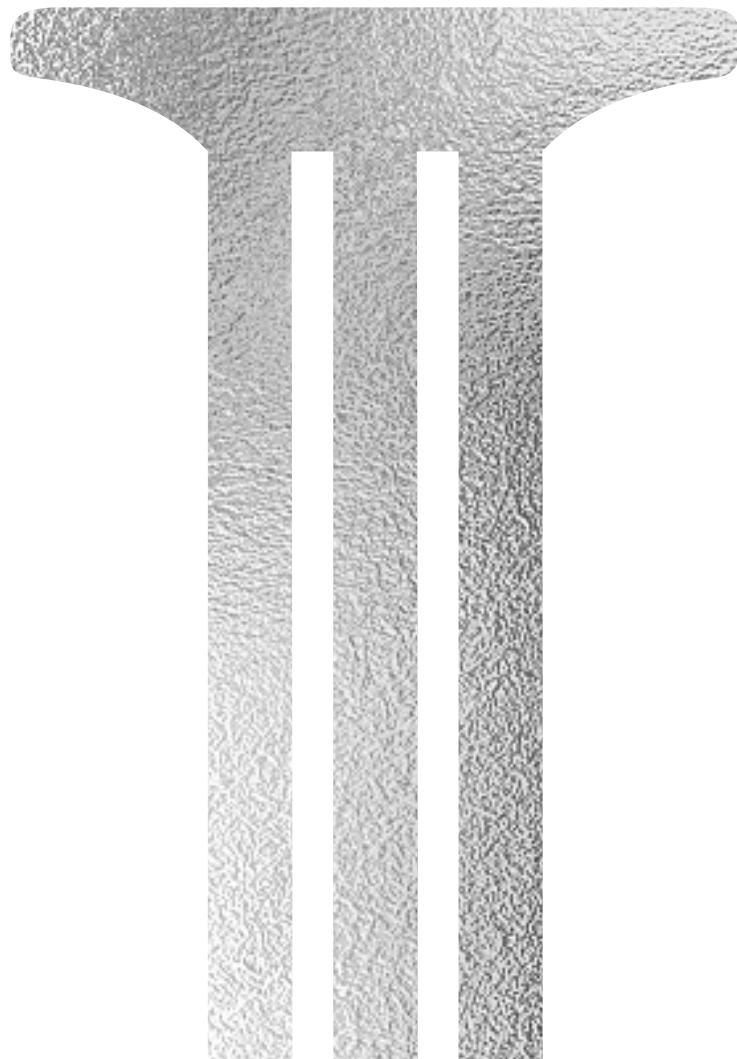




MERCANTILE INVESTMENTS AND FINANCE PLC
ANNUAL REPORT 2021/22

MONUMENTAL



MONUMENTAL

Iconic, historic, an absolute marvel... epitomising the lengths we have traversed in order to place on record, one of the best years in our legacy, we take a look at the foundations of our success.

The architects of our vision, steered the company to greater heights and amid the trials of a challenging year, our strategy was a vital component in determining our results. Whether it was expansion, innovation or our commitment to quality, we ensured that our efforts will go down in history as we celebrate a monumental year...

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Built to last, our foundation established the core values and aspirations of our company...

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Westminster Bridge (Big Ben)

We're keeping time with innovation, ensuring our presence in the lives of our customers and stakeholders...

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Neamț Citadel in Condreni, Romania

Our stability is world renowned, offering that same security to our customers with quality products and services...

Stewardship 90

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



Colosseum

A tribute to dedication and passion, this year was made possible by our team that beat the odds to achieve record growth...

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Ancient City of Sigiriya

Local ingenuity keeps us abreast with international standards, as a symbol of strength and resilience....

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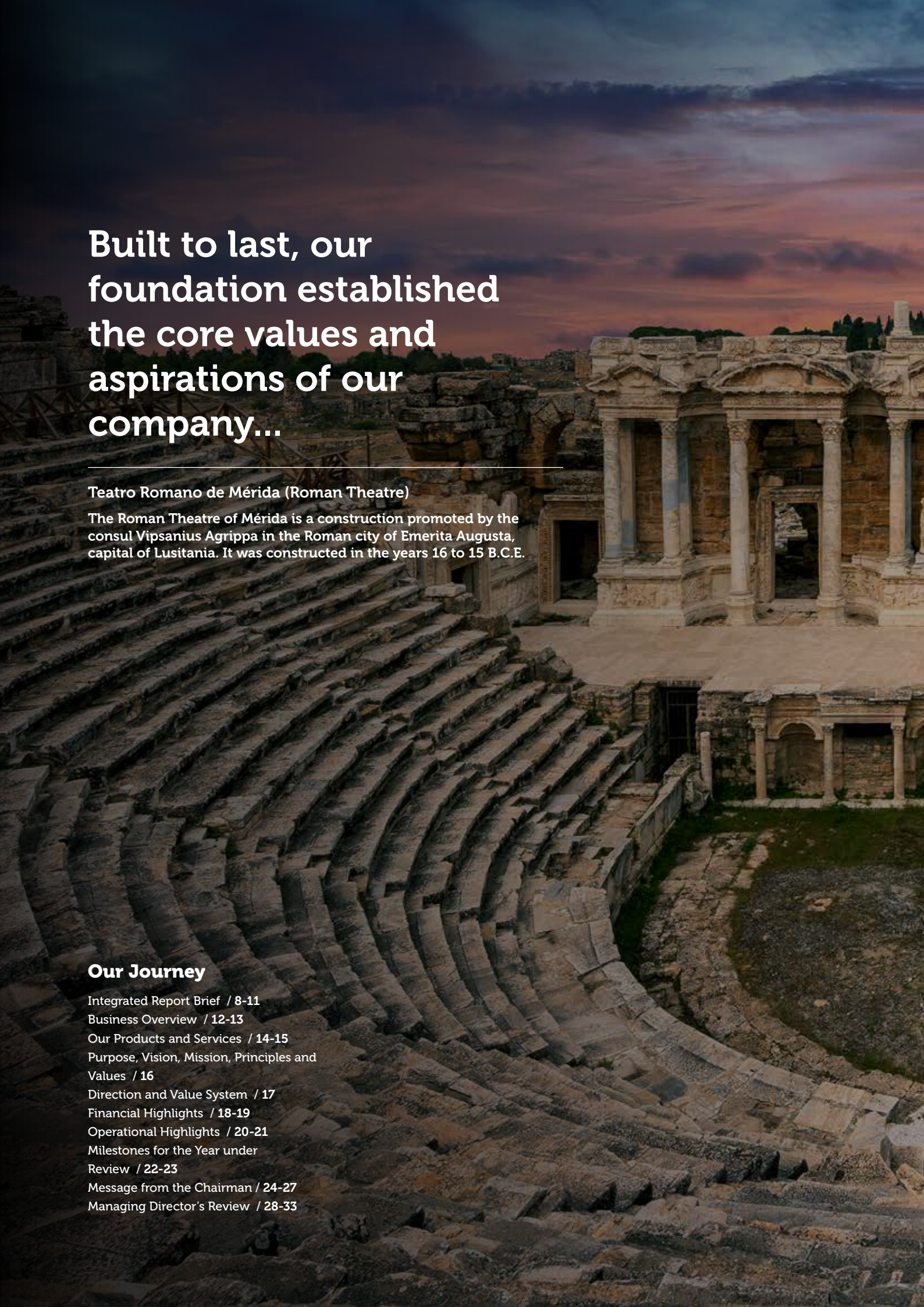
Navigation Icons

Capitals

 <p>Financial Wealth Shareholders' equity, funding received from clients and borrowings obtained from banks and financial intermediaries that are used to support our business</p>	 <p>Alliances Our strong commercial relationships and the bonds with our stakeholders, including the community and the wider society</p>	 <p>Human strength The experienced and skillful workforce that drives our organization to deliver unique and competitive products and services, to our customer base</p>
 <p>Intellect Our intangible assets that include MI's brand value, reputation and business know-how</p>	 <p>Infrastructure Physical resources that support all our business operations</p>	 <p>Nature Natural resources that we utilize in our business and the impact we create on them in return</p>

Integrated Management Discussion and Analysis	Value Creation		Capital Management Report	
	<p style="background-color: #8e44ad; color: white; padding: 2px; border-radius: 5px; display: inline-block;">Stakeholder participation</p>			
	<ul style="list-style-type: none">  Shareholders  Clients  Staff  Business Partners  Regulators  Society and Environment 	<p style="text-align: center;">Strategy Pages 40 to 45</p> <hr/> <p style="text-align: center;">Resource Distribution Page 46</p> <hr/> <p style="text-align: center;">Material Matters Page 39</p>		
			<ul style="list-style-type: none">  Financial Wealth Pages 48 to 59  Alliances Pages 60 to 63  Human Strength Pages 64 to 67  Intellect Pages 68 to 71  Infrastructure Pages 72 to 75  Nature Pages 76 to 79 	
<p>▶ Committee Reports Pages 177 to 183</p>				
<p>▶ Other Information Pages 300 to 311</p>				

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



Built to last, our foundation established the core values and aspirations of our company...

Teatro Romano de Mérida (Roman Theatre)

The Roman Theatre of Mérida is a construction promoted by the consul Vipsanius Agrippa in the Roman city of Emerita Augusta, capital of Lusitania. It was constructed in the years 16 to 15 B.C.E.

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Integrated Report Brief

We are proud to present our ninth integrated annual report, outlining the progress made in this year of unprecedented challenges, while highlighting the notable milestones in our business journey. The report exemplifies our value creation process, dynamics in the operating landscape, strategy, performance highlights, and evolving strategic business processes and operational priorities, coupled with integrated thinking, which enabled us to remain strategically-aligned, responsive to stakeholder concerns, and generate value for all stakeholders in short, medium and long-term. We present this report, in accordance with the guiding principles and content elements as stipulated by the integrated reporting framework issued by the international integrated reporting council (IIRC), which is named the value reporting foundation and the sustainability reporting disclosures outlined by the global reporting initiative (GRI).

Reporting Philosophy

🔗 GRI 102-4, 102-45, 102-46, 102-50 and 102-52

Reporting Period

The Mercantile Investments (MI) Integrated Report is produced and published annually. The report includes financial and non-financial information for the financial period commencing from 1st April 2021 to 31st March 2022, with the comparative figures of previous years and up to further three years for specific disclosures (five years) to provide a holistic view to the stakeholders. We have incorporated both favourable and unfavourable significant material matters that arose during the reporting period and up to the date when the Financial Statements are authorised by the Board on 26th May 2022.

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 provides commentary on our non-financial performance, our strengths, limitations, opportunities, and the approach adopted in managing risks and challenges within our governance structure which enabled us to manoeuvre towards greater heights in our journey, despite the multitude of challenges faced, especially during the pandemic period.

Target Group

This report is primarily intended to meet the information needs of our existing and potential investors, including our shareholders and other fund providers. In addition, the report serves as a source of information for other stakeholders, which primarily encompass our customers, employees, business partners, regulators, society, and environmental groups.

Key Concepts

Integrated Reporting Framework

IR Framework Principles	As Applied by MI
Stakeholder Relationships	We have provided information on our major stakeholders, stakeholder engagement processes, practices, and about the solid relationships we have built throughout our value creation journey.
Materiality	<p>We exert the principal of materiality in assessing what information is to be included in our integrated report. This report outlines key information and, focuses on addressing the concerns that materially impact Mercantile Investments and its key stakeholders.</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 2021, 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 shared the deployed growth strategies, integrated business philosophy and prospects in tandem with the performance results in achieving the Board-approved corporate 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. (Additional information is available on MI’s corporate website)
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	Reliability and completeness of our financial and non-financial information has been assured by extracting and deriving this information from various trustful sources and through internal audit and independent external audit assurances.
Comparability and Consistency	We have provided adequate comparable information (ranging one to four years of comparable data) based on availability, whilst ensuring consistency of the information we reported throughout the Integrated Annual Report.

Value Creation

Value Creation is how we transform our capitals towards superlative financial performance (outcomes), through our business operations to generate tangible and intangible returns to our stakeholders (output and outcomes), while managing trade-offs. Our unique value creation process is a pivotal component of our integrated thinking and corporate planning process, the key components of which are highlighted in our business model, given on pages 36 to 37.

Precautionary Principle

GRI 102-11

As a long-standing corporate citizen, we are acutely aware of the direct and indirect impacts of our operations on the economy, society, and environment, and always strive to minimise negative impacts resulting from our operations. As we have embedded strategic corporate sustainability into our business model, our lending, investments, operational and risk management policies and procedures are aligned towards creating sustainable value for our stakeholders while minimising or eliminating negative impacts on society and environment.

Forward-looking Statements

This report contains forward-looking statements about MI’s financial position and operational results. These statements are embedded with the occurrence or non-occurrence of future events such as future opportunities, risks, and uncertainties, and therefore, actual results may differ from our expectations, especially given the high volatile environment witnessed since the pandemic.

Integrated Report Brief

Reporting Regulations, Principles and Protocols

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

Regulations and Frameworks Adopted

Mandatory Reporting Requirements

- Our report was prepared in accordance with;
- ⦿ 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.



Voluntary Frameworks and Protocols

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards – 'In accordance' Comprehensive option.

This report was also prepared in accordance with the International Integrated Reporting Framework of IIRC.



We have also included all of the essential corporate disclosures to comply with;

- ⦿ 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 160)
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 87)

Availability of the Annual Report

In accordance with the prescribed instructions on notice, under the Companies Act No. 07 of 2007, copies of the Annual Report have been circulated to all shareholders, prior to holding the Annual General Meeting. The report has also been made available on MI's corporate website www.mi.com.lk and the CSE website www.cse.lk (the report can be viewed by referring to MI Stock code 'MERC').



Contact Point

➔ GRI 102-53

If you have any questions or comments about this report, please contact us.

Contact and Address

The Chief Financial Officer/Director (Non-Board),
Mercantile Investments and Finance PLC,
236, Galle Rd,
Colombo 03

E-mail: accounts@mi.com.lk

Board Approval for the Report

➔ GRI 102-32

The Board acknowledges its responsibility to ensure the integrity of this Integrated Report, which in the opinion of the Board has considered the completeness of all material aspects addressed, and the reliability of financial and non-financial information presented. Thus, the board assures that the integrated report for 2021/22 gives a true and fair presentation of financial and operational performance of the company for the financial year under review. This report was approved by the Board of Directors of the Company on 26th May 2022.

On behalf of the Board;

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

Shermal Jayasuriya
Finance Director

Business Overview

Our History

Our legacy spans over 57 years with the visionary leadership of our late founder Chairman, George Ondaatjie, who envisioned identifying market opportunities through innovative financial solutions, while contributing towards the development of the finance sector and the Sri Lankan economy as a whole.

Since its foundation in 1964, the company has gained reputation as a premier finance company, catering to the evolving financing needs of its customers by providing them with access to credit and investment avenues through a growing branch network, and in return optimising stakeholder value propositions in a sustainable manner.

As another highlight in its rich history, MI was listed in the Diri Savi Board of the Colombo Stock Exchange in 2011, and is graded as a 'A' grade LFC by the regulator for its asset size and capital strength. Having possessed a solid foundation, capital strength, long-standing reputation and performance, MI stands well geared to harness emerging market opportunities whilst having the capacity and intellect to counter headwinds.

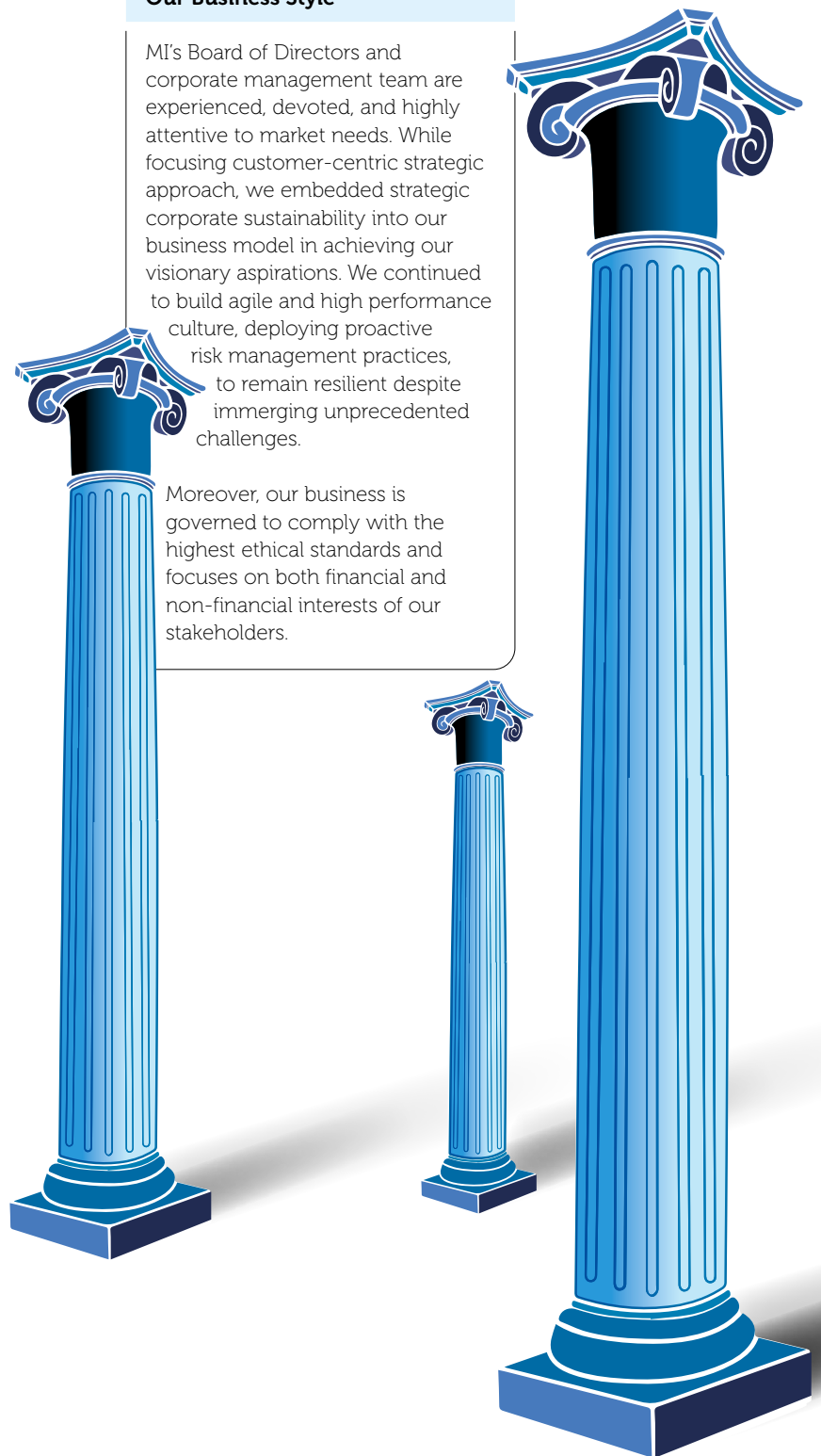
Our Corporate Structure

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

Our Business Style

MI's Board of Directors and corporate management team are experienced, devoted, and highly attentive to market needs. While focusing customer-centric strategic approach, we embedded strategic corporate sustainability into our business model in achieving our visionary aspirations. We continued to build agile and high performance culture, deploying proactive risk management practices, to remain resilient despite immersing unprecedented challenges.

Moreover, our business is governed to comply with the highest ethical standards and focuses on both financial and non-financial interests of our stakeholders.



Funding Supply chain

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 our funding sources or mix except for the partnerships developed with new external funding providers.

Key Business Lines Operated

- ⦿ Lending
- ⦿ Deposits
- ⦿ Investments
- ⦿ Other Ancillaries

Primary Brands, Products and/or Services (GRI 102-2)

We offer wide array of financial products which includes diversified 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, gold loans, and micro financing.

While focusing short-term and revolving credit facilities, we expanded our gold loan operations across our branch network in the year under review.

Moreover, we differentiated our deposit products by introducing customised product offering and embedding more appealing product features.

Markets Served (GRI 102-6)

Our target market includes all spheres of businesses and individuals who seek financing and investment opportunities. During the year, we expanded our branch footprint to 42 branches across the island. Moreover, we broad-based our digital footprint by introducing more online solutions, expanding customer reach and convenience.



Our Products and Services

Finance and Lending Products



Lease Financing

Lease facilities are granted mainly against vehicles and machines in accordance with the Finance Lease Act No. 56 of 2000. MI is proud of the trust and conviction that is placed upon from loyal leasing customers.



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 which are customised to serve diverse needs. This includes personal loans, professional loans, auto drafts and other term-based loans and provides both revolving and fixed term credit facilities.



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 Loan

Loans are provided against gold held as security, to serve instant financial needs of our customers

Deposit Product Offerings



Fixed Deposits

Fixed Deposits at Mercantile Investments and Finance PLC comes with a heritage of trust, stability and the highest security, giving public the best return for their investments.



Savings

At MI, our savings accounts cater to both minor holders and general savings account holders, advocating the habit of saving within the Sri Lankan economy.

Key Investment products

Regulatory Liquidity-Based Investments



Treasury Bills and Bonds

Fixed-return investment in short-, medium- and long-term securities issued by the Government of Sri Lanka.



Money market , Unit trust and other investments

Fixed return yielding investments in short- and medium-term deposits in rated banks and financial institutions.

Equity/Debt Investments



Equity Investments

Primarily investments in ordinary shares of listed entities.



