	505,815
Borrowings	6,357,692	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
Deposits from customers	23,060,274	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
Other liabilities	1,935,561	2,242,317	2,361,516	2,017,656	1,349,453	1,555,245	953,057	618,694	860,501	850,274
	31,439,978	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
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	10,273,570	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
	10,309,570	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
Total Share Holder's Funds & total liabilities	41,749,549	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

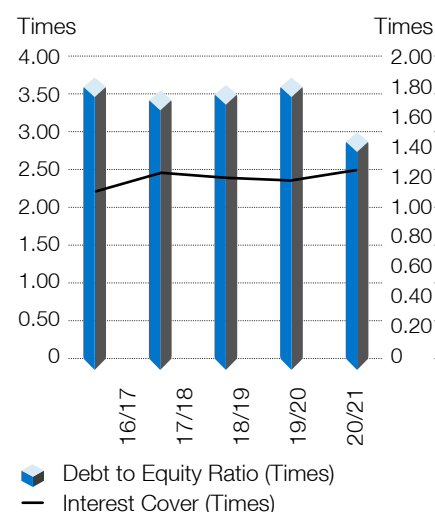
Gross Revenue



Total Asset Base & ROA



Debt to Equity & Interest Cover

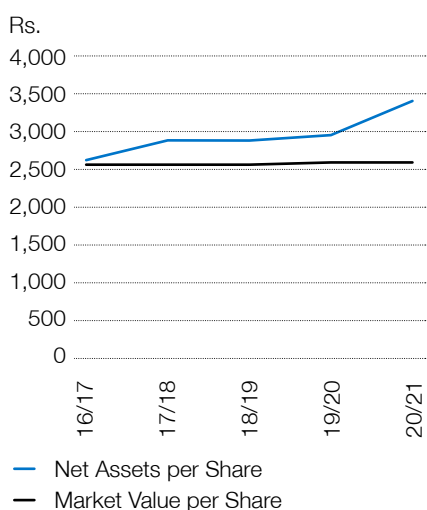


Supplementary Information

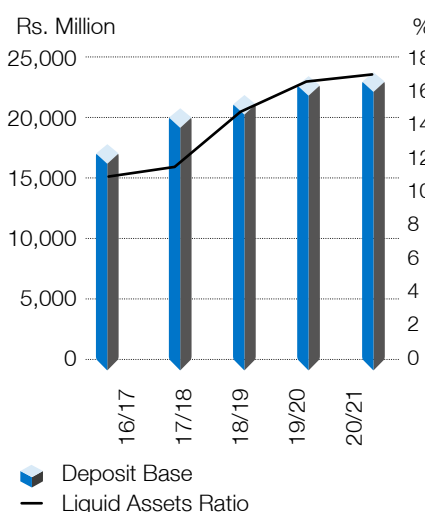
Decade at a Glance

For the year ended 31st March	2021 Rs. '000	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
Financial Position										
Total Assets to Shareholders funds - (Times)	4.05	4.85	4.77	4.65	4.77	4.44	3.65	3.75	3.72	3.22
Debt to Equity - (Times)	2.86	3.60	3.50	3.42	3.59	3.23	2.53	2.65	2.57	2.06
Liquid assets as a % of deposits	17.07	16.63	9.59	11.51	10.94	11.89	12.93	12.75	17.00	13.00
Investor										
Return on shareholders' funds - (%)	5.96	4.18	5.28	5.92	2.57	6.60	8.11	10.78	11.05	11.14
Return on Average Assets - (%)	1.45	0.88	1.12	1.32	0.57	1.62	2.43	3.02	3.25	3.89
Assets per share - (Rs.)	3430	2960	2885	2889	2617	2546	2588	2085	1898	1821
Earnings per Share - (Rs.)	204.31	123.66	152.39	171.01	67.20	168.00	210.00	224.67	209.84	202.96
Dividend per Share - (Rs.)	-	20.00	-	15.00	-	7.00	29.50	20.00	27.50	22.00
Dividend Cover - (Times)	-	6.18	-	11.40	-	24.00	7.12	11.23	7.63	9.23
Dividend Payout - (%)	-	16.17	-	8.77	-	4.17	14.05	8.90	13.10	10.84
Interest Cover - (Times)	1.26	1.18	1.20	1.24	1.10	1.38	1.47	1.37	1.39	1.62
Growth										
Growth in income - (%)	(14.63)	(0.37)	9.37	23.71	25.45	4.99	4.65	21.53	40.76	8.13
Growth in Interest Expenses - (%)	(16.21)	(0.50)	4.27	18.10	49.46	7.73	(12.08)	18.62	84.99	48.57
Growth in Other Expenses - (%)	(20.37)	2.88	22.45	8.55	36.01	9.77	45.87	37.09	6.05	49.53
Growth In Profit before Tax - (%)	19.62	(12.06)	(8.40)	180.21	(60.92)	(11.98)	10.62	12.60	16.99	(40.32)
Growth in Profit after Tax - (%)	65.22	(18.85)	(10.89)	154.47	(60.00)	(20.00)	(6.53)	7.07	3.39	(32.65)
Growth In Total Assets - (%)	(3.29)	4.39	2.47	7.64	10.39	19.56	20.89	10.73	20.54	28.06
Growth in advances - (Net) (%)	(9.22)	2.55	0.03	11.48	14.34	28.69	20.27	16.92	32.53	62.82
Growth in Deposit Base - (%)	1.08	7.74	5.50	17.95	7.60	15.27	20.17	35.53	37.26	42.81
Growth in Shareholders Funds - (%)	15.86	2.60	(0.12)	10.37	2.78	(1.61)	24.15	9.81	4.23	13.01
Statutory ratios										
Core Capital Ratio - (Minimum 5%)	15.31	13.56	14.98	16.24	17.17	19.35	21.70	22.52	20.83	22.40
Risk Weighted Capital Ratio - (Minimum 10%)	17.07	15.25	16.69	17.36	14.26	15.75	15.27	17.32	22.40	27.17
Liquid assets %	17.07	16.63	14.77	11.40	10.81	11.73	12.45	12.78	17.11	12.86

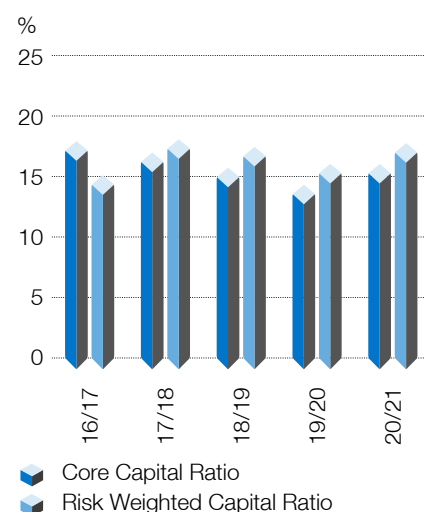
Net Assets per Share & Market Value per Share



Deposits & Liquid Asset 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.

Glossary

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.

Glossary

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 interest earning average assets.

NON-PERFORMING LOANS

A loan placed on a cash basis (i.e. Interest Income is only recognized when cash is actually collected) after when six installments or more are overdue, as there is reasonable doubt regarding the collectability of its installments of capital and interest.

NON PERFORMING RATIO

Total non-performing loans expressed as a percentage of the total loans and advances.

O

OPERATIONAL RISK

This refers to the risk of loss resulting from inadequate or failed internal processes, peoples and systems or from external events.

P

PRICE EARNINGS RATIO

Market price of an ordinary share divided by earnings per share.

R

RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

RETURN ON AVERAGE ASSETS

Net profit after tax divided by the average assets.

RETURN ON SHAREHOLDERS' FUNDS

Net profit after tax divided by the average shareholders' funds.

RISK WEIGHTED ASSETS

On-Balance Sheet assets and the credit equivalent of off-Balance Sheet assets multiplied by the relevant risk weighting factors prescribed by the Central Bank of Sri Lanka.

S

SEGMENTAL ANALYSIS

Analysis of financial information by segments of an organization specifically, the different Industries and the different business lines in which it operates.