Corporate Debentures

Investment in debt securities of listed entities

Insurance Support

MI Insurance Referrals



Motor Vehicle Insurance

Full and third party protection on motor vehicle insurance



Loan Protection

Loan recovery protection against borrower's death



Title Insurance

Protection against loss of ownership of property



General Insurance

All other protection including fire, burglary, etc.

Workshop Services

MI Workshop Services



Vehicle Servicing

Facilitates all-inclusive motor vehicle servicing



Vehicle Repairing

Facilitates varying types of automobile repairs providing expert attention to every nook and corner of a vehicle



Paint jobs

Provides exclusive painting solutions

Purpose, Vision, Mission, Principles and Values

GRI 102-16



Direction and Value System

Our Sustainability Pledge

To fulfill stakeholder expectations to the best of our ability and pledge in the process, to meet wider economic, social and environmental obligations in a rightful manner which in turn, will support the process of building a robust sustainable nation.

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

With this mandate, the Board and Management geared MI's operations efficiently to drive service excellence, whilst striving to empower communities through various corporate social initiatives to meet a wider array of societal expectations. To do this, we obtained our staff's commitment and declare this sustainability pledge for the greater good of society.

MI Products and Services

Introduce new and unique solutions to the market that will satisfy immediate needs of people and corporates while ensuring society and the environment obligations are protected.



MI Operations

We reoriented our business processes and aligned our integrated thinking towards achieving company objectives while contributing to societal, economic, and environmental wellbeing.



MI Corporate Social Initiatives

Identification of previously unidentified community needs aided us in developing innovative products and services, as well as carrying out corporate social activities, to support community, society, and the environmental.



Financial Highlights

GRI 102-07

For the year ended 31st March	Actual 2022 Rs. '000	Actual 2021 Rs. '000	Change %	Actual 2020 Rs. '000
Results for the year				
Gross Income	7,127,706	6,496,631	9.71	7,610,170
Interest Income	6,759,925	6,273,624	7.75	7,475,320
Interest Expense	2,586,220	3,219,671	(19.67)	3,842,380
Profit Before Tax	1,468,920	827,501	77.51	691,791
Provision For Taxation	457,370	213,358	114.37	320,082
Profit After Tax	1,011,550	614,143	64.71	371,708
Financial Position at the year end				
Shareholders' Funds (Stated Capital and Reserves)	10,974,336	10,309,570	6.45	8,898,327
Deposit from Customers	26,349,272	23,060,274	14.26	22,814,923
Loans & Advances, Leases & Hire Purchases (net)	34,702,467	29,738,640	16.69	32,759,172
Total Assets	46,999,575	41,749,548	12.58	43,171,119
Investors				
Gross Dividend	345,690	-	100	60,120
Earnings per Share (Rs.)	336.51	204.31	64.71	123.66
Dividends per Share (Rs.)	115.00	-	100	20
Net Assets per Share (Rs.)	3,651	3,430	6.45	2,960
Ratios				
Return on Shareholders' Funds (%)	9.51	6.39	3.11	4.23
Return on Average Assets (%)	2.28	1.45	0.83	0.88
Interest Cover (Times)	1.57	1.26	24.90	1.18
Equity: Assets (%)	23.35	24.69	(1.34)	20.61
Debt: Equity (Times)	3.08	2.86	7.62	3.6
Dividend Payout Ratio (%)	34.17	-	34.17	16.17
P/E Ratio (Times)	7.73	12.73	(39.29)	21.03
Non-performing Loans Ratio (%)	8.54	14.09	(5.55)	11.69
Total Assets Growth (%)	12.58	(3.29)	15.87	4.39
Advance Growth (Net) (%)	16.69	(9.22)	25.91	3.61
Deposit Growth (%)	14.26	1.08	13.19	7.74
Operating Profit Margin (%)	20.57	13.30	7.27	8.87
Value Added per Employee (Rs.'000)	5,893	5,820	1.25	6,971
Statutory Ratios				
Liquid Assets (%)	13.57	17.07	(3.50)	15.99
Core Capital Ratios (%) - Minimum required 7%	15.45	15.31	0.14	13.56
Total Risk Weighted Capital Ratio (%) - Minimum required 11%	16.84	17.07	(0.23)	15.25

Sustainable Growth Trajectory FY 2021/22

Profit After Tax
Rs. 1.01 Billion
Highest ever recorded with
65% Growth

Total Asset base grew by **12.6%**
Rs. 46.9 Billion

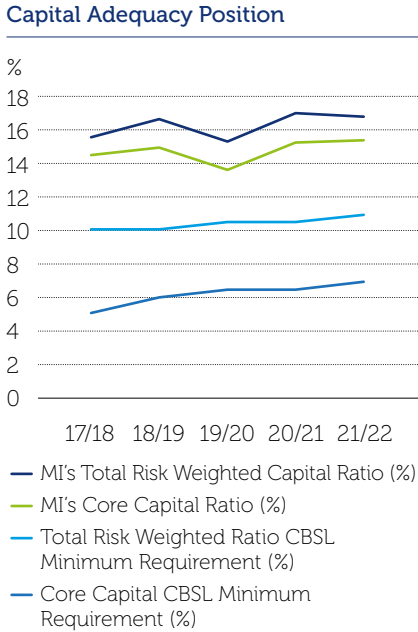
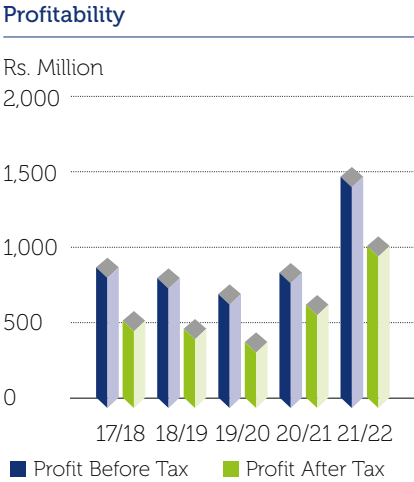
Loan Book grew by **16.7%**
Rs. 34.7 Billion

Net Interest Income by **36.7%**
Rs. 4.1 Billion

Deposit base grew by **14.3%**
Rs. 26.3 Billion

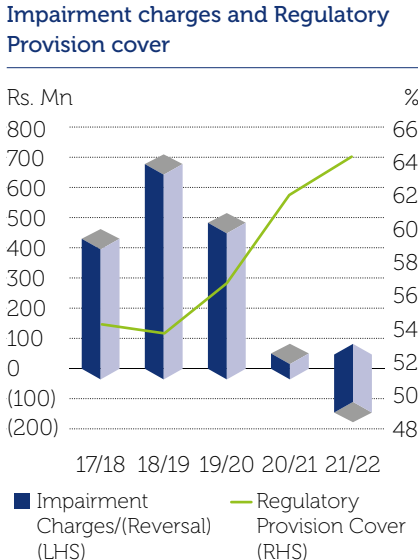
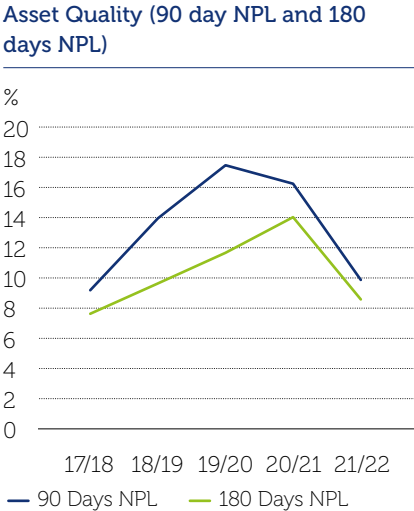
Capital Growth

- Shareholder funds – Rs. 10.9 billion
- Core Capital Ratio – 15.45%
- Total Risk Weighted Capital Ratio – 16.84%



Asset Quality Strengthening

- Non Performing Loans Ratio (180 days) – 8.54%
- Impairment Reversal – Rs. 147 million



Operational Highlights

GRI 102-7

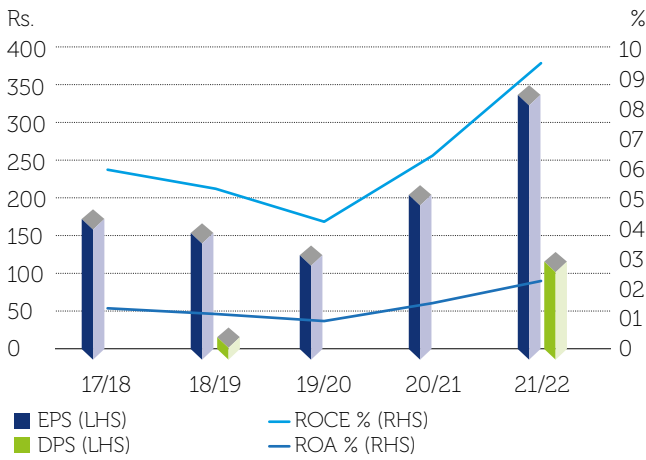
GRI Standard	For the year ended 31st March	2022 Actual	2021 Actual	Variance (%)	2020 Actual
Alliances					
413-1	Total clientele	> 78,000	> 62,000	Approx. 26	> 65,000
	New products launched (Number)	-	1	100	2
204-1	Percentage of purchases from suppliers: Head office, Colombo (%)	65	67	-2	53
	Other locations of Sri Lanka (%)	35	33	2	47
419-1	Significant fines for product/service (Rs. '000)	-	-	-	-
413-1	Number of CSR Beneficiaries	768	601	28	2,217
205-2	Training on anti money laundering (Number)	469	60	705	70
419-1	Significant fines for violation of laws/regulations (Rs. Million)	-	-	-	-
201-1	Community investment cost (Rs. '000)	1,506	1,203	25	2,268
201-1	Staff volunteered time on CSR (Hours)	196	268	-27	4,241
Human Strength					
401-1	Total workforce (Number)	1,210	1,110	9	1,094
401-1	Female Representation (%)	23	22	1	21
401-1	Recruitments for the year (Number)	321	242	33	346
202-2	Local hiring of senior managers (%)	20	88	-68	76
401-1	Attrition rate (%)	19	20	-1	27
401-3	Retention rate after parental leave (%)	100	56	44	80
403-2	Number of injuries	3	5	-40	6
403-2	Number of lost days	39	160	-76	183
403-2	Absenteeism in days	26	*	-	81
404-1	Training hours per participant as an average (Hours)	13	4	245	11
404-3	Employee performance appraisal as a percentage of total workforce (%)	71	72	-1	64
103-2	Employee grievances reported and resolved (Number)	-	-	-	-
201-3	Employee benefit liability (Rs. '000)	272,003	322,501	-16	254,385
406-1, 408-1, 409-1, 103-2	Human rights violation	-	-	-	-
Intellect					
	Brand Expenditure (Rs. Million)	167	155	7	114
	Market Share (%)	3.01	2.9	-	2.90
Infrastructure					
201-1	Number of new business locations launched	3	-	100	-
	Investment on IT (Invested/ To be invested in Rs. Million)	> 40	> 50	-20	> 45
	Investment in fixed assets (Rs. Million)	519	108	381	58
Nature					
302-1	Electricity consumption (kWh)	1,293,628	1,266,820	2	1,443,926
	Electricity consumption in value (Rs. '000)	35,617	33,008	8	37,736
302-1	Total fuel usage (Litres)	588,324	728,245	-19	907,174
	Fuel Costs (Rs. '000)	106,742	84,501	26	94,424
303-1	Water consumption (Units)	11,587	11,394	2	12,487
	Water consumption in Value (Rs. '000)	3,197	3,068	4	3,433
306-2	Paper recycling (Kg)	995	398	150	2,579
307-1	Significant environmental fines (Rs. '000)	-	-	-	-
	Environment protection expenditure (Rs. '000)	943	711	33	442

* Last year data was not reported due to the limitations in collecting accurate data due to the precautionary measures taken within COVID-19 outbreak

Stakeholder Impact Made;

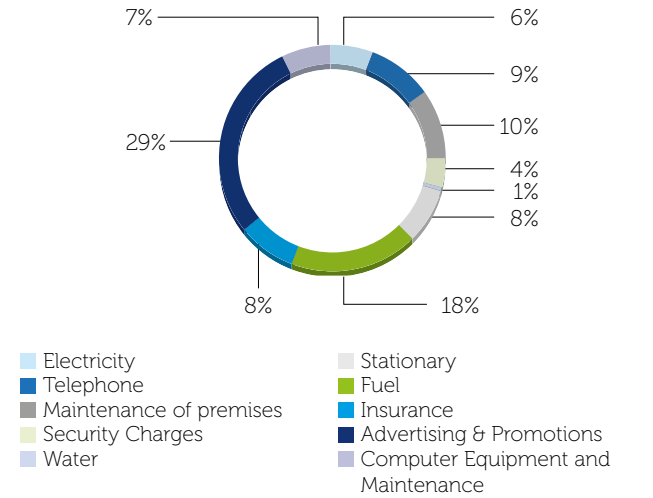
INVESTORS

Investor Return



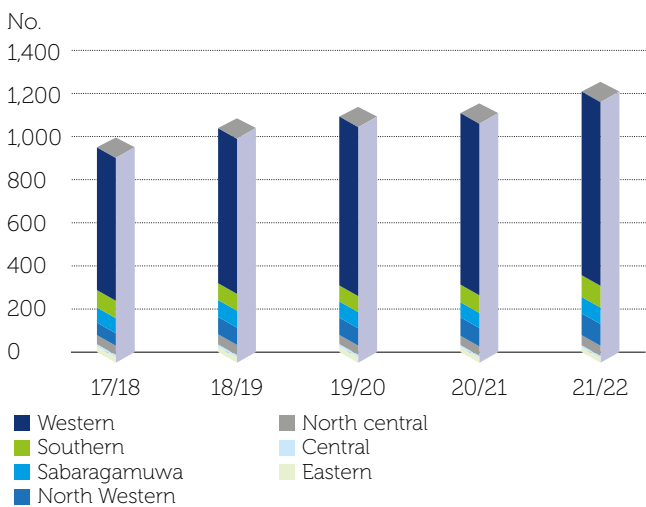
CLIENTS

Spending on Suppliers



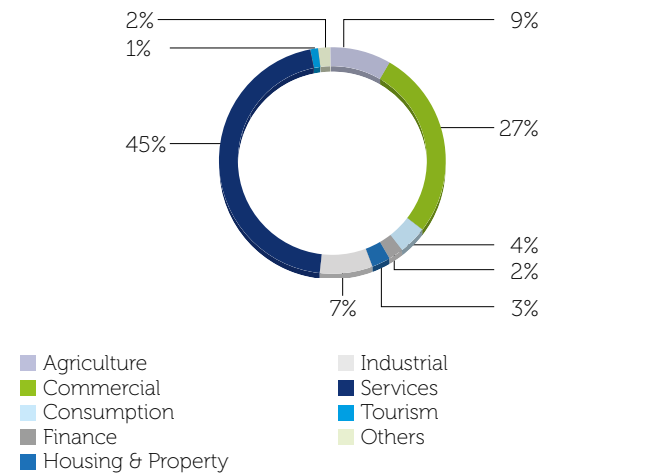
STAFF

Employment Creation



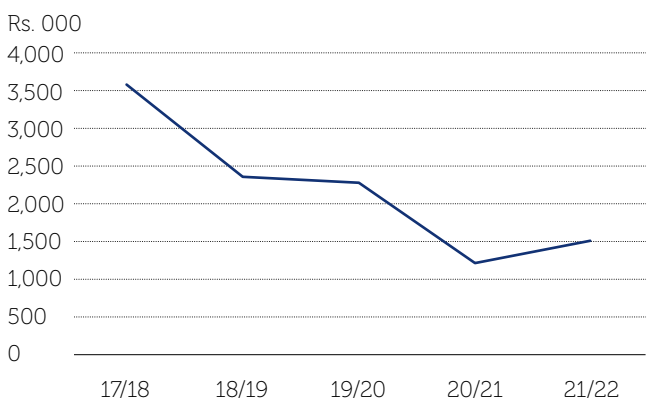
ECONOMY

Credit support to various sectors



SOCIETY

Community Investment



NATURE

Energy Usage - 1,293,628 kWh

FY 2021/22 YoY 2% ↑

Water Usage - 11,587 m³

FY 2021/22 YoY 2% ↑

Milestones for the Year under Review



July 2021

Branch openings at Elpitiya

August 2021

Interim Dividend Declaration to investors - Rs. 65 per share

November 2021

Rolled out "Le Rave-Gear Up" youth development program for staff, adding a new non-conventional learning initiative to MI's learning calendar.



October 2021



⦿ Launching of ATM services in collaboration with Hatton National Bank PLC



⦿ Relocated Moratuwa branch with a truly scalable lean workstation approach.

December 2021 – January 2022

Expanded the Gold Loan operations across key MI regional hubs including Head Office.



February 2022

Launched the first phase of the IT system migration to acquire state-of-the-art technology based information systems to assist business operations with Scierter Technologies (Pvt) Ltd and IT consultants, Millennium IT ESP.

March 2022

Branch openings at Giriulla and Kesbewa.



March 2022

- ⦿ Posting highest in history over Rs. 1 Billion post-tax profit
- ⦿ Declaring a Second Interim Dividend as the Final Dividend - Rs. 50 per share

Message from the Chairman

"I'm extremely delighted to proclaim our stability and resilience during an unprecedented year of challenges to record a commendable post tax profit of Rs. 1.01 Bn, the highest-ever recorded in our legacy, with 64.7% profitability growth and 12.6% growth in our asset base."



Dear Stakeholders,

In the year under review, despite steering through unprecedented challenges, economic turmoil and hardship, we recorded commendable results, harnessing the collective strength of our people, deploying an effective strategy to stay competitive and broad-basing our potential in the years ahead. I'm extremely delighted to proclaim our stability and resilience during an unprecedented year of challenges to record commendable post tax profit of Rs. 1.01 Billion, the highest-ever recorded in our legacy, with 64.7% profitability growth and 12.6% growth in our asset base.

We stepped into the year with several disruptions to our operations due to the enhanced number of COVID-19 positive cases reported after the Sinhala and Tamil New Year and associated lockdowns during the second quarter of the financial year. Several challenges followed, given the socioeconomic effects of the pandemic, including shortages of fuel and essential goods, rapid depreciation of the local currency, the rising cost of borrowing, import restrictions, and the downgrading of country's credit ratings by international rating agencies.

Moreover, with over 20% inflation, YOY escalation adversely affected industry growth, with it having to absorb the cascading effects of other depleted industries. Amidst adversities, we used this challenging period to discover the vigour of our staff and to enhance our core competencies while improving productivity to realise our aspirations and targets by the year-end. Our well-planned strategies, timely executions, and the commitment and dedication of my team towards established goals provided the needed momentum and optimism throughout the year, enabling us to reach greater heights in our successful journey. With ambitious targets set out, we expanded MI's branch network to 42 branches whilst enhancing the customer experience by broad-basing digital channels, and improving work processes towards of operational efficiency.

I am extremely delighted and appreciate the efforts of the Board and Corporate Management in setting up the most appropriate working environment for our workforce to thrive, despite the adversity stemming from the pandemic. Though we resorted to work from home and incorporated other work strategies during restrictions, the initiatives to steer the Company towards ultimate targets and quality standards were phenomenal. We reached the end of the financial year with a visible enhancement of staff productivity, skills and competencies, which drove revenue, profits and asset quality in the right trajectory.

Volatile Operating Environment

Efforts to contain the COVID-19 pandemic continued to have a profound impact on economies across the globe in 2021 and even in 2022. Undoubtedly, this year had been the most challenging year for the Sri Lankan economy, when considering the post-war history. Though the economy started to rebound in 2021, with improved business and investor sentiments gained through the successful vaccination drive, macroeconomic challenges stemming from the shortage of foreign currency disrupted the economic revival in 2022, creating significant uncertainties in the supply chain, production and consumption. Apart from the cascading effect of the rapid depletion of foreign currency reserves, the country continue to face severe macroeconomic challenges due to external shocks stemming from post-pandemic issues and increased fuel prices and hikes in inflation heightened by the Ukraine-Russia war. In the backdrop of these negative headwinds, real economic growth curtailed to 3.7% as Sri Lanka battled its worst economic conditions in decades.

Though interest rates stood at single digit levels for most part of the year, the tightening of monetary policy by the Central Bank in the latter part of the year saw interest rates rapidly rise by over 3% YOY, curtailing lending growth. Furthermore, enhanced budget deficit and contracted foreign currency inflow pushed the Government to increase yields on Government securities. Similarly, upward adjustments in deposit rates and reprising of borrowings

affected corporate cost of funds, especially during the latter part of the year, elevating the pressure on interest margins. The tendency of investors to deposit short-term deposits and availability of high yield alternative investments resulted in widening of the existing maturity gaps, creating liquidity issues in the market.

The Non-Bank Financial Institution (NBFI) sector demonstrated resilience with moderate performance, recording a marginal asset growth of 6.1% and 4.6% growth in deposits. However, extended vehicle import restriction caused an upsurge in second-hand vehicle prices, creating uncertainties on asset quality for the sector. Nevertheless, NBFI sector remained resilient, maintaining asset quality, liquidity and capital strength, while recording 307% commendable profitability growth, compared to the 6.1% decline recorded for the previous year.