SHAREHOLDERS' FUNDS

Total of stated capital plus capital and revenue reserves.

SUSTAINABILITY REPORT

Sustainability reporting is a practice of measuring, disclosing, and being accountable for organizational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organization.

T

TIER I CAPITAL

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

TIER 11 CAPITAL

Supplementary capital that consist of revaluation reserves, general provisions and debt instruments such as subordinated term debts and other hybrid capital instruments that combine characteristics of equity and debt.

V

VALUE ADDED

Value of wealth created by providing financial and other related services less the cost of providing such services.

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
CAR	Capital Adequacy Ratio	LTV	Loan to Value
CASL	The Institute of Chartered Accountants of Sri Lanka	MI	Mercantile Investments and Finance PLC
CBSL	Central Bank of Sri Lanka	MIS	Management Information System
CCTV	Closed-Circuit Television	MN	Million
CEO	Chief Executive Officer	NBT	Nation Building Tax
CFO	Chief Financial Officer	NPA	Non-Performing Advances
CRO	Chief Risk Officer	NII	Net Interest Income
CSE	Colombo Stock Exchange	NIM	Net Interest Margin
CSR	Corporate Social Responsibility	NO.	Number Of
DPS	Dividend Per Share	NPL	Non-Performing Loans
DR	Disaster Recovery	OCI	Other Comprehensive Income
DRL	Debt Repayment Levy	ODS	Ozone Depleting Substances
ECL	Expected Credit Loss	PAT	Profit after Tax
EIR	Effective Interest Rate	PAYE	Pay As You Earn
EPF	Employees' Provident Fund	PCA	Prompt Corrective Action
EPS	Earnings per Share	PD	Probability of Default
ESC	Economic Service Charge	PER	Price Earnings Ratio
ETF	Employees' Trust Fund	PLC	Public Limited Company
EVA	Economic Value Addition	PR	Personnel Relationship
EY	Ernst and Young	PVT	Private Limited Company
FTRA	Financial Transaction Reporting Act	ROA	Return on Assets
FVOCI	Fair Value Through Other Comprehensive Income	ROCE	Return on Capital Employed
FVPL	Fair Value Through Profit and Loss	ROE	Return on Equity
FY	Financial Year	RWA	Risk-Weighted Assets
GDP	Gross Domestic Product	ROU	Right Of Use
GHG	Green House Gas	SBU	Strategic Business Units
GRI	Global Reporting Initiative	SEC	Securities and Exchange Commission
HODs	Head of Departments	SLC	Specialized Leasing Company
HP	Hire Purchase	SLA	Statutory Liquid Assets
HR	Human Resource	SLAS	Sri Lanka Accounting Standard
HRIS	Human Resource Information System	SLFRS	Sri Lanka Financial Reporting Standard
HTM	Held to Maturity	SME	Small and Medium Enterprises
IFRS	International Financial Reporting Standard	UN	United Nations
IIRC	International Integrated Reporting Council	UNGC	United Nations Global Compact
IMF	International Monetary Fund	USD	US Dollar
IRMC	Integrated Risk Management Committee	VAT	Value Added Tax
IS	Information Systems	WHT	Withholding Tax
IT	Information Technology	YoY	Year on Year
IUCN	International Union for Conservation of Nature	YTM	Yield to Maturity

Corporate Information

 (GRI 102-5)

NAME OF THE COMPANY

Mercantile Investments and Finance PLC

LEGAL FORM

Public Limited Liability Company incorporated in Sri Lanka under the Companies Ordinance No 51 of 1938 and re-registered under the Companies Act No. 07 of 2007. A licensed finance company under the Finance Business Act No 42 of 2011.