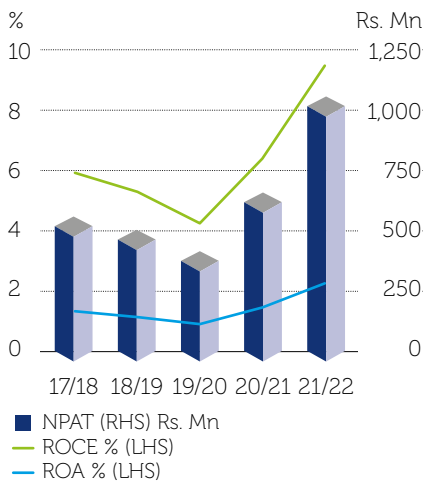
Financial Results

With the focus on the drivers of value creation and leveraging our strategic foundations, core competencies and capitalising on market opportunities, we were able to record a momentous pre- and post-tax profit of Rs. 1.47 billion and Rs. 1.01 billion, reflecting outstanding 77.5% and 64.7% Year-on-Year growth, which exceeded expectations set at the beginning of the year. Bolstered by higher post-tax profit, the Return on average Shareholder's Equity (ROE) and Return on average Assets (ROA) both showed a commendable improvement in 2022, increasing from 6.39% to 9.51% and 1.45% to 2.28% respectively, upholding our stakeholders' trust and confidence even during a daunting year.

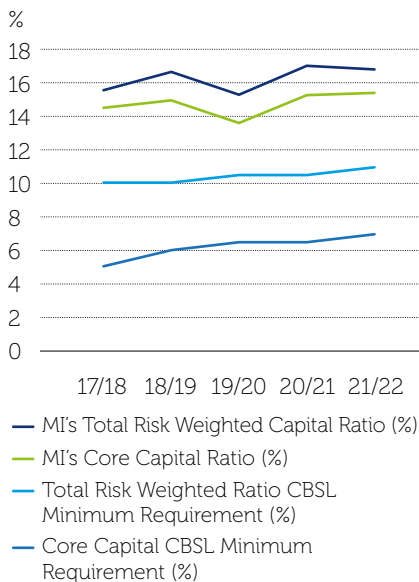
This performance was further amplified by the solid liquidity position we maintained throughout and a higher regulatory provision cover than most peers, reflecting our attention to basics and resilience. Furthermore, as an "A" grade LFC, our striking profitability growth assisted in further solidifying our strong capital adequacy position within the industry, with the enhanced core capital ratio of 15.45% and a total risk weighted capital adequacy ratio of 16.84% reported by March 2022, well above the regulatory 7% and 11% respective minimum limits set.

Message from the Chairman

Earning Performance



Capital Adequacy Position



It is encouraging to note that the MI team continued to perform steadily during the 12 months of the year, which enabled us to record 16.7% growth in our net loan portfolio, surpassing the industry average growth of 9.9% recorded in December 2021. Despite the macroeconomic challenges, I'm pleased to report that we were able to record an impressive 14.09% growth in our deposit base too, which increased to Rs. 26.3 billion at the end of the financial year. Although interest income reflected marginal YOY growth of 7.8% with the low interest regime that prevailed during a significant part of the year, we were able to record 36.7% commendable growth in our net interest income by leveraging on the reprising gains with a 19.7% drop enjoyed in interest expenses. A 102% growth was

also recorded 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, during first three quarters of the financial year. Given the above performance, the Board was pleased to declare dividends totaling Rs. 345.7 million for the year, upholding shareholder trust and confidence in our growth trajectory.

Although the prevailing macroeconomic conditions adversely affected borrower repayment capacity across the finance industry, our staunch recovery strategies coupled with stringent credit risk management controls enabled us to commendably reduce the 180-day Non-Performing Loans (NPLs) to single digit levels at 8.54% compared to 14.13% in 2021, while significantly controlling the 90-day NPL from 16.29% to 9.83%, as at the balance sheet date. The improved collection and recovery of long outstanding dues, coupled with extended moratorium reliefs, endowed us to make impairment reversal totalling to Rs. 147.7 million, indicating a notable 450.5% reduction Year-on-Year. Nevertheless, through past provisioning we ensured that a satisfactory regulatory provision cover was maintained at 64.3%, in order to face any unprecedented challenges, reflecting our attention to basics and resilience.

To manage during this unprecedented period, we continued to deploy cost optimisation strategies to curtail our overhead cost escalation. However, in recognition of outstanding commitment and dedication displayed by the top performers towards these commendable results, the Company rewarded its employees monetarily and extended career advancement opportunities and special recognitions to sustain the needed motivation and morale during these stress filled period. Apart from the personnel costs increase of 36.2% that prevailed due to these efforts, the expansion of branches, products, and operational volumes, together with the elevated inflation and a 3% increase in VAT on Financial Services, led to a 35.9% Year-on-Year escalation in total overheads.

A Strategic Blueprint to Unleash Our Growth Potential

Responding and adapting to the dynamics presented by the COVID-19 outbreak and leveraging the learning of the previous year, we made tremendous progress in reorienting our business

rudiments, towards which we took actions via multiple facets.

While our strategic imperatives were aimed towards driving customer centricity, we anchored deploying forward-focused business strategies and expedited digital transformation initiatives to stay ahead of the competition, enhancing both customer and employee experience and convenience. During the year, we broad-based our digital channels, expanding our reach and brand image, and continued to transform the way in which we work, automating more of our operations and implementing other process improvements to enhance speed and efficiency.

As we expanded our branch reach, we extended our integrated financial solutions island-wide, launched our first gold loan operation at the Kotahena branch, and went on to expand the gold loan operation across our branch network, expanding our product mix to our existing clientele and others. These efforts, coupled with our service excellence, enabled us to secure our market share despite the intense competition in the LFC sector.

While upgrading our physical and digital infrastructure, we focused on creating an agile, unique, and inclusive employee culture that encouraged employees to bring their best, despite the unprecedented challenges. In the journey of transforming our purpose into action and delivering what we promised to stakeholders, we recognise the commitment extended by our employees amidst many challenges to their health and routine life. We perceived the contribution made by the workforce in our value creation process and invested in uplifting staff potential through various training and development activities.

Towards A Sustainable and Inclusive Tomorrow

Our aspiration of building a sustainable society, especially through financial empowerment, was amplified through our targeted efforts to the micro community and adversely-affected borrowers during the on-going pandemic and economic turmoil. I am pleased to place on record that 11,020 individuals and cooperates were supported through the regulator-driven moratorium incentives in FY 2021/22.

This year we were forced to limit Corporate Social Responsibility initiatives due to the COVID-19 pandemic challenges. However, adhering to the new normal and other limitations, we sponsored and conducted several community assistance programs and environmental protection initiatives to fulfil broader sustainable aspirations. Through the micro financing arm, we partnered to intensify entrepreneurial skills of low income earners to make their livelihoods and family living standards better. We supported communities financially staying true to our tagline 'Maga Kiyana Mithura'.

Governance beyond Compliance

Valuing governance beyond mere compliance, the MI Board backed a strong governance structure driven by sound rules and regulations. Considering the evolving risk due to high volatility and depleted economic conditions, the Board through its subcommittees enforced strong risk management practices and prudent controls that included predefined risk appetite limits and early warning and feedback mechanisms. Through regular meetings and corporate management forums, staunch strategy review and revamping was put to action, which manoeuvred the Company towards greater revenue and lower costs and moreover protected MI from undue losses. MI's Risk Management unit continued to analyse, interpret and forecast emerging risks and escalating key risks concerns to the Board level as needed. MI Board's commitment to good governance extends beyond compliance with key regulatory corporate governance standards as we voluntarily adopt CA Sri Lanka's Corporate Governance recommended best practices.

Future Outlook

While the successful vaccination drive has renewed hope for a speedy economic revival along with profound recovery of tourism activities, on the contrary the Sri Lanka economy is bound to continue to face severe macroeconomic challenges, stemming from the shortage of foreign currency reserves. The true repercussions of the economic catastrophe that unfolded since 2022, is bound to linger until there is political stability and international support and until then the business community must be wary of the headwinds ahead.

We anticipate inflationary pressure to elevate in the forthcoming year, with the floating exchange rate and shortages in supply chain. With the rising interest rates and expected deterioration in borrower repayment capacity, the NBF sector will continue to face challenges in immediate future with exerted pressure on credit growth, net interest margins, and asset quality. Several industries will continue to suffer, if the prevailing economic conditions remain in the next year and a considerable impact will also cascade downward to the financial sector too. With the proposed unwinding of moratorium granted thus far, we could expect the industry to absorb certain level of financial impact, especially to extend additional relief to borrowers to overcome further tough times ahead.

However we are optimistic that the country will successfully overcome the inevitable stresses once exports pick up with tourism getting into top gear. A large part of MI's future strategies will focus on maintaining the status quo while being proactive to arrest economic shocks to minimise the negative impact on business operations. We hope to pursue our cost optimisation programmes, risk evaluations, and business expansion activities, while focusing our digitisation drive to enhance productivity and maintain needed competitive edge.

Despite battling against economic adversity and being compelled to conduct operations under extreme uncertainty, MI's brand image and financial standing and moreover the intelligence it possesses will be key in remaining resilient, agile and robust in the years to come. We have overcome many challenges so far and we are immensely confident that we can do the same in the future as well.

Appreciations

As the Acting Chairman for the second year, I extend my gratitude to my Board colleagues, who remained a source of strength, especially amidst unprecedented challenges and volatile times for the finance industry as a whole. The unwavering commitment and dedication displayed by every staff member was indeed a great strength in steering MI through various headwinds and was the driving force behind the tremendous progress made towards all our stakeholders.

While acknowledging the Director Board's expertise, dedication and continued guidance given during these challenging times, in driving towards MI's visionary aspirations, I thank Mr. Gerard Ondaatjie, the Managing Director for the leadership given, and the Corporate Management for their relentless efforts and commitment, enabling the Company to record sound results even in extraordinarily trying conditions.

I would also like to devote a moment to recognise and honour our late Founder Chairman, Deshabandu George Lawrence Ondaatjie for his unmatched efforts in creating and bring forth MI as a renowned financial institution in the country. As we commemorate his efforts, I must mention that his foundation is well-embedded in MI's culture and will always reflect in our vision and aspirations in the years to come.

I would also like to extend my gratitude to the Governor of the Central Bank of Sri Lanka and his staff for their extended support and cooperation during the onsite review and also offsite surveillance and regulatory communiqués. I also take this opportunity to express my heartfelt gratitude to all our valued customers for the loyalty displayed and the faith you kept in us during this pandemic. I would also like to extend my appreciation to all our business partners and agents who maintained trusted and professional relationships with our organisation. Last but not least, I thank all our shareholders and other investors for their unwavering confidence and trust towards the Board of Directors and team of MI.

Finally, as we move forward together, I would like to reaffirm that the Board and I will stay focused and resilient in the face of any challenge and will extend our utmost efforts to ensure future success, meeting your expectations as investors and stakeholders of this premier institution.



Dinuka Perera
Acting Chairman
26th May 2022

Managing Director's Review

➤ GRI 102-14



"Amidst complex and challenging business conditions, we displayed steadfast resilience, leveraging on our strategic foresights and culture of dynamism, agility, and responsiveness, to successfully navigate external headwinds. Our unwavering strength and buoyance enabled us to in fact ameliorate and outstrip stakeholder expectations, delivering monumental growth in profitability and capital growth, with sustained stability and value creation to all our stakeholders."

Amidst complex and challenging business conditions, we displayed steadfast resilience, leveraging on our strategic foresights and culture of dynamism, agility, and responsiveness, to successfully navigate external headwinds. Our unwavering strength and buoyance enabled us to in fact ameliorate and outstrip stakeholder expectations, delivering monumental growth in profitability and capital growth, with sustained stability and value creation to all our stakeholders.

Unprecedented Economic Turbulence

The outbreak of the COVID-19 pandemic lurched the global economy into unprecedented challenges, bestowing organisations, communities and governments with multifaceted problems and hardships. Though the successful vaccination drive brought the pandemic to a controllable level, global economic recovery weakened due to the spread of different variants. The economic recovery continues to be hindered by the supply chain disruptions and geopolitical tensions in Eastern Europe heightened by Ukraine-Russia war. Moreover, global inflation is expected to remain high and persistent due to elevated energy prices and continuing supply chain disruptions, prompting stronger monetary policy responses by Central Banks globally. Despite these significant disparities across countries, moderate growth of 6.1% is expected in global economic recovery for 2022, as predicted in the World Economic Outlook (WEO) of the International Monetary Fund (IMF),

These undesirable developments that unfolded globally cascaded to the domestic front, as Sri Lanka faced yet another year of volatility and uncertainty, disrupting the operating landscape of the economy. However, with the successful implementation of the vaccination drive, relaxed mobility restrictions, and accommodative monetary policy support, it was encouraging that business activity largely reverted to pre-pandemic levels by the end of 2021, with the renewed hope of tourism sector revival.

However, the daunting macro-economic challenges stemming from the rapid depletion of foreign currency reserves and tightening of monetary policy by the Central Bank led to a gradual increase in interest rates and spiraling rupee exchange devaluation. High inflation and demand for positive real interest rates along with tightened monetary policy caused yields on Government securities to increase to double-digit levels, reflecting the market conditions in view of the higher financing requirements of the Government. Moreover, economic activities were adversely affected by the emerging catastrophes on the global front in terms of supply chain disruptions and significant rise in commodity prices, as well as unprecedented shortages in power and supply interruptions of fuel and gas stemming from fourth quarter foreign exchange shortages.

These adversities led the National Consumer Price Index (NCPI) to hit double digits, increasing to 21.5% by March 2022, the highest ever recorded. Interest rates also trended upwards with the Standing Deposit Facility Rate and Standing Lending Facility Rate, which had stood at 4.50 % and 5.50%, respectively, at the beginning of the financial year, rising to 6.50% and 7.50% respectively by March 2022.

The upheavals during the year, despite the challenges they posed, also presented many opportunities to reimagine and reinvent business processes, pushing corporates to enhance productivity and convenience. We witnessed an accelerated focus on remote working and innovation in digital solutions, resulting in fast-paced changes that would otherwise have taken many years to realise.

NBFI Sector's Resilience

In spite of the heightened uncertainties and volatile economic conditions, the NBFI sector remained commendably resilient, enhancing its profitability, asset quality, and capital strength. Though the credit growth and asset quality was adversely impacted during the 2nd quarter amidst continued travel restrictions, with the pandemic outbreak reaching its peak due to the Delta variant, NBFI sector growth rebounded thereafter, recording 307% profitability growth, and 6.2% asset growth by December 2021. Moreover, the relaxing of restrictions coupled with extended moratoria relief enabled the industry to maintain asset quality which stood at 10.81% as against 13.9% reported in December 2020. However, with the upward adjustments of interest rates followed by the tightening monetary measures from 2022, sector growth somewhat curtailed, heightening the pressure on net interest margins. Moreover, the continued import restrictions and the resulting upsurge in vehicle market prices and inflationary effects adversely affected industry growth, creating significant uncertainties to revenue generation, cost structures, and bottom line.

MI's staunch response and progress

Despite these global uncertainties and adverse impacts with persistent economic headwinds, MI manifested strong resilience, demonstrating its capacity to adapt and thrive in extraordinarily challenging circumstances. By staying receptive to our stakeholder needs in difficult times and forging further ahead with the right strategy and adaptability, we were able to go beyond commercial boundaries to enrich the lives of our customers, communities, and colleagues during this tumultuous period.

Our prudent planning, futuristic thinking, and stable structures enabled us to conquer the gamut of unprecedented challenges to stay focused in our successful journey towards visionary aspirations. In line with our strategic pillars of 'Prudent Growth' and 'Operational Excellence,' we placed emphasis on controlling operational expenses, focusing more on scalable cost optimisation avenues for future efficiency.

Managing Director's Review

As we forged ahead in our relentless efforts to enhance customer value proposition, we continued to broad-base our product mix, while expanding our vibrant array of services. During the year, we expanded our gold loans operation across the branch network while differentiating our service through perceived value addition through convenience. Moreover, capitalising on the emerging markets, we expanded our branch footprint by opening three more branches in Elpitiya, Giriulla and Kesbewa, enriching our brand presence across the island. Consolidating our strong branch presence across all strategic hubs enabled us to sustain our market share despite intense market competition.

As a legendary financial partner, the depth and breadth of our businesses have allowed us to further nurture and cement our deep-rooted relationships across our stakeholders and value chains, broad-basing our socio-economic impacts to communities, inducing sustainable development to Sri Lankans.

Accelerating the Digital Journey

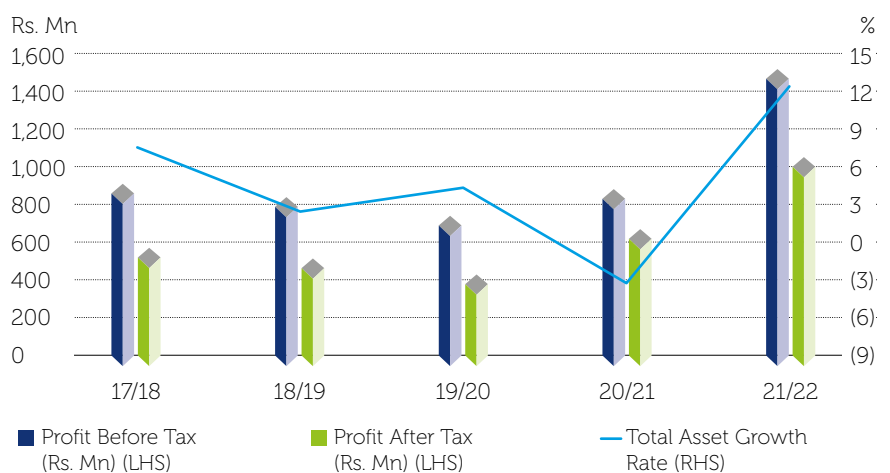
As technology remained a competitive driving force in shaping customer desires and productivity in this digital age, we expedited digital transformation initiatives to stay ahead of the competition. Leveraging on the latest digital technology, we continued to deliver compelling and emotive digital propositions to hoist customer experience in the post-pandemic new normal operating environment, with greater flexibility and convenience. During the year, we broad-based payment platforms and customer access points, by successfully launching ATM services through Hatton National Bank collaboration and also investing in Common Electronic Fund Transfer Switch (CEFTS), which is ready to be launched during the first quarter of the next financial year, augmenting our digital capability beyond Payment Gateway facilities, which was introduced in 2021. Moreover, our fully-fledged Call Centre operations facilitated convenient customer service while expediting our recoveries and broad-basing customer intelligence.

We also introduced several automated processes focused on building robust back-end digital process improvements to enhance productivity and customer experience. I am confident that this on-going digital drive will play a key role in fuelling our growth prospects that will be embraced by our customers considering the evolving environment and "new normal" conditions.

Robust Financial Results

In a year rife with extraordinary challenges, we steered through right strategy backed by relentless focus and commitment to record a commendable pre- and post-tax profit of Rs. 1.47 billion and Rs. 1.01 billion respectively, the highest ever recorded in our history, reflecting a 77.5% and 64.7% year-on-year growth respectively. Whilst demonstrating record breaking profitability levels, we maintained solid liquidity and capital adequacy positions across the three pandemic calendar years, showcasing our strong resilience.

Profitability and Asset Growth



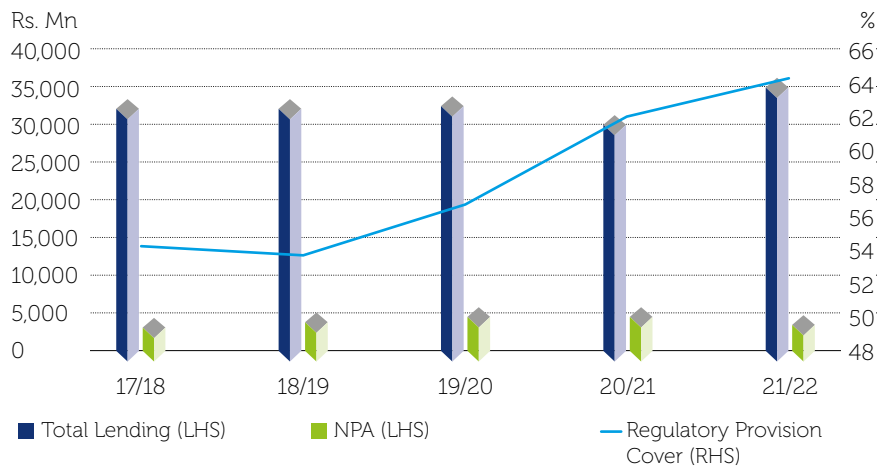
It was highly commendable of the MI team to stay the course unwaveringly throughout the year in bolstering business, enabling us to record an impressive 16.7% growth in MI's net loan portfolio, despite the negative headwinds of the pandemic. I'm pleased to also record commendable 14.3% growth in our deposit base, which facilitated constant flow of funding to drive lending targets. These combined efforts endowed us to record a handsome 12.6% growth in our asset base, beyond the industry growth of 6.1%, recorded in December 2021.

Though interest income reflected a marginal growth of 7.8%, with the low interest regime that prevailed over a significant part of the year, interest expense significantly declined by 19.7% as we proactively managed our cost of funding. Thus, we were able to record a commendable growth of 36.7% in Net Interest Income, leveraging on the reprising gains. We also maintained a 10.86% healthy Net Interest Margin, which stayed above the industry average of 8.6% recorded in December 2021.