COMPANY REGISTRATION NUMBER

PB 76 PQ

TAX PAYER IDENTIFICATION NUMBER

104021794

VAT REGISTRATION NUMBER

104021794 7000

REGISTERED OFFICE

No. 236 Galle Road,
Colombo 3

HEAD OFFICE

No. 236 Galle Road, Colombo 3
Telephone: 2343720 – 7
Fax: 2434524
Email: mercantile@mi.com.lk
Website: [http:// www.mi.com.lk](http://www.mi.com.lk)

BOARD OF DIRECTORS

Pandithasundara Dinuka Dilhan Perera
(Acting Chairman)
Gerard George Ondaatjie
(Managing Director)
Shermal Hemaka Jayasuriya
(Finance Director)
Angeline Myrese Ondaatjie
Travice John Ondaatjie
Pathmanathan Kumarasamy Guhashanka
Anil Lasantha Naomal Dias
Eranjalie Deepthie Wickramasuriya
Malwattage Kanchana Sujeewa Pieris

COMPANY SECRETARY

Sonali Pethiyagoda

AUDIT COMMITTEE

Pandithasundara Dinuka Dilhan Perera –
(Chairman of the Committee)
Anil Lasantha Naomal Dias
Eranjalie Deepthie Wickramasuriya
Sonali Pethiyagoda – Company Secretary –
(Secretary to the Committee)

CREDIT COMMITTEE

Gerard George Ondaatjie –
(Chairman of the Committee)
Shermal Hemaka Jayasuriya
Dhanushka Fonseka – Chief Operating
Officer/Director (non-board) – (Secretary to
the Committee)

REMUNERATION COMMITTEE

Anil Lasantha Naomal Dias –
(Chairman of the Committee)
Pandithasundara Dinuka Dilhan Perera
Malwattage Kanchana Sujeewa Pieris
Sonali Pethiyagoda-Company Secretary –
(Secretary to the Committee)

NOMINATIONS COMMITTEE

Eranjalie Deepthie Wickramasuriya –
(Chairperson of the Committee)
Gerard George Ondaatjie
Pandithasundara Dinuka Dilhan Perera
Anil Lasantha Naomal Dias
Sonali Pethiyagoda – Company Secretary –
(Secretary to the Committee)

INTEGRATED RISK MANAGEMENT COMMITTEE

Anil Lasantha Naomal Dias – (Chairman of
the Committee)
Gerard George Ondaatjie
Shermal Hemaka Jayasuriya
Dhanushka Fonseka – Chief Operating
Officer/Director (non-board)
Deva Anthony – Chief Financial Officer/
Senior General Manager
Thusitha Indunil Jayawardana – Assistant
General Manager – Credit Risk
Ramidu Costa – Head of Compliance
& Risk Management – (Secretary to the
Committee)

ASSETS & LIABILITY COMMITTEE

Gerard George Ondaatjie
(Chairman of the committee)
Shermal Hemaka Jayasuriya
(Finance Director)
Corporate Management
Ramidu Costa – Head of Compliance
& Risk Management – (Secretary to the
Committee)

RELATED PARTY TRANSACTION REVIEW COMMITTEE

Pandithasundara Dinuka Dilhan Perera –
(Chairman of the Committee)
Shermal Hemaka Jayasuriya
(Finance Director)
Anil Lasantha Naomal Dias
Eranjalie Deepthie Wickramasuriya
Sonali Pethiyagoda-Company Secretary –
(Secretary to the Committee)

EXTERNAL AUDITORS

Ernst & Young
Chartered Accountants

INTERNAL AUDITORS

PricewaterhouseCoopers
Chartered Accountants

BANKERS

Commercial Bank of Ceylon PLC
Hatton National Bank PLC
Seylan Bank PLC
Sampath Bank PLC
NDB Bank PLC
Nations Trust Bank PLC
Peoples Bank
Bank of Ceylon
Union Bank PLC
PanAsia Bank PLC
Cargills Bank PLC

CREDIT RATING

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

Branch Network

 (GRI 102-6)