As a dynamic organisation, we continued to explore potential opportunities and reaped the benefits from the increase in stock market indices, which enabled us to record Rs. 145.86 million as fair value and trading gains recorded through Fair Value through Profit or Loss (FVPL), enhancing MI's Non-Fund-based income by 64.9%. Similarly, we were able to record Rs. 264.46 million as realised share trading gains from the shares recorded under Other Comprehensive Income (OCI), while the last quarter dip in share prices arising from the on-going foreign exchange crisis led depletion in sentiments resulted in fair value losses amounting to Rs 363.63 million accounted in the OCI statement.

Though the prevailing macro-economic conditions had a profound impact on the deterioration of borrower repayment capacity, our stringent credit risk management controls coupled with our staunch recovery strategy enabled us to commendably reduce the 180-day NPLs to single digit levels at 8.54%, compared to 14.09% recorded in 2021. Through our concerted efforts on proactive risk management, we were able to reduce 90-day NPL significantly, from 16.29% to 9.83%, as at the balance sheet date. These achievements, coupled with extended moratoria relief, enabled us to make impairment reversals totalling to Rs. 1477 million, indicating a notable 450.5% reduction year-on-year. Nevertheless, we assured our stability and resilience for unprecedented shocks by maintaining a sound regulatory provision cover of 64.3% by March 2022, compared to 61.99% recorded for the previous year.

Asset Quality and Regulatory Provision Cover



Despite our unwavering efforts to keep costs minimal, continuously focusing on cost optimisation, total overheads increased by 35.9% in the backdrop of hiking inflation, expansion of our branch footprint, digital infrastructure, and increase in VAT on financial services by 3% which was effective from 1st January 2022. Nevertheless, we paid special emphasis on employee welfare and motivation during these trying times, rewarding and also recognising their commitment and dedication, through monetary rewards, career advancement and development opportunities.

Synopsis of Core Business Performance

Lending

Despite the pandemic-related disruptions curtailing lending growth during the first half of the financial year, our focused and customer-centric strategic drives enabled the Company to record impressive growth of 16.7% in its loan book, amplifying loans and advances (net) to Rs. 34.7 billion, as against 9.2% contraction recorded for the previous year. This growth is mainly attributable to the growth in Lease and Auto Draft products which increased by 28.9% and 276% to Rs. 19.2 billion and Rs. 4.8 billion respectively.

In the backdrop of the upward trajectory in interest rates and the curtailed market liquidity, we placed special emphasis on promoting shorter-term products, with the aim of improving our Net Interest Margin (NIM) and liquidity. With the extended import restrictions and the prevailing macro-economic challenges, we continued to deploy strategies to bolster lending volumes by expanding Gold Loans and Auto Loans across our branch network, to meet the urgent financing needs of our customers.

Deposit Mobilisation

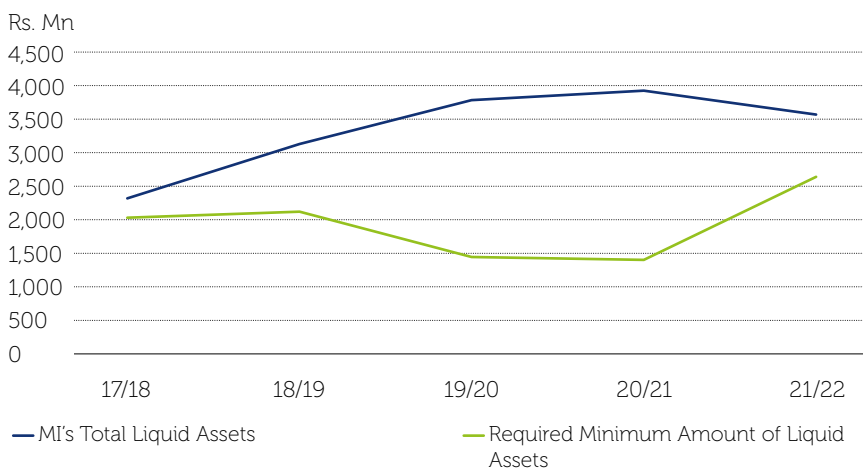
Mobilisation of deposits became a challenging proposition in the backdrop of volatile investor sentiments during lockdown times and the availability of other alternative investment options. Nevertheless, through a focused marketing drive coupled with personalised customer service, we mobilised deposits optimally and increased the base to Rs. 26.3 billion, with a commendable growth of 14.3% compared to 1% marginal growth recorded for the previous year.

Managing Director's Review

Treasury Management

Amid the tightening of monetary policy measures and the upward trajectory in interest rates, we continued to prioritise effective fund management, focusing on minimising our funding costs and managing the liquidity position efficiently. MI's Treasury played a vital role in optimising funding cost and managing net interest margins despite highly-volatile market conditions. As witnessed across the industry, the investor short-term focus widened the one-year maturity mismatch moderately at the end of the financial year, with the expansion of our lending portfolio, but by mobilising longer term borrowing totalling to Rs. 6.3 billion and Rs. 1.7 billion of unutilised funding lines, we were able to sustain sound liquidity levels throughout the financial year, balancing the short-term and long-term funding needs of the Company optimally.

Total Liquid Assets



Insurance Referrals

As we forged ahead with 'one store service' concept, we facilitated our credit clientele's insurance requests under one roof, through our insurance brokering arm housed in the same premises in Kollupitiya. While our ability to generate insurance fee-based income too was impacted by the macroeconomic challenges, we yet recorded an insurance commission totalling to Rs. 675 million for the year, while optimising customer value proposition through enhanced convenience and satisfaction.

Nurturing a Winning Team

Our people and culture have remained as the bedrock of our success journey and will continue to be our topmost competitive advantage. I am extremely inspired by the character and capacity of MI team, reflected by their ability to cope and adapt to unique challenges presented by the pandemic. We continued to work towards creating an inclusive, engaged, conducive, agile, and high performance culture, an environment in which we all can thrive and bring their best to drive our strategic goals. While we embedded our vision, mission, and purpose in our employee mindset, our value-driven performance management system created the needed environment and culture to drive our talented team towards challenging goals and objectives. I am pleased to place on record the strides made this year to build core competencies, skills, and attitudes of our employees through a gamut of focused training and development initiatives, nurturing our inbuilt intellectual capital. Through 9% growth in staff strength that stood at 1210, we recruited further talent to influence young energetic individuals to needed functions. Moreover, recognising the extraordinary resilience and outstanding commitment of our employees, we extended attractive returns to our talented work force by way of bonuses, increments, and promotions, while upholding our shared growth prospects. Furthermore, we adhered to all recommended COVID protocols and implemented Work from Home arrangements whenever possible to extend a continuous uninterrupted service from back office to front end, prioritising the safety of our team, while extending our support to reimburse hospital and PCR claims of our staff, reducing their burden at difficult times.

Governance Highlights

MI's robust corporate governance framework and practices were pivotal in navigating the complexities of the year amid these unprecedented challenges and evolving risks. Our corporate governance framework has been designed to safeguard stakeholder value by embedding integrity, transparency and accountability across all spheres of the organisation, adhering to several voluntary standards and industry best practices, going beyond mere compliance.

The Board embraced policy directions and guidelines issued by the regulator, which included revised Corporate Governance Direction for finance companies and a stream of regulations to a navigate through the pandemic, while pursuing positive actions to fulfil its duties and obligations during these unprecedented times. The Board continued to proactively monitor emerging developments stemming from the pandemic and macroeconomic challenges as well as industry landscapes to assess potential implications on MI's performance, stability, and risk profile. Considering the evolving risks, the MI Board through its active board sub-committees, namely the Audit Committee and Integrated Risk Management Committee, engaged extensively with the Management to strengthen the audit and control environment and effective risk management framework and tools, setting risk appetite thresholds and early warning signals. There was close supervision on risk management initiatives by closely reviewing risk management dashboards and stress testing results, while ensuring risk mitigation actions were in place. The equal effort of our new Board Non-Executive Directors in providing their expertise and guidance to both the Board and the Corporate Management during this challenging phase to formulate and implement strategies was phenomenal and invaluable in navigating through their volatile times.

Future Outlook

While the successful vaccination drive has alleviated concerns on further disruptions from the pandemic, renewing hope for economic revival, Sri Lanka is bound to continue severe macroeconomic challenges in the short-to medium-term given the country's challenged external position, affected mainly by the downgraded sovereign rating as well as significant foreign exchange limitations, escalating inflation levels, and emerging political instability and uncertainties, apart from the global headwinds stemming from the Russian-Ukraine war. The impact in shortage of fuel and other essentials combined with continued power interruptions and emergency curfew declarations will further heighten the pressure on production and consumption, hampering daily operations of businesses and activities of the general public, while deteriorating purchasing power and living standards of the community.

Whilst the tightening of monetary policy measures have resulted in upward trajectory of interest rates, the market will continue to face liquidity challenges with the increase in Government borrowings, pegging back the financial sector in terms of sustaining loan growth and enjoying anticipated core margins. In the year ahead, the NBFIs sector will also be challenged by heightened cost escalation, deterioration in borrower credit worthiness, and subdued demand, decelerating sector performance. Thus it is inevitable that the recent domestic and global developments will present even greater challenges to the corporate community in the future, highlighting the urgent need for prompt and corrective action plans. However, we are optimistic that the country will successfully overcome these imminent headwinds, uplifting stakeholder trust and confidence and anticipating speedy economic revival.

As an 'A Grade' finance company, we will leverage on the solid foundation built, core competencies accumulated, longstanding relationships, and brand image created and as one of the nation's leading and trusted finance company to offer holistic, seamless, and innovative solutions across our business verticals to optimise customer value proposition and to stay resilient amid these adversities. Having embarked on our digital journey, we are hopeful of launching other digital channels that include CEFTS and CDMA facilities during 2022 as a means of broadening our digital drive, while staying committed to the planned migration to an advanced external IT solution to bolster technological capabilities, to enhance operational efficiency, productivity, and customer convenience.

To counter the emerging pressure against deriving anticipated net interest margins, reprising effects, and short-term maturity gaps, we will be focusing more on short-term and revolving credit facilities, while mobilising branch deposits and promoting long-term deposit products. Furthermore, we will continue to focus our cost optimisation drive by upholding the scalable concept as means of building a leaner and more agile organisation to control the imminent cost escalation, which is bound to benefit us during these hyperinflationary conditions.

While reiterating our desire to enhance the value we create for our stakeholders, we believe the core strategies that we continue to practice will deliver sustainable returns and value in line with our visionary aspirations, enriching MI's stakeholder expectations.

Words of Appreciation

As we navigated through a year of continued uncertainty and hardships, we demonstrated the strength of our resilience relying on an experienced talented team that went on to record an outstanding performance, epitomising a rich legacy in our growth trajectory. I deeply appreciate the unwavering commitment and remarkable efforts of MI's leadership team and all our staff members in achieving these exceptional results, despite the multitude of challenges faced.

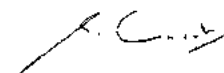
I would like to take this opportunity to place on record my appreciation to the Acting Chairman and the Board of Directors for their valuable and consistent support and insightful guidance extended in an extremely volatile year.

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 being with us during these challenging times. Your continued loyalty and unstinted support were a source of strength and inspiration for us as we strived for excellence.

I would like to extend my gratitude to all our investors for constantly placing their confidence with MI, especially during these unprecedented times. As the Managing Director, I reassure you that, despite the multifaceted challenges we face, MI is well-gearred in all aspects to meet our ambitious targets and to drive the business prudently towards into greater heights.

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. Ondaatje
Managing Director
26th May 2022

We're keeping time with innovation, ensuring our presence in the lives of our customers and stakeholders...

Westminster Bridge (Big Ben)

Big Ben is the nickname for the Great Bell of the striking clock at the north end of the Palace of Westminster in London, England, although the name is frequently extended to refer also to the clock and the clock tower.

Management Discussion and Analysis

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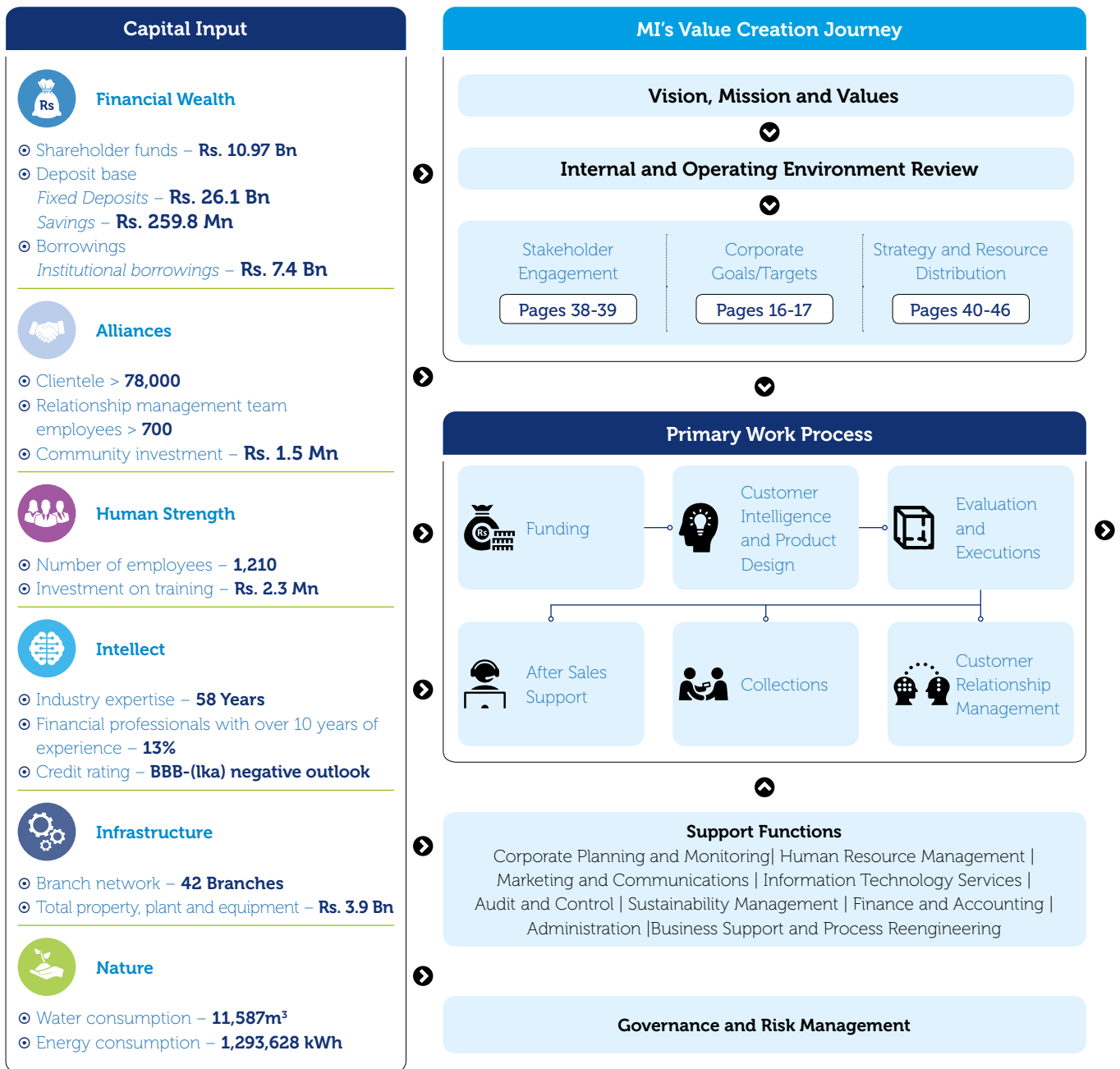
Sustainable Value Creation Process

Our Approach to Value Creation

Whilst being a resilient player in the industry, MI has adopted an integrated approach in ensuring all deployed capitals are well geared to create, enhance, and deliver stakeholder value. As a premier financial service provider, MI has expanded its branch footprint across the island, covering seven provinces and establishing trusted alliances with customers and business partners by extending its financial assistance. While experiencing the dynamism where the prospects are unforeseen, we continued to deliver promising returns to our investors, employees, and our business ecosystem as a whole. MI is always in the top layer of the industry as a solid financial service provider and also playing a pivotal role in uplifting the country's economic, social, and environmental well-being.

Sustainable Business Model adopted

GRI 102-16



Our business model embraces an integrated approach of reaching our corporate goals while being rooted in our vision, mission, purpose, and corporate strategy. Our integrated strategy and strategic process remained robust amidst unprecedented challenges with strong risk mitigation and corporate governance procedures. Our strong capital mix, which encapsulates both financial and non-financial wealth, is well reflected through our accumulated balance sheet capital, strategic and longstanding alliances, upgraded infrastructure, and high calibre competent and agile workforce, along with our brand strength and natural and social capital, optimally utilised to ensure the achievement of year-on-year sustainable business growth. The value we created as output and outcome is reflected through business results (refer Capital Management Report on page 47 to page 79) and impacts (refer Impact Management web content) which are measured, monitored, and well-managed to serve stakeholder expectations.

Output	Impacts	Capital Outcomes
<p> Lending</p> <ul style="list-style-type: none"> Lease granted – Rs. 12.85 Bn Loans and other advances granted – Rs. 15.48 Bn <hr/> <p> Deposit Mobilisation</p> <ul style="list-style-type: none"> Deposits mobilised – Rs. 10.1 Bn New deposit customers > 14,000 <hr/> <p> Investments</p> <ul style="list-style-type: none"> Investment revenue – Rs. 422.2 Mn <hr/> <p> Other Ancillary Business</p> <ul style="list-style-type: none"> No. of insurance policies referred – 40,745 Insurance commission income – Rs. 67.5 Mn Workshop revenue – Rs. 65.2 Mn 	<p>Impact on Stakeholders</p> <p> Shareholders</p> <hr/> <p> Clients</p> <hr/> <p> Staff</p> <hr/> <p> Business Partners</p> <hr/> <p> Regulators</p> <hr/> <p> Society & Environment</p> <hr/> <p></p> <p>Impact Management Report is made available in our website.</p>	<p> Financial Wealth</p> <ul style="list-style-type: none"> Net interest income – Rs. 4.17 Bn Profit after tax – Rs. 1.01 Bn Return on equity – 9.51% <hr/> <p> Alliances</p> <ul style="list-style-type: none"> New customers > 26,000 No of beneficiaries of social initiatives – 768 Customer survey score > 85% satisfied customers <hr/> <p> Human Strength</p> <ul style="list-style-type: none"> Employee training – 16,097 hours Attrition rate – 19.14% Diversity profile – 23% women:77% men Employee volunteerism – 196 hours <hr/> <p> Intellect</p> <ul style="list-style-type: none"> New policies and procedures developed and adopted Business process re-engineering including automation of existing systems <hr/> <p> Infrastructure</p> <ul style="list-style-type: none"> Investment in fixed assets – Rs. 518.91 Mn Return on physical infrastructure – 24.31% <hr/> <p> Nature</p> <ul style="list-style-type: none"> Green lending – Rs. 3.12 Bn Environmental protecting initiatives

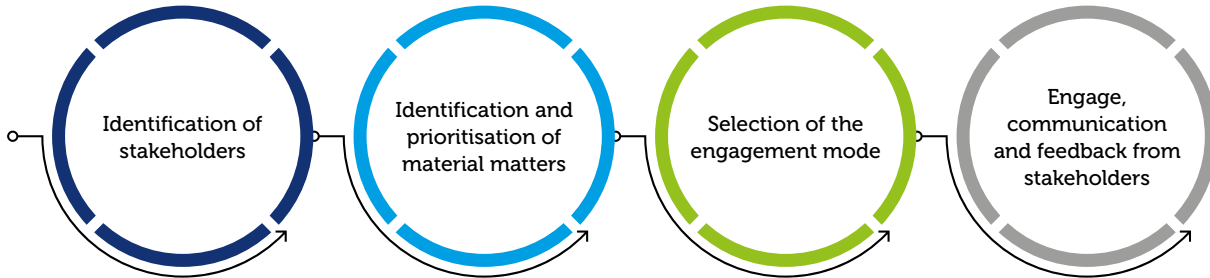
Sustainable Value Creation Process

Stakeholder Engagement

GRI 102-43, 102-44

The ultimate success of our value creation efforts is derived from the efficient and meaningful engagement of our stakeholders. Different stakeholder forums have enhanced collaboration and engagement towards strategy formulation and value creation processes. We initiate our stakeholder engagement process by mapping them into different segments and approaching them with strategies which are exclusive to each segment.

Stakeholder engagement process



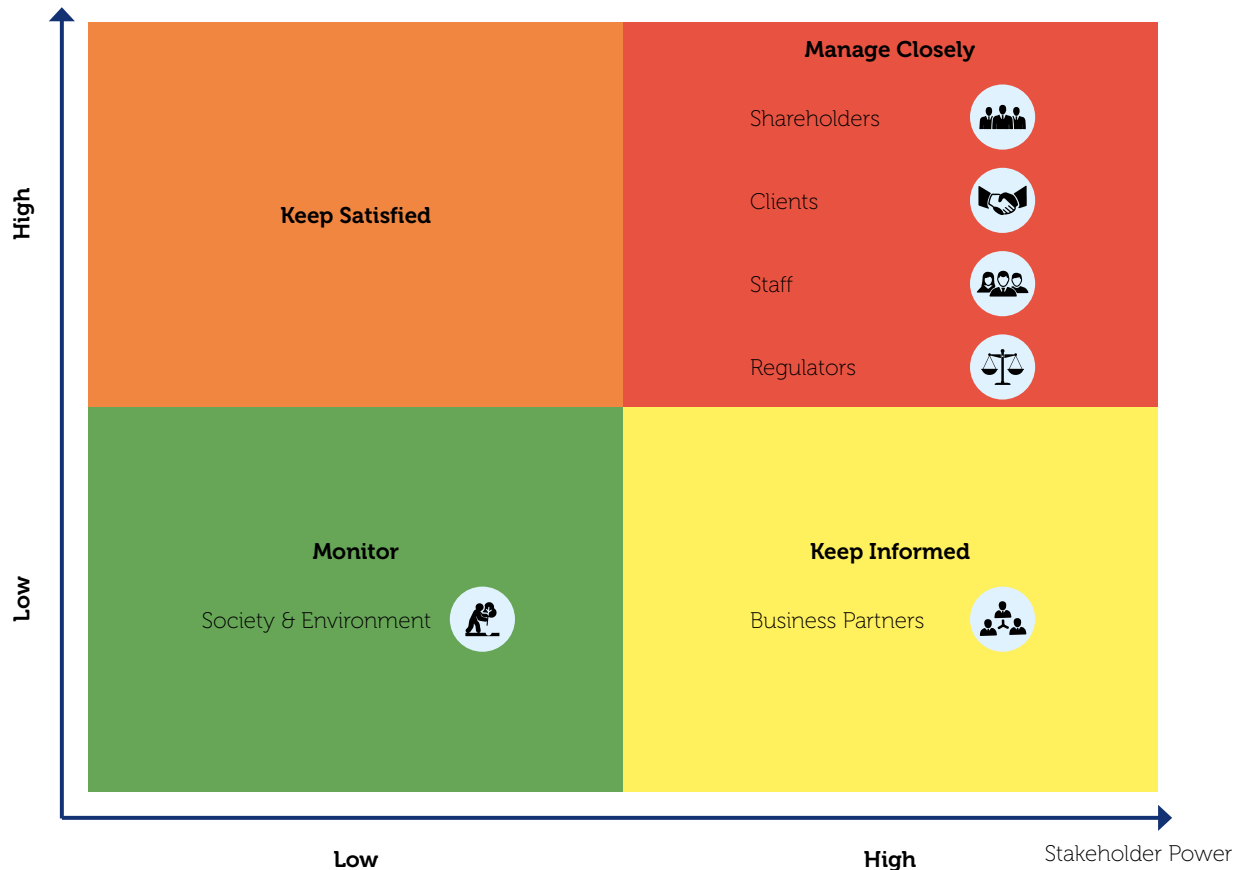
Stakeholder Management

We have streamlined stakeholder engagement and communication activities to ensure that our corporate strategies are aligned to fulfil investor expectations whilst addressing various stakeholders concerns to ultimately generate the desired mutually-beneficial outcomes.

Stakeholder Matrix

GRI 102-40, 102-42

Stakeholder Power



We deploy a focused strategy of addressing the concerns of the stakeholders who possess the highest power and influence over MI. We utilise effective communication channels to keep our stakeholders informed for those stakeholders having less power but high interest over MI. COVID-19 restrictions have made us explore unique ways to keep our relationships alive. Timely investments in digitalisation and other infrastructure have facilitated MI to develop more engagement modes to maintain consistency in collaboration and partnerships.

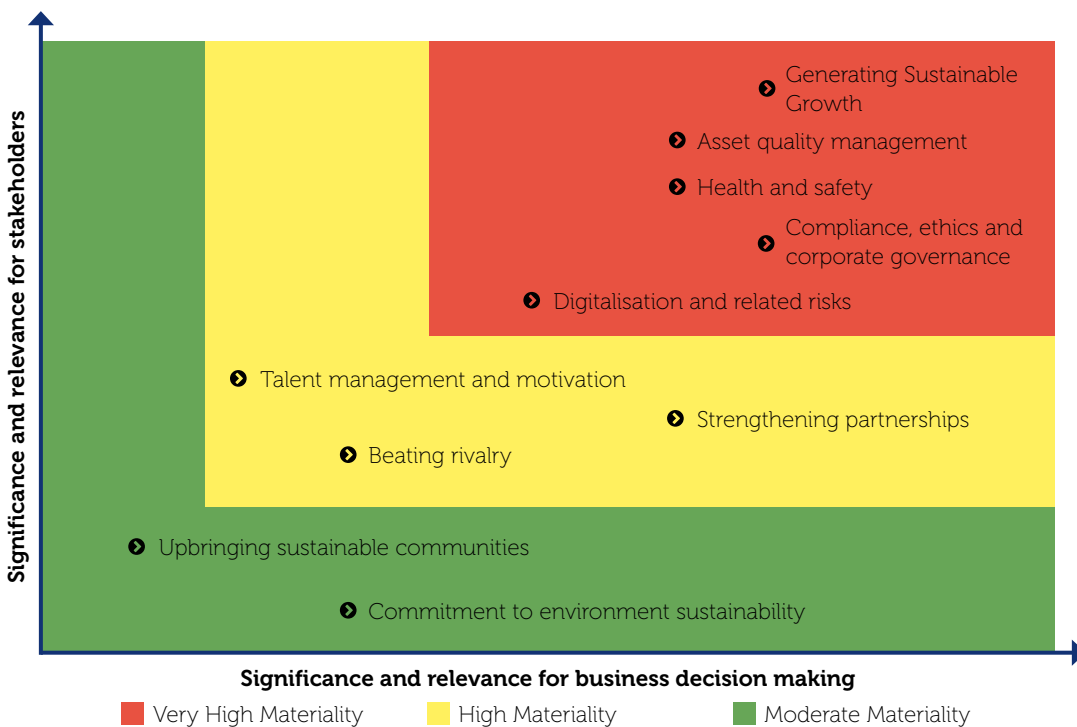
Material Concerns Management

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

Based on the feedback and concerns recognised during the stakeholder engagement process, we commenced a materiality analysis followed by factoring those concerns into the internal and external operating environment status quo. This set the background to prioritise material matters that MI needs to focus on throughout the year under review. Our business model and corporate strategies as well as our short-, medium- and long-term targets are aligned to these material concerns, as we continuously strive to maximise stakeholder expectations.

In order to line up these material concerns with the present-day operating environment, we use IIRC (International Integrated Reporting Council) GRI (Global Reporting Initiative) standards and UN SDGs (United Nations Sustainability Development Goals) as sound frameworks to better manage and disclose matters key to our stakeholders. In this process we paid attention to past as well as emerging concerns such as health and safety concerns which stemmed from the COVID-19 pandemic, cyber security, data privacy, etc., which may influence our business ecosystem and society at large.

Materiality Gauge Matrix



Detailed disclosures about Stakeholder Management are made available in the "Value Creation" web content pages 5 to 8.

Sustainable Value Creation Process

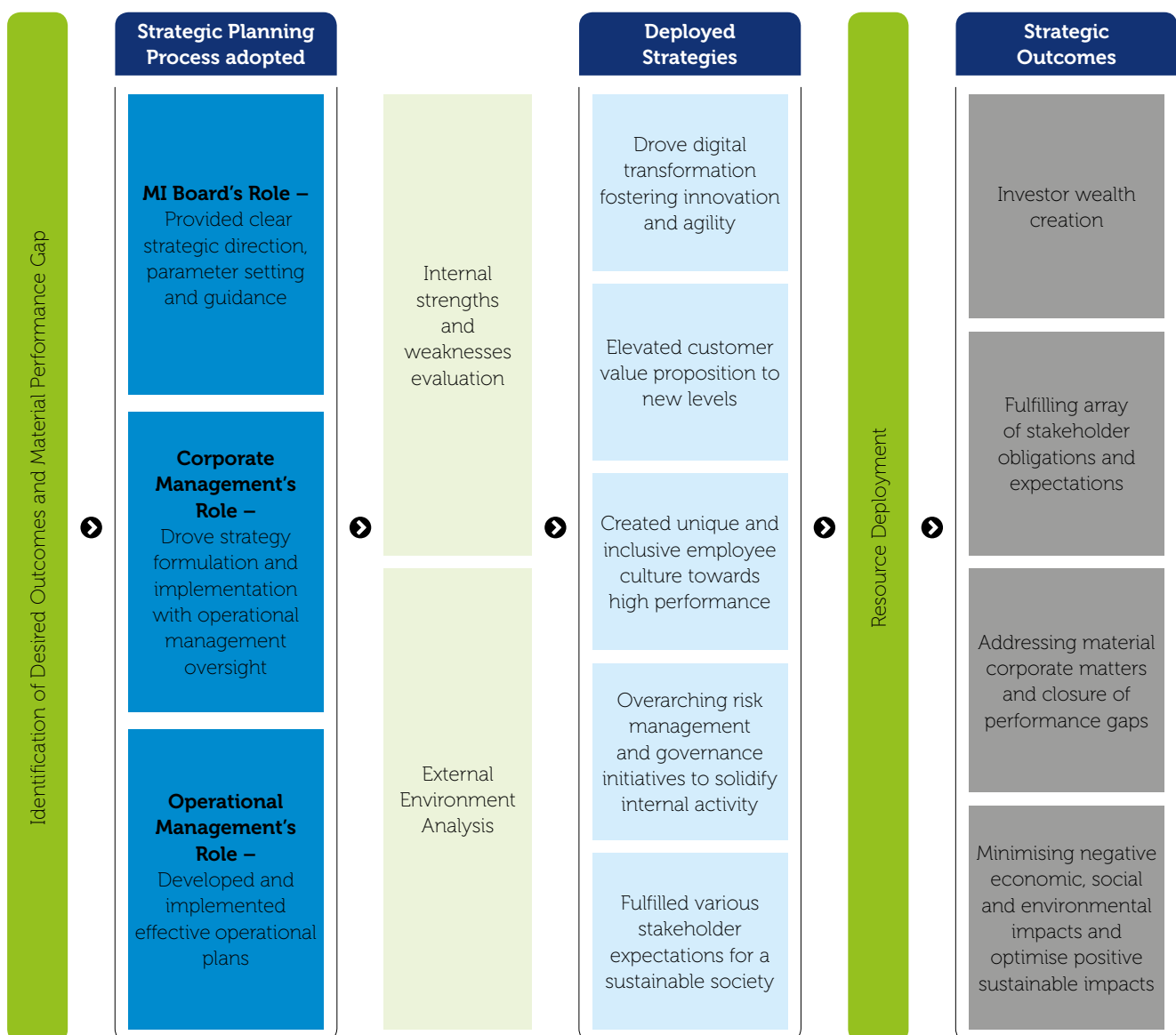
Our Strategy

At the outset, MI demonstrated strong resilience this financial year, recording sound financial results, reaffirming the strength of our business model, strategies we pursued, and our ability to adapt with speed in the face of the global pandemic and its spill-over effects. The strategy we deployed, guided by our purpose and values, enabled us to forge ahead in our journey of transformation and value creation despite the challenges.

Our strategy is underpinned by the expectations of our stakeholders being the driving force in reaching our ultimate purpose and visionary aspirations. MI's strategy formulation initiated identifying the desired outputs and outcomes after taking cognisance of internal and external environment opportunities and threats. While exploiting the opportunities in the external environment, we allocated our resources to capitalise on our strengths, minimise our weaknesses and to combat against evolving threats. Our high-level corporate strategy is a product of our streamlined formulation process that cascades from the highest levels of leadership, senior management, middle management, and operational level employees. The company's leadership remained bold and took steps to remain competitive and counter evolving risk emerging from a COVID-depleted economy. In order to ensure the realisation of stakeholder expectations, governing principles and a strong risk management framework were also put to practice to derive envisaged short- to long-term objectives.

The outbreak of the COVID-19 pandemic has made our strategy more agile and forward focused. During the year, we prioritised our critical business activities and allocated resources to accelerate the sphere of digital transformation to raise our competitiveness and shape our future, while addressing other material matters (refer page 39). Despite having to face adversity and many business challenges, we consider this financial year as a period that manifested the resilience of our business strategy.

The strategy formulation path executed towards resilience and progress



Internal environmental review

Our strengths

Key strengths	How we leveraged
Over 1,200 skilled and committed work-force	<ul style="list-style-type: none"> Through an unparalleled service delivery, kept MI's brand close to our customer hearts, extending support despite pandemic complexity. Through a staunch motivated workforce, we utilised their talents to fulfil customer expectations, overcoming challenges and tough working environment. Created the right environment and culture to influence productive interactions towards improving service value creation. Increased productivity through effective employee engagement, training and innovative process changes. Recruitment and onboarding to bring young talents and innovation. During the year under review, we introduced 321 staff to our talent base.
A well-capitalised financially solid 'A' grade finance company with 56 years business heritage	<ul style="list-style-type: none"> Manifested strong resilience, recording robust financial returns for our investors and depositors despite the pandemic challenges, upholding trust and confidence among the stake-holders. Leveraging the company's reputation as a top-tier brand for personalised financial solutions. Enhanced negotiation power to access low cost funds and other facilities. Being a premier destination for top talent. Solid capital base enabled the company to successfully steer through in times of turmoil and unprecedented challenges.
Continuous adoption of user friendly newest technologies with versatile infra-structure	<ul style="list-style-type: none"> Expanded customer access points through broad-based digital platform, enhancing customer convenience and experience. Sustained right service channels without interruption during unprecedented encounters fulfilling obligations to expectations. Increased efficiency towards optimising processing and delivery time. Invested in prime business locations to support business expansion goals.
Solid liquidity position	<ul style="list-style-type: none"> Assured to public depositors and drove confidence in new investors and financial partners. Enhanced retail deposit base and retention levels.

Our weaknesses

Key weaknesses to eradicate	How we over came
Fixed deposit being the primary product driving the deposit base	<ul style="list-style-type: none"> Invested to bolster technology and business processes to promote savings product culminating with the ATM launch. Enhanced product features for the existing Fixed Deposit product
Short-term maturity mismatch due to the customer preference of investing in short-term fixed deposits given the uncertain economic conditions	<ul style="list-style-type: none"> Achieved a retention ratio of 84% in fixed deposits and obtained greater Rs. 3.8 Bn long-term borrowings to match with maturities of lending portfolio.
Traditional platforms in key business processes	<ul style="list-style-type: none"> Accelerated our digital journey to introduce CEFT and CDMA services, in addition to payment gateway services, mobile cash apps and deployment of fully fledged Call Centre for recoveries. Collaborated with IT experts and IT systems solution providers to bring new system upgrades to enhance user experience.

Sustainable Value Creation Process

External Environment Review

PESTEEL Analysis

Factor	Impact on the LFC Sector	MI's Approach
Political	<ul style="list-style-type: none"> Political instability stemming from the loss of public trust and confidence in the Government increased pressure on business, heightening future uncertainty. Increase in VAT on Financial Services from 15% to 18% with effect from 1st January 2022 adversely impacted the bottom line of LFCs. Increased pressure on Government on continued import restrictions led to a loss of revenue from unregistered vehicle financing and the significant escalation of vehicle market prices, creating uncertainty relating to a possible bubble. Continued strikes, adhoc impacts to keep essential goods and changing macro-economic policy adversely impacted economic growth. 	<ul style="list-style-type: none"> While adhering to heightened fiscal policies, MI's proactive strategic approach enabled the Company to stay resilient, with receptive strategic changes and tactical plans to achieve short- and medium-term targets.
Economic	<ul style="list-style-type: none"> Continued travel restriction pegged back economic growth during the first half of the year under review, leading to curtailed credit demand Economic slowdown, coupled with a surge in commodity prices and shortages in supply of fuel, gas, and electricity, resulted further deterioration of borrower repayment capacity, leading to industry-wide deterioration in asset quality. Downgrading of Sri Lanka's sovereign rating due to the island's fragile external liquidity position had a cascading effect on the banking and finance sector with a gradual increase in cost of funding. Tightening of monetary policy stance during the second quarter reflected in interest rate hikes pushing up cost of funding. Sharp depreciation of Sri Lankan Rupee heightened the inflationary pressure across all the industries. 	<ul style="list-style-type: none"> Despite this challenging environment, we expanded our branch network and product mix with the launch of 3 new branches and broad-basing Gold Loan operations, maintaining a sustainable business platform. Proactive recovery measures were taken by setting short-, medium- and long-term targets to reduce the 90-day arrears contracts with close monitoring and expediting effective collection strategies. Strengthened the credit risk management team to handle changing markets risk challenges. Continued the cost optimisation drive by increasing productivity through automation and skills development initiatives.
Social	<ul style="list-style-type: none"> Hyperinflationary effects combined with supply shortages have resulted in a deterioration in purchasing power and living standards of the community during the latter part of the year, leading to a decline in credit demand for vehicle financing. Changing stakeholder expectations towards sustainable and ecofriendly products and initiatives. Boundaries between personal and professional lives have contracted with the in-creasing demand for working from home arrangements. Increased awareness of mental health and wellbeing due to the consequences of the COVID-19 pandemic. Increased financial literacy has heightened the bargaining power of customers and hence increased competition. 	<ul style="list-style-type: none"> Displayed our commitment to a more sustainable and inclusive future for our stakeholders by ex-tending our shared growth strategies, while embedding strategic corporate sustainability into our business model. Despite the pandemic challenges, 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. In pandemic adversity, we yet stayed committed in extending services without disruption, expanding our digital and physical footprint to serve better, adhering to all health precautionary guidelines.

Factor	Impact on the LFC Sector	MI's Approach
Technological	<ul style="list-style-type: none"> Aggressive deployment of digital and online technology by the industry to facilitate contactless transactions including Lanka QR, CEFTS and Just Pay. Increased emphasis on capitalising on Artificial Intelligence, Robotic Process Automation (RPA) as a competitive advantage to enhance customer convenience and efficiency. Increased risk of cyber security threats with technological sophistication and increased usage of online platforms. Adoption of cloud computing as means of storage and better information security. Usage of artificial intelligence and internet of things devices to enhance accurate decision making. Increased international use of block chain technology in relation to crypto currencies gaining momentum in parallel to conventional payment methods. 	<ul style="list-style-type: none"> To stay ahead of the competition, we broad-based our payment plat-form by introducing CEFT and CDMA facilities during the year, in addition to mobile cash and IPG (Internet Payment Gateway) solutions introduced in the previous year. Further strengthened our fully-fledged Call Centre with the latest technology upgrades to expedite customer recoveries while improving our customer intelligence. Launched ATM operations enhancing customer convenience. Expanded our remote access facilities to facilitate uninterrupted service and reporting. Partnered with MIT to fetch the newest system upgrades to support our internal business processes. Automated several core business and operational functions to improve 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.
Ethical	<ul style="list-style-type: none"> Increased corporates' attention on fostering culture of ethics, right corporate values, and good governance practices across the industry. Enhanced requirement of voluntarily compliance with rules, regulations, and ethical standards. 	<ul style="list-style-type: none"> MI's operations are underpinned by its underlying corporate values, transparent actions and solid good governance initiatives and voluntarily practiced to safeguard stake-holder interests.
Environmental	<ul style="list-style-type: none"> Surging need for environment conservation business practices due to climate emergency. Tendency towards shifting to green products such as electric vehicles and renewable energy sources. Establishment of global partnerships and alliances to develop and implement strategies to protect eco systems and decarbonise the economy. Greener environment practices build customer bond and loyalty. 	<ul style="list-style-type: none"> Continued to reduce GHG emissions with the aim of becoming a carbon neutral entity in the medium term. Carried out various social activities towards environmental conservation, including beach cleaning.
Legal	<ul style="list-style-type: none"> Heightened regulatory controls over Non-Banking Financial Institutions to curb corporate failures and irregularities. Enhanced regulatory requirements towards Consolidation of Non-Bank Financial Institutions which includes gradual increase in regulatory capital needs and Capital Adequacy Ratios. New direction coming in to affect from 1st April 2022, on classification and measurement of advances demands stringent controls in monitoring and controlling of non-performing assets. With the enhanced use of e commerce, increased compliance requirements to prevent money laundering activities, risk of data breaches and digital payment fraud. 	<ul style="list-style-type: none"> Close monitoring and feedback to Board by compliance unit on company's compliance to various regulatory requirements Introduced new policies and procedures to comply with the emerging regulatory needs and best practices. Conducted special training programmes for Managerial staff on new regulations to ensure required infrastructure is in place to meet the new requirements. Improved staff awareness on money laundering activities, suspicious transactions and other risk mitigation actions to comply with FIU guidelines. Systemising the risk register to have a more advanced approach in identifying and addressing the Company's risk appetite parameters, risk mitigation activities, and control systems.



Detailed disclosures about the External Environment Review are made available in the "Value Creation" web content pages 26 to 46.

Sustainable Value Creation Process

Strategy Deployed

Overall Objectives

	Short-Term Target		Medium-Term Objective			Long-Term Goals	
	Net Interest Margin (NIM) > 8%	Cost to Income Ratio < 60%	Asset Quality (180 day NPL) < 10%	Net Profit After Tax > Rs. 1,000 Mn	Growth in Customer Base > 15%	Market Share > 3%	Growth in Asset Base > 10%
FY 2021/22	10.86%	71%	8.54%	Rs. 1,011 Mn	26%	3.01%	12.58%
Past 3 Year Average 2018/19-2020/21	9.30%	68%	11.81%	Rs. 481 Mn	Approx 5%	2.9%	1.19%

Core Strategy 1 : Drove digital transformation, fostering innovation and agility

We anchored a forward-focused business strategy and expedited digital transformation initiatives to stay ahead of the competition, while enhancing experiences across our platforms for our business partners, whilst facilitating the right tools for our employees to excel. As technology has become the driving force in shaping customer needs and productivity in this digital age, we allocated more resources to improve our digital infrastructure by broad basing our payment platforms and customer access points, while introducing innovative solutions to meet emerging customer demands and boosting our productivity level. This strategy was rooted in the principles of accessibility and agility, uplifting our ability to face the unprecedented challenges, which enabled us to successfully steer through our journey by recording remarkable 64.7% profitability growth for the year under review.