	Address	Telephone	Fax	Branch Email	Details of Branch Head
1.	Head Office #236, Galle Road, Colombo 03, Sri Lanka	+94-11-2343720-7	+94-11-2390113	mercantile@mi.com.lk	Kularuwan Jayarathne kularuwan.j@mi.com.lk 0712498231
	Micro Unit #15, Mosque lane Colombo 03, Sri Lanka.	+94-11-2339895	+94-11-2339896		Tharanga Peiris tharanga.d@mi.com.lk 0717327978
	Corporate Department #236, Galle Road, Colombo 3, Sri Lanka.	+94-11-2343720	+94-11-2390113		Indika Bandara indika.b@mi.com.lk 0712498260
2.	Anuradhapura Branch #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 #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 #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 #93/1 Colombo Road Ukwatta, Awissawella, Sri Lanka.	+94-36-2235733	+94-36-2235734	miawissawella@mi.com.lk	Dharshana Piyaratne dharshana.p@mi.com.lk 0702594852
6.	Balangoda Branch #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 #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 #288L, Colombo Road, Maikkulama, Chilaw Sri Lanka.	+94-32-2224244	+94-32-2224245	michilaw@mi.com.lk	Nandana Pradeep nandana.p@mi.com.lk 0712498393
9.	Embilipitiya Branch #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 #12, Park Road, Kaluwela, Galle, Sri Lanka.	+94-91-2246387	+94-91-2246388	migalle@mi.com.lk	Subash Niroshan subash.n@mi.com.lk 0712439750
11.	Gampaha Branch #152/1, Miriswatta, Mudungoda, Gampaha, Sri Lanka.	+94-33-2234453	+94-33-2234463	migampaha@mi.com.lk	Vidura Wijewickrama vidura.t@mi.com.lk 0712498226
12.	Gampola Branch #190, Kandy Road, Gampola, Sri Lanka.	+94-81-2076561/2	+94-81-2076563	migampola@mi.com.lk	Chinthaka Gamanayake chinthaka.g@mi.com.lk 0702579972
13.	Godagama Branch #27/B, Dikhathapma, Highlevel Road, Meegoda, Sri Lanka.	+94-11-2752923	+94-11-2752924	migodagama@mi.com.lk	Dilanka Sanjeeewa dilanka.s@mi.com.lk 0710580870

Supplementary Information

Branch Network

	Address	Telephone	Fax	Branch Email	Details of Branch Head
14.	Horana Branch #439 A, Panadura Road, Galledandugoda, Horana. Sri Lanka.	+94-34-2265411	+94-34-2265412	mihorana@mi.com.lk	Thilina Sampath thilina.w@mi.com.lk 0712498371
15.	Ja-Ela Branch #108, Old Negombo Road, Ja-Ela, Sri Lanka.	+94-11-2247937	+94-11-2247954	mijaela@mi.com.lk	Methsiri Padmakumara methsiri.p@mi.com.lk 0711204888
16.	Kadawatha Branch #381/C, Kandy Road, Mahara, Kadawatha, Sri Lanka.	+94-11-2921205	+94-11-2921207	mikadawatha@mi.com.lk	Madusha Ratnasena madusha.r@mi.com.lk 0712498349
17.	Kaduwela Branch #509, 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 #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 #28A, Sunethradevi Road, Kohuwala, Sri Lanka.	+94-11-2814181	+94-11-2814182	mikohuwala@mi.com.lk	Harsha Siriwardhane harsha.s@mi.com.lk 0713104180
20.	Kotahena Branch #313 & 315, K.B Christie Perera Mawatha, Colombo 13, Sri Lanka.	+94-11-2339306	+94-11-2339307	mikotahena@mi.com.lk	Ksithijaya Gunathilake ksithijaya.g@mi.com.lk 0719709044
21.	Kottawa Branch #341, High Level Road, Kottawa, Pannipitiya, Sri Lanka.	+94-11-2838145	+94-11-2838146	mikottawa@mi.com.lk	Amila Edirisinghe amila.e@mi.com.lk 0717837507
22.	Kuliyapitiya Branch #286, Main 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 #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 #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 #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 Branch #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