KPIs Achievement Status

	Actual FY 21/22	Planned FY 21/22	Past FY 20/21
Online solutions introduced	2	5	3
New processes automated	10	> 5	8
Planned investment in automation and digitisation	> Rs.40 million	> Rs.40 million	> Rs.30 million
Cyber security measures launched	9	> 5	9

Core Strategy 2 : Elevated Customer Value Proposition

As we forged ahead in our relentless efforts to enhance customer value proposition, we continued to broad-base our product mix, while expanding our vibrant array of services. As a dynamic corporate citizen, we continued to explore potential opportunities to expand into new areas in executing our market development strategies. During the year, we elevated our product mix by expanding our Gold Loans operations across our branch network, while introducing tailored products to serve evolving customer demands. In the voyage of placing uniqueness amongst others in the sector, we differentiated our service through our unparalleled and personalised customer service. We expanded our reach and customer experience, through the acceleration of digital platforms, broad-basing payment and receipt options, apart from expanding the branch network with the opening of Elpitiya, Kesbewa and Giriulla branches. Moreover, 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 attractive investment opportunities

KPIs Achievement Status

	Actual FY 21/22	Planned FY 21/22	Past FY 20/21
Portfolio growth			
- Lending	16.7%	> 15%	-8.7%
- Deposits	14%	> 10%	1%
Total customer base	>78,000	>65,000	>62,000
New branches opened/expansions	3	3	1
New product innovation	-	-	1

Core Strategy 3 : Created an Agile and High Performance Culture

Given the recent unprecedented challenges we faced during the past few years, including COVID-19, we sensed the need for a straightforward business strategy that can be speedily adapted to address the myriad challenges that stem from the pandemic-hit volatile operating environment. While upgrading our physical and digital infrastructure, we focused on creating an agile, unique, and inclusive employee culture that encouraged employees to work with the highest level of commitment and a positive mindset, despite the challenges. This enabled the Company to stay on track to drive its goals and objectives towards its vision. We continued to build core competencies, skills, and attitudes of our employees through a gamut of focused training and development initiative on productivity, service excellence, and cost consciousness, aimed towards sustainable growth prospects. Despite the challenging operating conditions, we steered through our value-driven performance management system, driving our employees towards a high performance culture and motivating them with rewards via a formal recognition mechanism.

KPIs Achievement Status

	Actual FY 21/22	Planned FY 21/22	Past FY 20/21
Training hours per employee	13.30 hours	> 10	4 hours
Attrition rate	19%	< 20%	20%
Profit after tax	Rs. 1,011 Mn	Rs. > 800 Mn	Rs. 614 Mn
Return on assets	2.28%	> 2%	1.45%
Cost to income ratio	71%	< 60%	72%

Core Strategy 4 : Overarching Risk Management and Governance Activities to Solidify Internal Activity

Increasing risk factors amidst the COVID-19-related volatile environment have raised our apprehensions to strengthen risk management methodologies in a more robust and proactive manner. Thus, we devised a proactive approach to counter these unprecedented challenges, whilst ensuring that MI's operations are underpinned by a solid governance and risk management framework at all times that complies strictly with governing regulations, reinforcing transparency and accountability to all our stakeholders. We maintained an all-encompassing risk matrix to identify the materiality of significant risk factors that may destructively impact to our business operations. As a result of plummeting credit quality in the industry, our credit risk appetite was changed to adopt a more stringent benchmark. Thus, credit risk management continued to be the highest priority in our risk register and recovery processes were further strengthened to arrest this increasing trend of credit risk. Our overarching governance structure was further strengthened, adhering to industry best practices and adopting of a voluntary code of conduct while ensuring business operations comply with the relevant rules and regulations of the country's legal system. Board sub-committees kept close supervision, conducting stress testing and reviews with the Executive Committee.

KPIs Achievement Status

	Actual FY 21/22	Planned FY 21/22	Past FY 20/21
New initiatives on risk management and corporate governance	7	>5	8
One-year maturity mismatch	Rs. < (6.9) billion	Rs. < (6) billion	Rs. (3.8) billion
Collection ratio	72.65%	> 80%	>70%
NPL ratio	8.54%	<10%	14.09%
Non-compliance	0	0	0

Core Strategy 5: Fulfilled Varying Stakeholder Expectations for a Sustainable Society

As a responsible corporate citizen, the company strived, through its business actions and other initiatives, to enrich the living standards of our surrounding communities and the society as a whole. We took measures to promote sustainability initiatives covering Environmental, Social, and Governance (ESG) related aspects, embedding sustainable practices into our business model. We gained employee trust and commitment through the unique corporate culture we practice, to live and practice similar ideologies.

KPIs Achievement Status

	Actual FY 21/22	Planned FY 21/22	Past FY 20/21
Community investment	Rs. 1.5 million	Rs. 1 million	Rs. 1.2 million
No. of beneficiaries	768	> 600	601
Green lending	914 loans	> 500	289 loans



Detailed disclosures about Strategy Execution and Service Value Chain are made available in the "Value Creation" web content pages 47 to 61.

Sustainable Value Creation Process

Resource Distribution

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

Business Lines		Funding	Customer Intelligence, Product Design and Innovations	Evaluation and Execution	Collections	After Sales Support	Customer Relationship Management	Support Services
Lending		●	●	●	●	●	●	●
Investments		●	●	●	●	●	●	●
Deposit Mobilisation		●	●	●	●	●	●	●
Other Ancillary Business		●	●	●	●	●	●	●
Business Activities Affected		↑	↑	↑	↑	↑	↑	↑
Key Resources Mobilised		●	●	●	●	●	●	●
Financial Wealth		●	●	●	●	●	●	●
Human Strength		●	●	●	●	●	●	●
Alliances		●	●	●	●	●	●	●
Infrastructure			●	●	●	●	●	●
Intellect		●	●	●	●	●	●	●
Nature		●	●	●	●	●	●	●

● Critical ● Moderate ● Not Significant

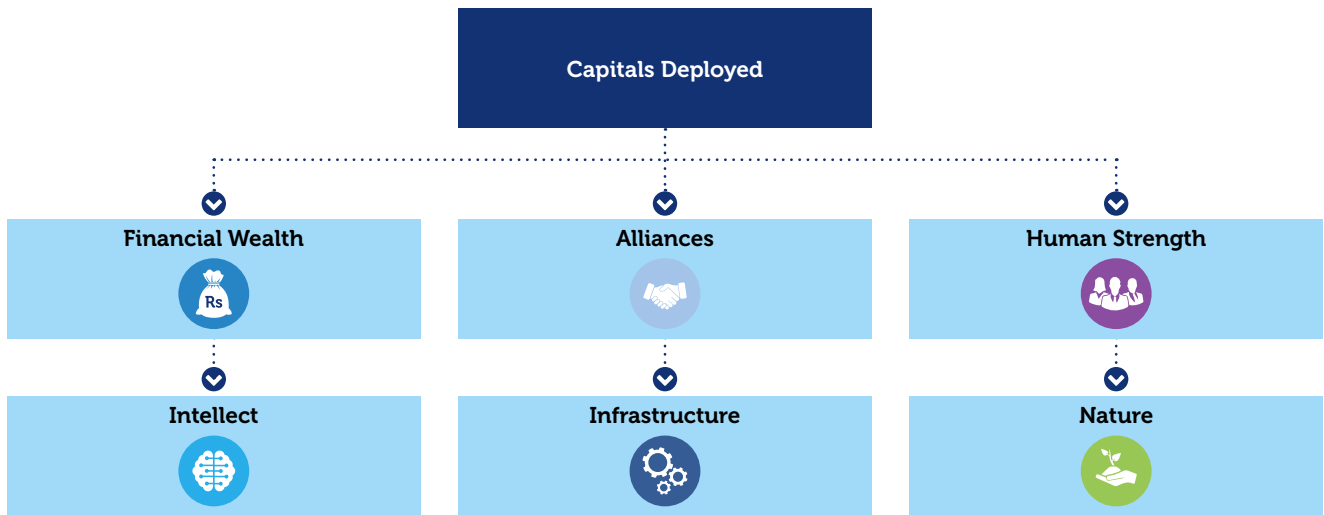
Capital Management

How Capital Management Leads to Value Creation

We use a mix of tangible and intangible resources in our value creation process which we call 'Capitals'. These capitals include Financial Wealth, Human Strength, Alliances, Intellect, Infrastructure, and Nature. These capitals deployed in the business may be increased, decreased, or transformed through capital management activities while balancing negative impacts and capital trade-offs. Throughout this integrated report, we have clearly

defined, measured, and demonstrated how we deployed these capitals, and transformed them in the process of creating meaningful value for our stakeholders. As a company embedded with strategic corporate sustainability, MI's strategic approach, supported by integrated thinking, enabled the MI Board and Management to make the best use of capitals in its value creation process to generate solid and sustainable returns in the short, medium, and long term while upholding MI's corporate image as a socially and environmentally responsible corporate citizen.

As we navigated through a year of continued uncertainty and hardships, we demonstrated the strength of our resilience by leveraging these capitals towards achieving our strategic goals and objectives, while delivering positive impacts to the economy, society, and environment. Thus, despite numerous challenges, we forged ahead in our journey of transformation and value creation through effective capital management, recording a commendable performance, with an impressive growth in post-tax profits and asset base, whilst maintaining a solid liquidity position and a strong capital base.



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 striving to preserve these capitals to fulfil our future growth aspirations and for the betterment of society.

Phases of Capital Management		
Capital Sourcing	Capital Development and Balancing Trade-Offs	Capital Preservation
<ul style="list-style-type: none"> Major Stakeholder Resources Management Credit Rating Brand Management Untarnished Reputation 	<ul style="list-style-type: none"> Cost Benefit Assessment Resource Distribution Systems and Technological Innovations Business Process Re-engineering Learning and Development Operational Excellence Automations to Minimise Lead-Times 	<ul style="list-style-type: none"> Governance, Ethics and Culture Stakeholder Prioritisation and Satisfaction Risk Management Grievance Handling Audits & Controls
Enrichment and Sustenance of Stakeholder Value		



Financial Wealth



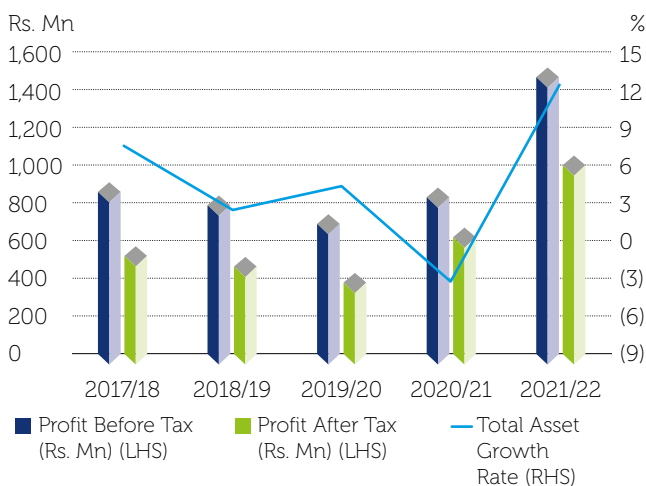
GRI 103-2 and 103-3

Being an "A" category regulator graded and well-reputed finance company, having accumulated a strong capital base backed up by the right financial ingredients, with sound asset quality and liquidity, amplifies the strength of our financial wealth and growth potential, in driving our value creation journey towards our visionary aspirations. Despite the challenging domestic and global macroeconomic conditions and heightened uncertainties, MI navigated this year expertly, epitomising the success of our business strategies by recording Rs. 1.01 billion after tax profits, the highest-ever after tax profits in its growth trajectory. Efficient and effective financial planning, treasury management and cost optimisation initiatives supported the Company's core business strategies in delivering these impressive results, steering through these challenging times. While manifesting steadfast profitability growth, we reaffirmed our commitment towards sustainable business, showcasing commendable growth in our asset base, lending book and deposit base, despite the challenges posed by the pandemic and macroeconomic conditions. Moreover, we have been able to accomplish these impressive results by deploying our financial resources productively whilst, vastly enhancing our asset quality and consolidating on our strong liquidity position, while balancing growth and risk considerations towards core business expansion, performance excellence and stability. In keeping to our promises, we uplifted shareholder wealth and confidence, distributing satisfactory dividends and elevating our shared growth prospects to our investors in the year under review.

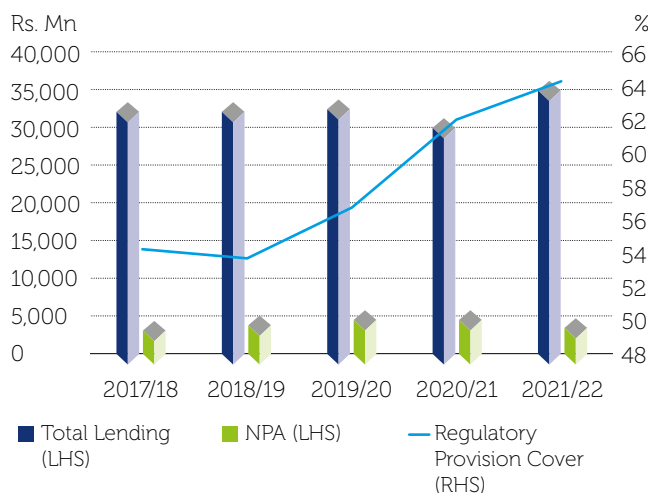
Performance Highlights

- ROCE increased to **9.51%**
 - EPS increased to **Rs. 336.5** with a **64.7%** YOY growth
 - Net Assets Per share increased to **Rs 3,647**
 - Dividends declared **Rs. 345.7 Mn**
- NIM increased to **10.86%**
 - Cost to Income reduced by **1%** amid hyperinflationary conditions.
 - Both 90day and 180 day NPL reduced to single digit level by **6.4%** and **5.6%**
- Capital Adequacy Ratio
 - Tier 1 - **15.45%** (Minimum 7%)
 - Tier 2 - **16.84%** (Minimum 11%)
 - Liquidity Ratio - **13.57%**
- Rs. 1.01** Bn NPAT, the highest ever recorded with a **64.7%** YOY growth
 - 17.7%** growth in Lending Portfolio
 - 14.3%** growth in Deposit base
- Sustainable Growth Trajectory**
- Enhanced Investor Returns**
- Improved Efficiency**
- Strong Liquidity and Capital Adequacy Position**

Profitability and Asset Growth



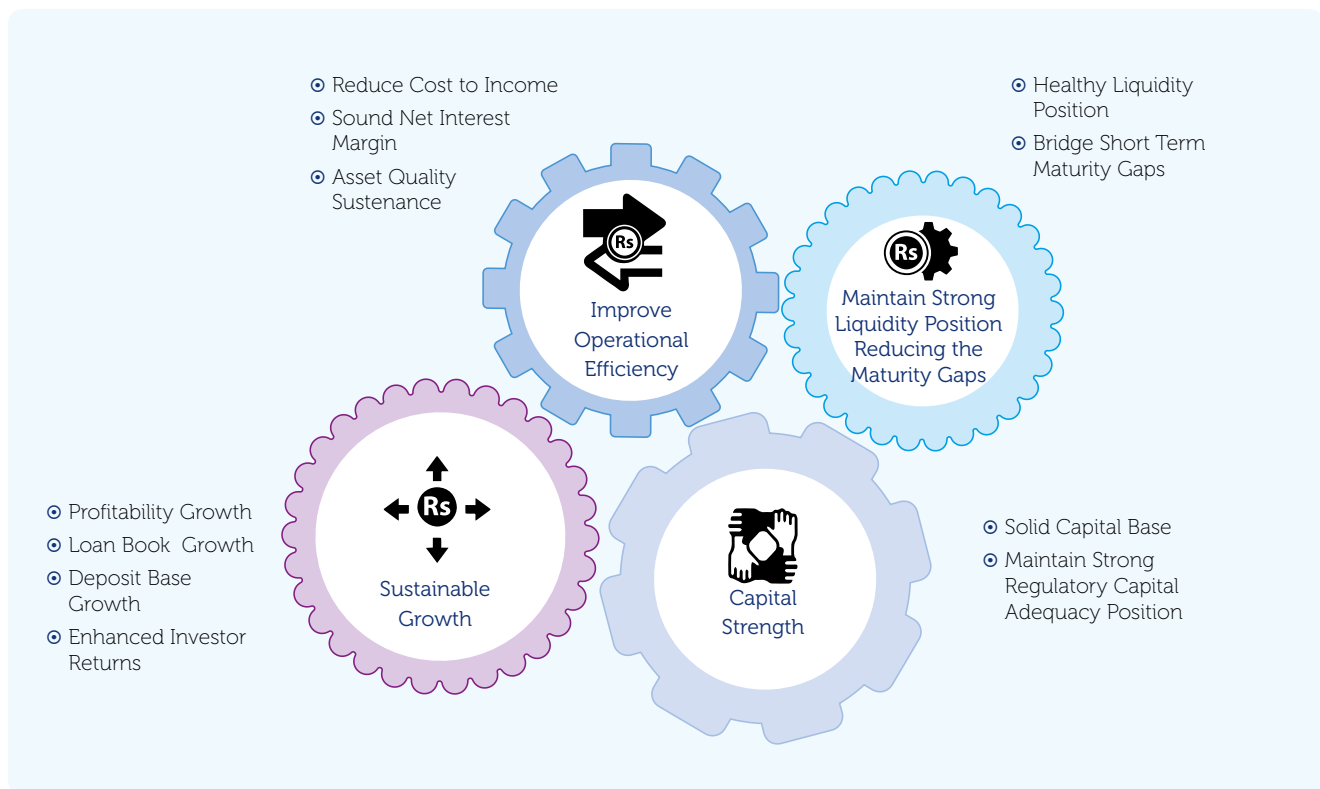
Asset Quality and Regulatory Provision Cover



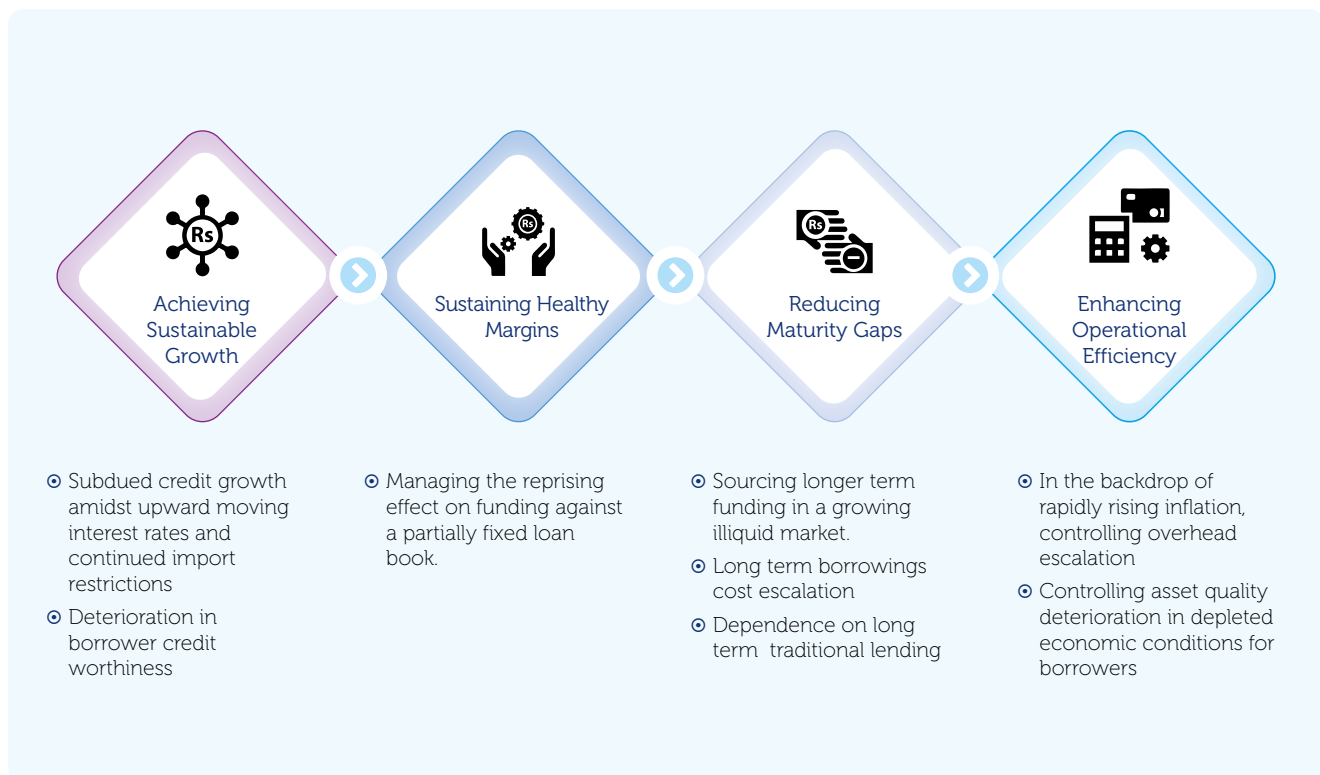
Detailed disclosures about financial wealth are made available in our website.

Financial Wealth

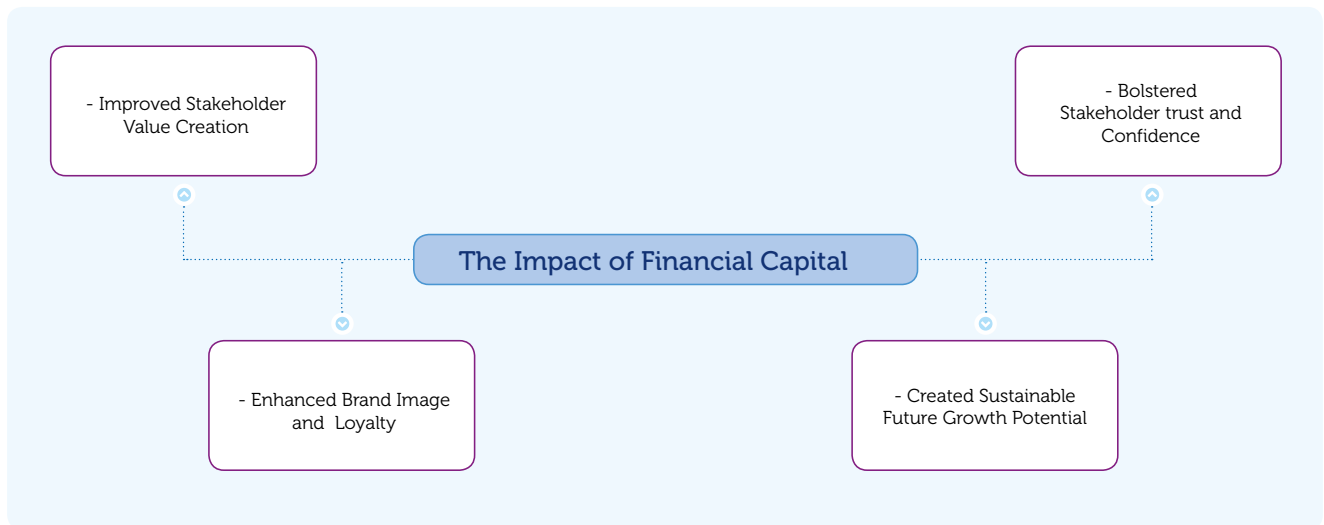
Material Focal Points



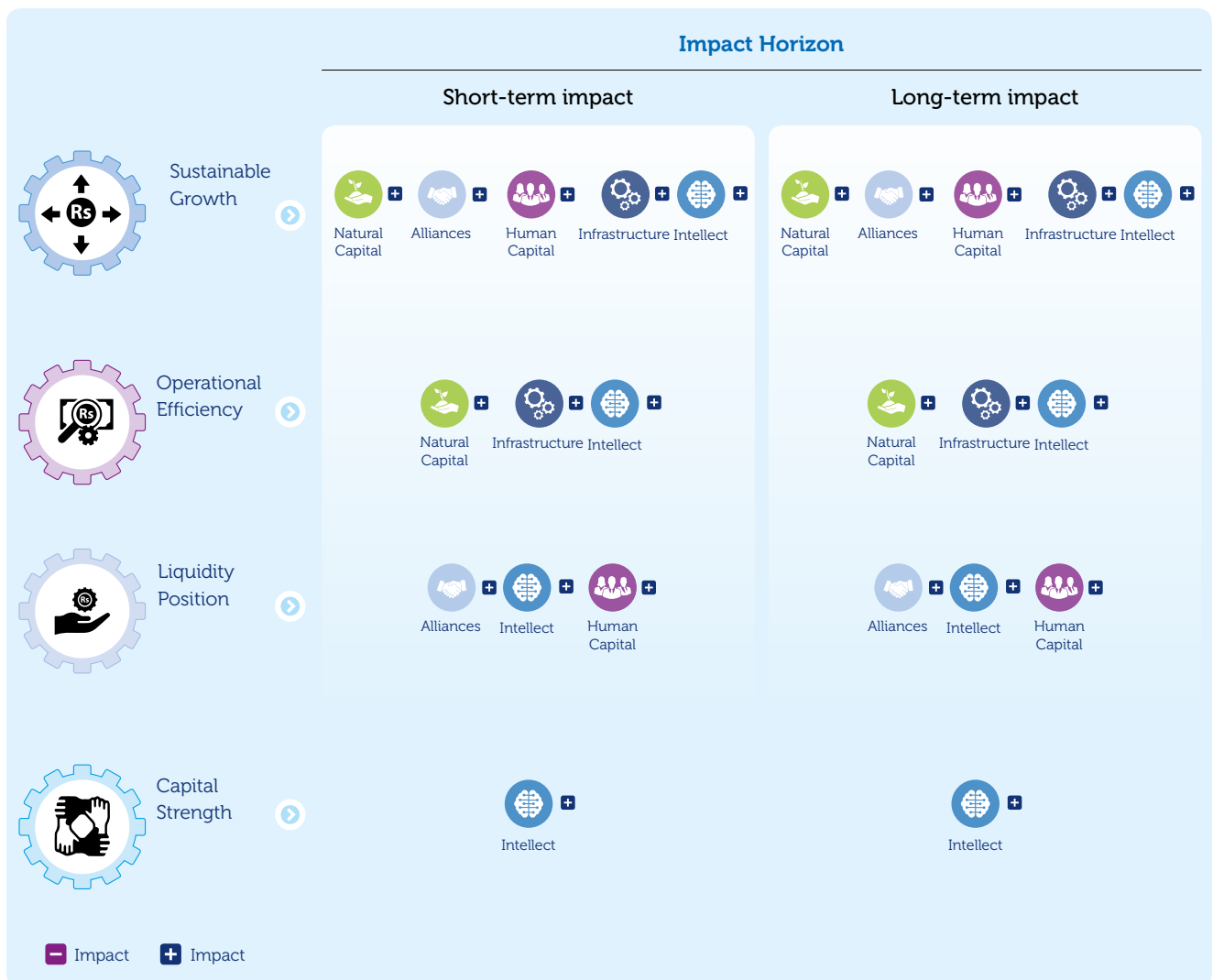
Challenges



Sphere of Impacts



Capital Trade off



Though we routed greater financial resources towards expanding our physical and digital infrastructure, nurturing our talents and enhancing our brand image, we are confident that anticipated long-term benefits will improve business volumes, leading to further increase in financial wealth resources we possess. This will in turn propel growth in other capitals deployed.

Financial Wealth

Financial Management

Showcasing our resilience during these challenging times, we aligned our core business strategies towards sustainable growth, with the clear direction given by the Board, emphasising specifically on generating satisfactory portfolio growth and improving margins and moreover striving to control asset quality deterioration in these tough economic conditions for our borrowers, whilst simultaneously keeping costs minimal through the deployment of lower-cost funding and focused management of overhead expenses. We ensured the integrity of our strategy execution with goals and objectives through periodic progress reviews and realignment of our strategies wherever needed.

Our key financial management initiatives revolved around the three fundamental financial disciplines of:

- ⦿ Treasury management
- ⦿ Cost optimisation
- ⦿ Budgetary control

Treasury Management

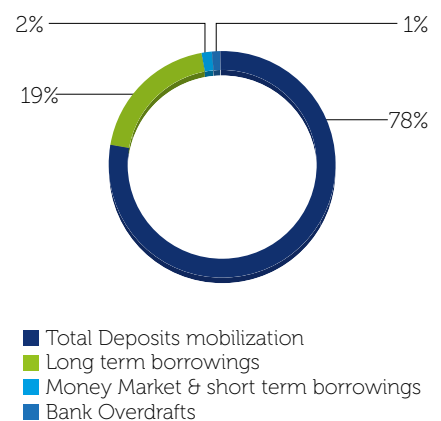
Though the Government tightened the monetary policy measures during the latter part of the year, reflecting the upward trajectory in interest rates to curb inflation and tackle the persistent foreign exchange crisis, we continued to prioritise effective fund management, focusing on minimising our funding costs and managing our liquidity position soundly, in a tight and illiquid market. Considering the current macroeconomic challenges and future market uncertainties, we maintained adequate contingency funding options to mitigate our liquidity and reputational risks. Simultaneously, we directed our efforts in deriving robust investment returns which paid off through enhanced treasury policy and control mechanisms, minimising investment risks, amid volatile conditions.

Treasury Management Priorities	Target	Actual	Status
⦿ Generate sound investment yields and optimise cost of funding to boost NIM	> 8%	10.86%	Achieved
⦿ Maintain optimum liquidity levels whilst bridging maturity mismatches	Strong liquidity level > Staying above minimum requirement of 10%	13.57%	Achieved
	1 year assets and liability mismatch < Staying below threshold level of Rs. 6 billion across the year	Rs. (6.9) billion	Partially achieved as gap widening observed only during last quarter of financial year.
	Maintain a minimum contingency fund of Rs. 2 billion	Rs. 1.8 billion	Achieved

Funding Mix

We maintained the right funding blend between deposits and borrowings with the aim of keeping funding cost optimised while simultaneously managing assets and liability maturity gaps. The Deposits business remained as the largest contributor to the funding mix, amounting to 78%, contributing Rs. 26,349 million in funding, while the balance stemmed from borrowings.

Funding Mix

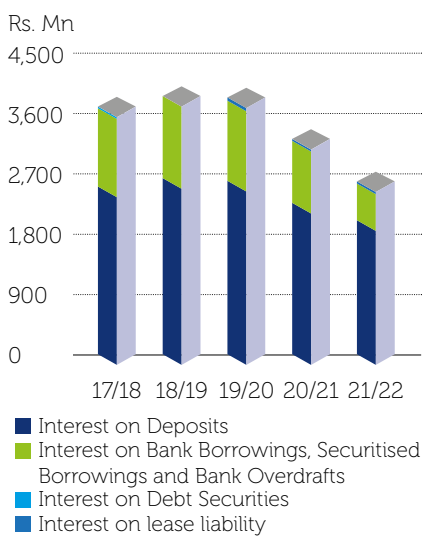


Funding Cost

As interest rates remained at single-digit levels during a considerable part of the year, our funding cost declined significantly by 19.7% Year-on-Year, despite a 14.4% increase in total borrowings by Rs. 4.26 billion as at March 2022, which was utilised to finance the growth of our lending portfolio. Though the deposit interest rates were revised upward gradually in line with market rates (reflecting a 3% YOY increase), total deposit interest cost stood at 11.5% below the previous year and this repricing at lower costs helped bolster Net Interest Income growth. Similarly, we managed to reduce our borrowing cost by 42%, despite the increase in borrowings by 15.1% by March 2022 on account of sourcing lower priced, single-digit, long-term funding.

Nonetheless, since February 2022, the sudden ascend in market rates and developing macroeconomic volatility saw upward movement in funding costs on account of the upward repricing of the deposit base and increased pricing of lenders, a sudden turnaround across the industry and financial markets which was yet efficiently managed by the Treasury team, to keep liquidity and margins well intact.

Analysis of Interest expense



Deposit Funding

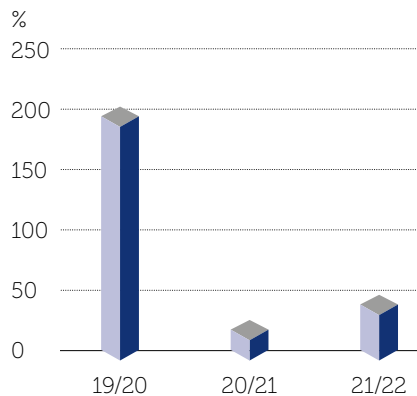
Though Deposit mobilization was somewhat challenging amidst volatile investor sentiments during lockdown times and due to the emergence of other investment options, the efficacious deposit division marketing drive and endurance helped in bolstering growth in the deposit by a sound 14.3% growth YOY, staying above the average industry growth of 4.6% recorded by December 2021.

Fixed Deposits

Our unwavering commitment towards the mobilisation of Fixed Deposits being our primary deposit product, contributed 99% to the total base. Despite the low interest regime that continued for a significant part of the financial year, the Company's Fixed Deposits base recorded 13.9% growth, advancing to Rs. 26,089 million. We continued to broaden our depositor base, affording attractive returns to our customers and improving service standards across our branch network, especially in terms of the speed of delivery and customer convenience.

Our on-going decentralisation efforts coupled with higher investment in technology and IT infrastructure continued to drive greater deposit flow from branch level, with a 50.9% increase YOY contributing 17.9%, while Head Office premises being in the Western Province remained the primary mobilisation point.

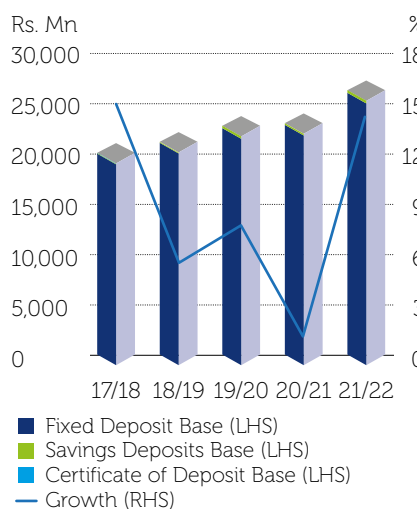
Growth in Depositor Base (Number of Depositors)



Savings Deposits

During the year, MI's savings base increased from Rs. 161 Mn to Rs. 260 Mn with a commendable 61.1% YOY growth. While the rapid expansion of the Micro Auto product contributed towards this impressive growth, the newly introduced ATM service through the partnership of Hatton National Bank ATM network service spanning to over 700 locations across the country together with other decentralisation efforts afforded this needed impetus to grow this sustainable low-cost funding product line.

Deposit mix

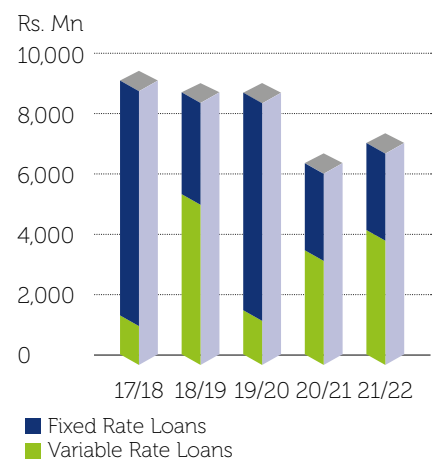


With the planned enhancement of our IT systems and digitisation initiatives including the proposed launch of the CEFT facility from May 2022, we expect robust growth in our depositor base across the branch network in the near future.

Borrowings and Debt Funding

Total corporate borrowings increased from Rs. 6,444 million to Rs. 7,418 by the balance sheet date up by 15.1%, to support with the 16.7% growth in our lending portfolio. A total of Rs. 4.3 billion was sourced during the year from MI's longstanding banking partners and by way of securitisations with various other financial institutions to manage immediate and future funding requirements and optimising overall cost of funding. The fixed rate funds continued to be the preferred borrowing option, especially when market rates were one digit.

Total Borrowing Analysis (Fixed rate vs variable rate)



Cost Optimisation

During the year, we placed greater focus on our cost optimisation drive with a scalable concept with the aim of building a leaner and more agile organisation to control our cost escalation and to successfully steer through these unprecedented challenges. While inculcating a cost-conscious mind-set amongst our employees, we encouraged them to come up with innovative ideas to boost productivity levels whilst helping to control wastage.

Financial Wealth

Budgetary Control

A close watch was kept on actual costs versus budgeted through periodic variance reporting both at Board and Executive Committee level, while implementing corrective measures to battle against the unprecedented challenges. Though we were compelled to revise our budgets and forecasts periodically to provide more realistic targets, we forged ahead with the right strategy to record impressive results, surpassing the budgetary profits for the year by Rs. 201 million in post-tax profits a 24.8% achievement above targeted that we can be content in adversity. We relied on generating updated strategic and operational management information, 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.

Financial Results Review

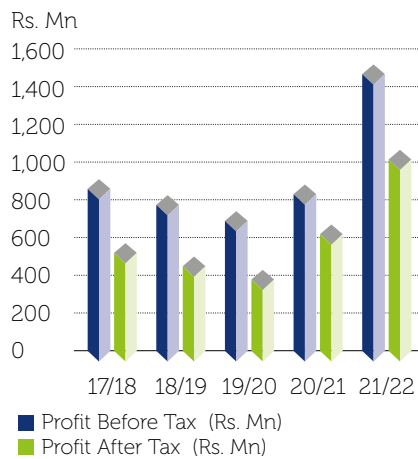
Our staunch resilience and unwavering strength drove the MI team to new heights, enabling us to surpass stakeholder expectations even during harsh business conditions, delivering more than commendable results for the year under review, recording monumental growth in profitability and asset base, with sustained stability, liquidity, asset quality and value creation to all our stakeholders, upholding their trust and confidence to withstand any shocks from the unprecedented challenges.

Profitability

Leveraging our strategic foundations and core competencies backed by right strategy and utmost commitment enabled us to record a momentous pre- and post-tax profit of Rs. 1.47 billion and Rs. 1.01 billion, the highest-ever recorded in our legacy, reflecting an outstanding 77.5% and 64.7% Year-on-Year growth, which exceeded expectations set at the beginning of the year. Though we recorded a moderate 9.7% YOY growth in our gross revenue with the low interest regime that prevailed during 2021 and due to the regulator driven moratorium extended, we were able to record 36.7% commendable growth in our net interest income, leveraging on the reprising gains with a 19.7% drop enjoyed in interest expenses.

In spite of the prevailing macroeconomic conditions adversely affecting borrower repayment capacity, our staunch recovery strategies coupled with stringent credit risk management controls enabled us to keep credit quality intact, keeping 180-day NPLs at 8.54% and impairment reversal at Rs. 147 million, enabling us to epitomise a record-breaking profitability level.

Earnings Performance

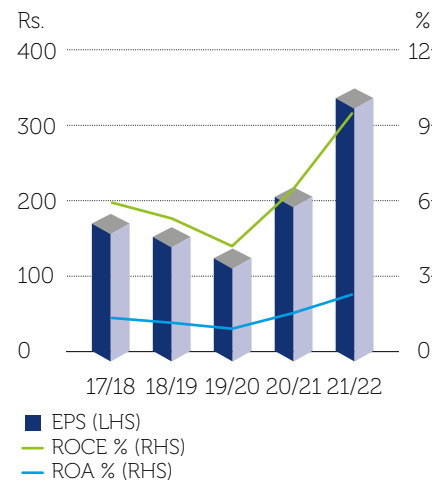


Investor Returns

Bolstered by a higher post-tax profit, the Return on average Shareholder's Equity (ROE) and Return on average Assets (ROA) both showed a commendable increase from 6.39% to 9.51% and 1.45% to 2.28% respectively for the year under review, upholding our investors' trust and confidence. These impressive profitability levels pushed our Earnings per share up by 64.7% from Rs. 204.31 to Rs. 336.51, reaffirming our resilience and earning potential even during these unprecedented times. Given the above performance, the Board was pleased to declare dividends totaling to Rs. 345.69 million for the year, upholding our shared growth ideologies further and paving the way for shareholder wealth accretion to the future, as we did in the past.

Moreover, our investors over the years have seen their investments grow through a constant accumulation of shareholder funds which stood on an upward trajectory at Rs. 10.97 billion by 31st March 2022. (Refer 'Investor Relations' section on pages 294 to 297, on sound investor returns and capital accumulation trajectory.)

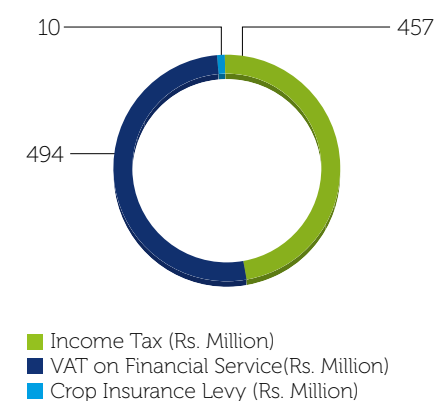
Investor Returns



Tax Impact on Profitability

With the commendable growth in operating profits, total tax expense increased by 88% to Rs. 961 million during the year, while the effective income tax rate was recorded at 30.1% with a marginal decline of 0.35% compared to 30.46% recorded in the previous year. Though Corporation tax rate remained at 24%, the increase in VAT on Financial Services by 3% with effect from 1st January 2022 also contributed for the increase in total tax expense. Accordingly VAT on Financial Services increased by 71% to Rs 493.6 million and income tax expense increased by 114% to Rs 457.4 million, whilst the Crop insurance levy stood at Rs 10 million for the year. (Refer Financial Statements Note 15.)