Supplementary Information

Branch Network

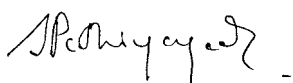
	Address	Telephone	Fax	Branch Email	Details of Branch Head
27.	Moratuwa Branch #408, Rawathawaththa, Galle road, Moratuwa, Sri Lanka.	+94-11-2647525	+94-11-2647526	mimoratuwa@mi.com.lk	Dhanushka Galanga galanga.d@mi.com.lk 0712498411
28.	Malabe Branch #742 B, Thalagama North, Malabe, Sri Lanka.	+94-011-2790369		mimalambe@mi.com.lk	Sameera Jayasooriya Sameera.j@mi.com.lk 0703312896
29.	Negombo Branch #36, Colombo Road, Negambo, Sri Lanka.	+94-31-2221160	+94-31-2221161	minegombo@mi.com.lk	Ranjeewa Perera ranjeewa.p@mi.com.lk 0702579958
30.	Nittambuwa Branch #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 #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.	Puttalam Branch #146, Kurunegala Road, Puttalam, Sri Lanka.	+94-32-2265490	+94-32-2265491	miputtlam@mi.com.lk	Poopalarasa Sinthushan sinthusan.p@mi.com.lk 0712359841
33.	Premier Centre #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 #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 #19/6, Sagara Building, Palliyawatta, Tissamaharama, Sri Lanka.	+94-47-2239341	+94-47-2239342	mitissa@mi.com.lk	Gayan Priyankara priyankara.g@mi.com.lk 0701599026
36.	Tambuttegama Branch Rajina Junction, Thambuttgama, Sri Lanka.	+94-25-2275276		mithambuttegama@mi.com.lk	Damith Rathnayake damith.c@mi.com.lk 0701599009
37.	Trincomalee Branch #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 #41, Nittambuwa Road, Veyangoda, Sri Lanka.	+94-33-2246586	+94-33-2246589	miveyangoda@mi.com.lk	Nalin Siriwardene nalin.s@mi.com.lk 0712498312
39.	Wattala Branch #120 A, 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-eighth (58) Annual General Meeting of MERCANTILE INVESTMENTS AND FINANCE PLC will be held at No 236, Galle Road, Colombo 3, on 28th July 2021, 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 2021 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. A L N Dias, Mrs E D Wickramasuriya and Mr. M K S Pieris 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 7.13.2 (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

07 June 2021

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.

Supplementary Information

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. Pandithasundara Dinuka Dilhan Perera | or failing him |
| Mr. Gerard George Ondaatjie | or failing him |
| Mr. Shermal Hemaka Jayasuriya | or failing him |
| Ms. Angeline Myrese Ondaatjie | or failing her |
| Mr. Travice John Ondaatjie | or failing him |
| Mr. Pathmanathan Cumarasamy Guhashanka | or failing him |
| Mr. Anil Lasantha Naomal Dias | or failing him |
| Ms. Eranjalie Deepthie Wickramasuriya | or failing her |
| Mr. Malwattage Kanchana Sujeewa Pieris | |

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 28th July 2021 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 2021, with the Report of the Auditors there on.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To elect Mr. S. H. Jayasuriya 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. A. L. N. Dias 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"/>
4. To elect Ms. E. D. Wickramasuriya 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"/>
5. To elect Mr. M. K. S. Pieris 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 this day of 2021.

.....
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 2020/21 (Please scale from Excellent to Poor)

<p>Theme & Layout</p> <p>Excellent <input type="checkbox"/></p> <p>Good <input type="checkbox"/></p> <p>Average <input type="checkbox"/></p> <p>Poor <input type="checkbox"/></p>	<p>Content & Disclosures</p> <p>Excellent <input type="checkbox"/></p> <p>Good <input type="checkbox"/></p> <p>Average <input type="checkbox"/></p> <p>Poor <input type="checkbox"/></p>	<p>Directness & Transparency</p> <p>Excellent <input type="checkbox"/></p> <p>Good <input type="checkbox"/></p> <p>Average <input type="checkbox"/></p> <p>Poor <input type="checkbox"/></p>
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Feedback and any suggestions to improve content:

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As a stakeholder any other suggestions, improvements and concerns to be addressed:

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Your Name :

Your Tel/Email :

Your 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

MERCANTILE INVESTMENTS AND FINANCE PLC
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Tel: +94-112343720 - 7 | E-Mail: mercantile@mi.com.lk