Tax Payments

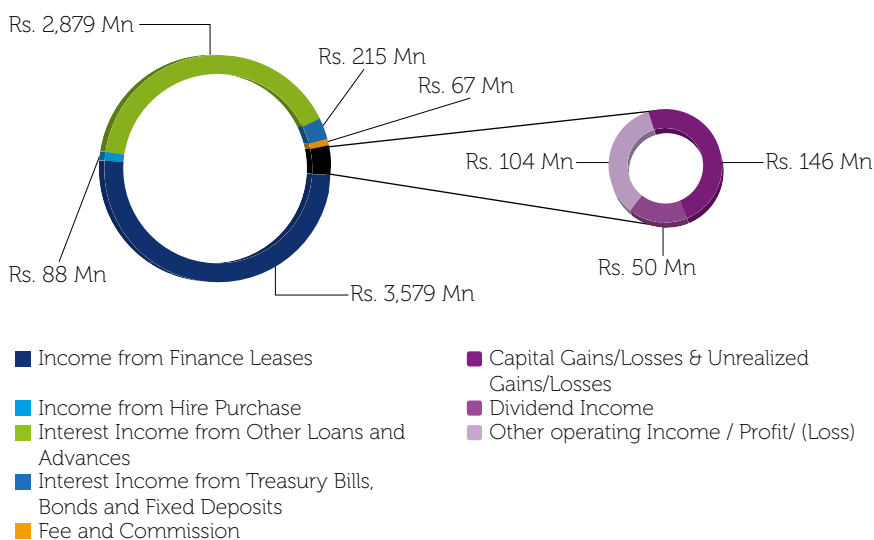


Gross Revenue

In the backdrop of heightened uncertainties, volatile economic conditions and the low interest regime that prevailed during a significant part of the financial year, the Company's gross revenue increased moderately by 9.7% to Rs. 7,128 million for the financial year 2021/22, as against the negative growth of 14.6% recorded for the previous year. Despite the 16.7% growth in lending portfolio, interest income grew modestly by 7.8%, mainly due to the decline in average yield within the low interest regime combined with the moratorium relief revenue impact. In contrast, Non-Fund Based Income grew handsomely by 65%, mainly on account of the share trading and fair value gains enjoyed from the buoyancy the stock market witnessed in 2021.

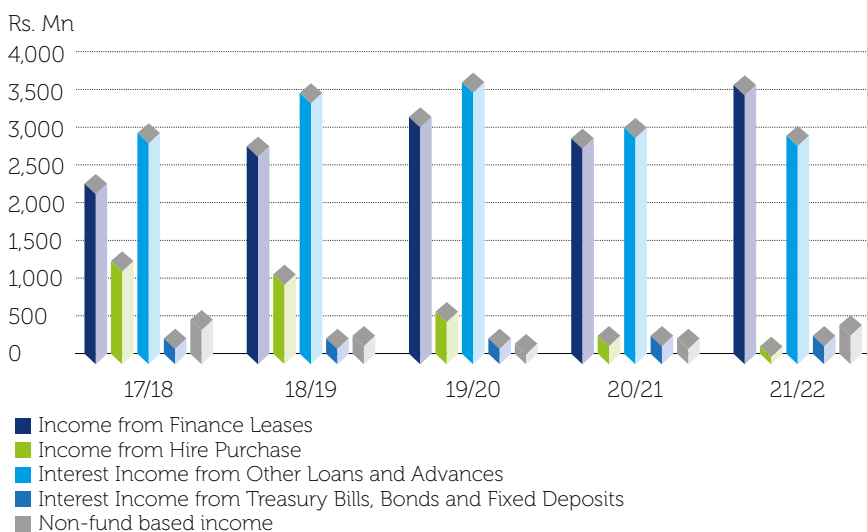
In terms of gross revenue, 91.8% of the contribution arose from our core lending business, while investment income from Treasury activities contributed 5.8%. Non-fee based-income derived from insurance, workshop and other fee-based revenue contributed to the balance 2.4%.

Composition of Gross Revenue



Core Lending Revenue Performance

Composition of Gross Income



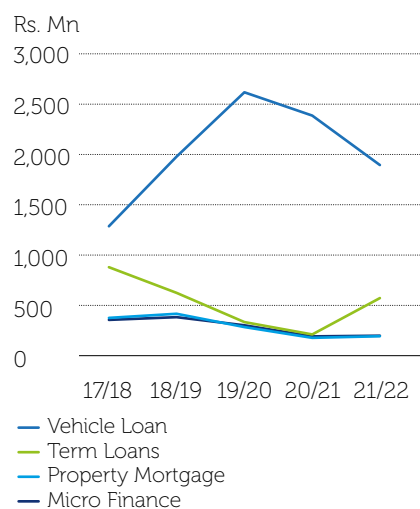
Lease Financing vs. Hire Purchase Revenue

Leases, being our traditional and most popular product, demonstrated remarkable performance during the year, contributing 54.7% to the core lending revenue, with a notable 25.1% YOY growth. Hire Purchase revenue contribution continued to decline to 1.3% of the lending income, reflecting a YOY 58.5% dip, due to lower demand consequent to the tax changes introduced in 2015.

Term-based Lending Revenue

Term-based lending, which mainly revolved around vehicle loans, property mortgage loans, term loans, pledged loans, microfinance loans and gold loans categorised under the loans and advances portfolio, contributed 44% to the core lending revenue, remaining key revenue sources of MI's expanding product mix. Though we maintained 16.7% growth in our total lending portfolio, 3.7% dip was observed in term-based lending revenue, with the YOY decline in average yield and average term-based lending portfolio.

Loans and Advances - Revenue

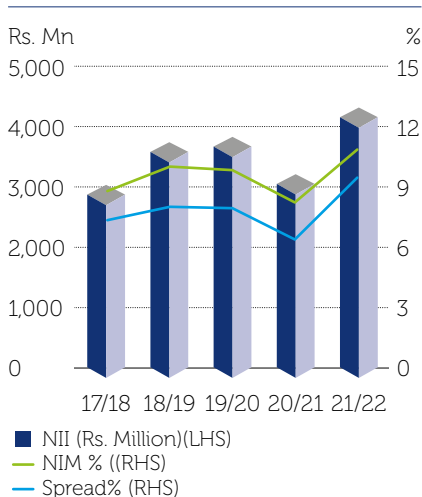


Financial Wealth

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

Despite the extended moratorium reliefs, heightened competition to offer competitive rates in the market and last quarter upward trajectory in interest rates led by tightened monetary measures, we were able to record a notable 37% growth in our Net Interest Income (NII), mainly leveraging on the reprising gains on cost of funding, managing to mobilise deposits, and bank and other borrowings in a mostly single-digit low interest rate environment in 2021. This commendable growth in NII bolstered Net Interest Margin (NIM) from 8.16% to 10.86% and Interest Spread from 6.34% to 9.41% by March 2022, reaffirming the strength of our business model and the strategies we embraced, setting the tone for the impressive year-end robust profitability.

NII NIM Spread



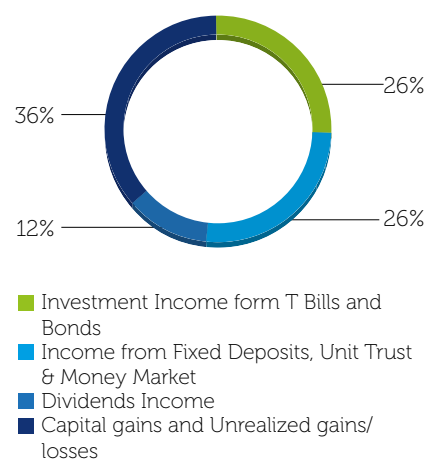
Investment Income

Investment income contributed a handsome 5.8% to gross revenue, driven primarily by returns on Government securities, placements with banks, unit trusts, share trading gains and dividend income.

We invested Rs. 3,526 million in Government securities, bank deposits and unit trusts, keeping required liquidity and reserve funding to maintain our regulatory liquidity levels and short- to medium-term funding needs. These liquid investments generated Rs. 214 million, contributing 26% to investment income.

As we continued to explore potential investment opportunities, we were able to reap the benefits from the increase in stock market indices, which enabled us to record Rs. 145.8 million in fair value and trading gains, accounted through Fair Value through PL (FVPL) with a notable 224% YOY growth. Furthermore, we enjoyed 55.2% growth in dividend income which contributed Rs. 50.6 million to investment income, while recording Rs. 264.5 million as realised share trading gains from the shares recorded under Other Comprehensive Income (OCI). However, the sharp drop in market prices on account of the political and economic upheavals stemming from the foreign exchange crisis arising in 2022 reversed the OCI reserve to a negative fair value loss of Rs. 550 million.

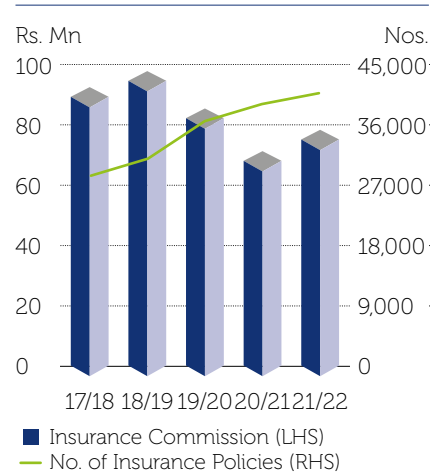
Investment Income for 2022



Insurance Services

Insurance referred business income contributed Rs. 67 million to gross revenue compared with Rs. 74 million recorded for the previous year. Nevertheless, through the satisfactory track record in recovering insurance claims, which stood at Rs. 95 million (Rs. 103 million for 2020/21), the Company 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 MI Head Office premises.

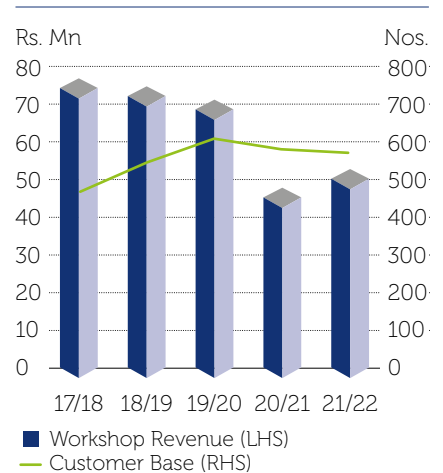
Insurance Commission vs No. of Insurance Policies



Workshop Services

Despite the escalating competition in the vehicle service and repair market and the prevailing macroeconomic conditions, we generated total revenue of Rs. 50.1 million through our special workshop servicing and repair unit, recording an 11.3% growth against the previous year.

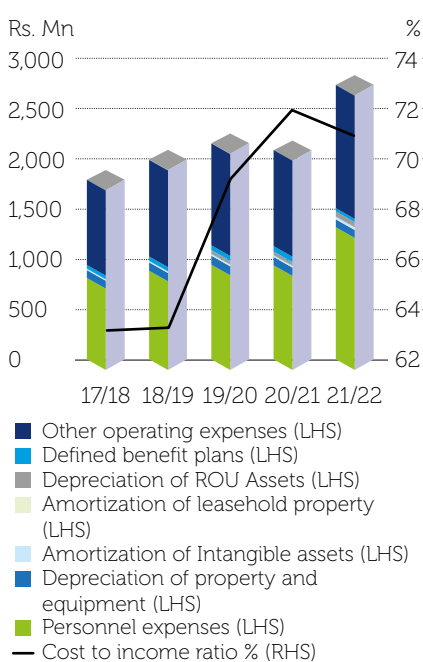
Workshop Revenue and Customer Base



Expenditure Management

Controlling Overhead Cost Escalation
Despite our unwavering efforts to keep costs minimal, total overheads increased by 35.9% during the year, fuelled by the hiking inflation, expansion of our branch footprint and on-going technology initiatives, coupled with increase in VAT on Financial Services by 3% from a year before. Despite the pressure on controlling the cost escalation, we were mindful of safeguarding our employee wellbeing, as we paid special emphasis on employee welfare and motivation during these trying times, while rewarding and also recognising their commitment and dedication during these challenging COVID-impacted business conditions. These efforts kept personal cost up at 36%, and the contracted revenue resulting from the adverse conditions coupled with inflationary effects kept the cost to income ratio at 71%, compared to 72% recorded in previous year.

Composition of operating Expenses Vs Cost Income Ratio



Capital Expenditure

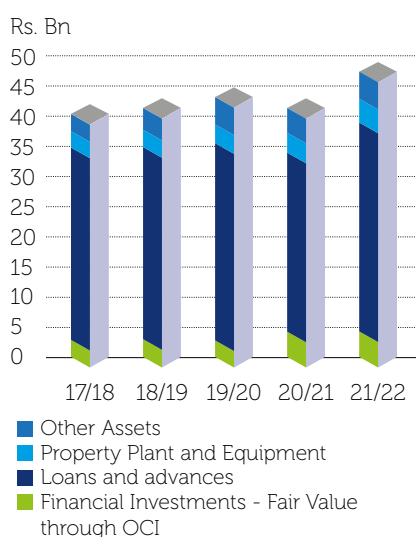
We mobilised capital investments towards core business strategy deployment, especially to enhance technological and branch infrastructure which included bolstering IT systems and driving the digital journey and branch operational outlook. In expanding business operations, we forged ahead with the 'scalable concept,' which we undertook with the belief of minimising capital expenditure in future expansions. During the year, we invested Rs. 9 million in technology initiatives and Rs. 518 million as investments in Property, Plant and Equipment with the aim of amplifying growth potential and future competitiveness. A larger investment will be deployed for the planned IT system migration for the next financial year.

Financial Position, Strength, Blend and Efficiency

Total Assets Position

Whilst demonstrating commendable profitability levels, we were able to record sustainable growth in the Company's total asset base which depicted a 12.6% YOY growth, reaching Rs. 46,999 million, surpassing the industry average growth of 6.1% recorded by December 2021, amid the prevailing macroeconomic challenges.

Total Asset Composition



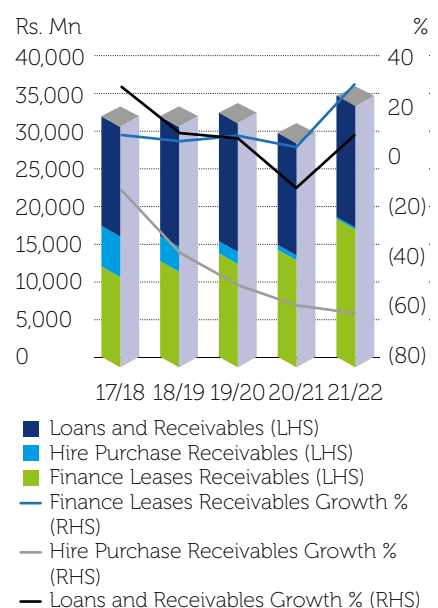
Loans and Advances

Loans and Advances which represent 73.8% of our total assets remained as the largest and most significant asset component. Though the pandemic-related disruptions curtailed our lending growth during the first half of the financial year, our focused and customer-centric business strategies enabled us to yet record commendable growth of 16.7% in the loan book, reaching Rs. 34.7 billion as against the 9.2% contraction recorded for the previous year.

During the year we continued to expand our product mix with specific attention in broad basing Gold loan operations, revolving credit facilities, Micro Auto, and other shorter tenor products, as we pursued optimising our product mix to face the upward trajectory in interest rates. Though COVID-related market disruptions kept pegging back opportunities to drive towards planned credit volumes, through the effort of the credit marketing teams we achieved targeted loan book growth, especially during the second half of 2021/22.

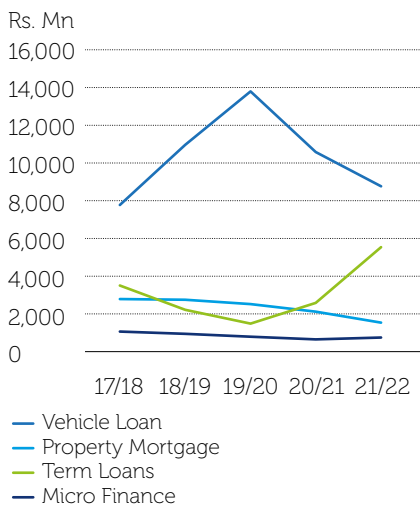
Our lending business was driven by MI's primary product, lease financing, and term-based product categories as depicted below.

Lending Portfolio vs Lending Growth



Financial Wealth

Loans and Advances - Portfolio



Asset Quality Management

Despite the prevailing macroeconomic stress and pandemic-led disruptions having a profound impact on the deterioration of borrower repayment capacity, driven by the committed efforts of the recovery team and the application of tougher credit risk controls, we were highly successful in pegging back the 180-day and 90-day NPL ratios, which stood at double-digit levels for the most part of the year, to single-digit levels by March 2022. Accordingly the overall NPL ratio (180 days pure rental) reduced from 14.09% (March 2021) to 8.54% and 90-day NPL was brought down to 9.83% by March 2022 (31st March 2021 – 16.29 %) pleasingly, reversing significant impairment charges booked in current and prior years.

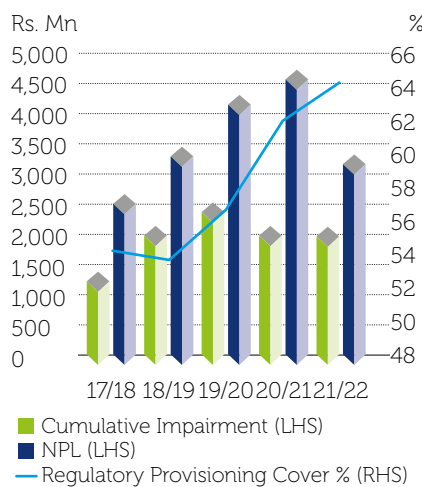
While pursuing a conservative lending approach, especially for the perceived high-risk clients and sectors, aided by a robust credit risk management unit that reviewed high-risk credit and provided post credit feedback to the Management, we strengthened our recovery drive with the recently setup fully-fledged Call Centre, which played a pivotal role in following up on immediate arrears in contracts and those moving to longer arrears to improve asset quality. The escalation of NPLs during this difficult phase was further controlled with the extension of moratoria reliefs to eligible customers, which froze the ageing of the moratorium loans for the NPL classification purpose under the regulator’s guidance. While partial recovery of high value contract also contributed towards the reduction in NPL level, a few large contracts stemming

over the past few years, despite being adequately backed by prime securities, continued to have a 2.41% impact on the Company’s NPL ratio. While our Legal Department worked closely to support the recovery division to fast-track the bad debt recovery process, our Special Recoveries Force (SRF) provided a 24/7 recovery effort while adhering to moratoria guidelines.

Impairment Charges

As we relentlessly focused our recovery efforts on controlling arrears clients and escalation of NPL levels, we were able to make impairment reversal of Rs. 147 million, indicating a notable 450.5% reduction Year-on-Year. By building up the required provisioning in past years, we assured our stability and resilience for unprecedented shocks by maintaining our regulatory provision cover at 64.3% by March 2022 (March 2021- 62 %), above the internal thresholds (Refer Financial Statements Note on Impairment from pages 234 to 239).

Cumulative Impairment, NPL and Regulatory Provision cover

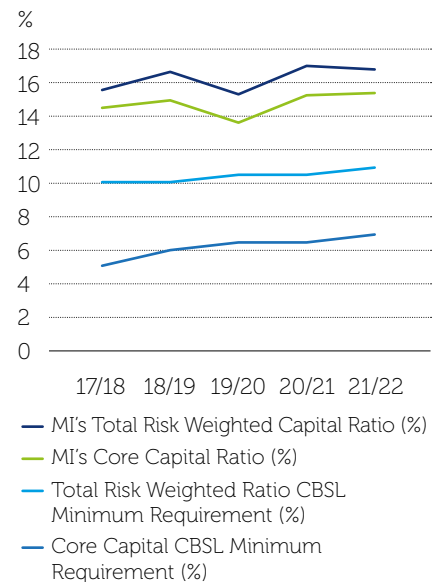


Capital Strength Regulatory Capital

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 15.45% and 16.84% respectively, higher than the minimum regulatory limits specified of 7% and 11% reaffirming MI’s balance sheet strength against possible future headwinds to the sector.

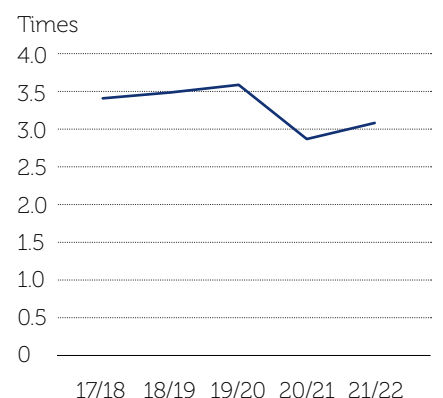
Capital Adequacy Position



Debt to Equity

With the 12.6% growth in our asset base, which was partly financed from borrowings, Debt to Equity ratio increased from 2.86% to 3.08% by March 2022. Though our retained earnings grew commendably by 34% with the impressive profitability growth, the negative OCI reserve led by sharp decline in stock market prices contributed to the increased debt equity level. Nevertheless, with the inherent nature of the industry of mobilising deposits to fund core business activities, these levels were maintained at satisfactorily levels in keeping with accepted industry norms and safety standards.

Debt to Equity Ratio



Liquidity

Short- and Medium-Term Liquidity

Despite the upward trajectory in interest rates, curtailed market liquidity, and the recovery delays observed with the macroeconomic challenges, 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 at the beginning of the pandemic period and extended to the first quarter of the current financial year, MI maintained robust liquidity levels during this period and same time maintaining a satisfactory liquidity position as at the balance sheet date with the liquid asset ratio at 13.57% (17.07% in 2021), above the regulatory limit of 10%. (Refer pages 283 to 285 of the Notes to the Financial Statements for a detailed ratio breakdown).

Long-Term Liquidity

Though the maturity mismatches of Assets and Liabilities of less than one year widened, driven by the upward trajectory in interest rates that propelled investors to invest in shorter term deposits, through effective Treasury management strategies and predictions, we ensured that the one year mismatches were kept below Rs. 5 billion during most part of the year, especially by securing over Rs. 4.3 billion in long-term funding from banking partners. (Refer pages 283 to 285 of the Notes to the Financial Statements).

Cash Flow Position

Amid the tightening of monetary policy measures and prevailing macro-economic challenges, we managed our cash flows effectively, maintaining sound liquidity levels throughout the financial year, balancing the short-term and long-term funding needs of the Company optimally. Total cash and cash equivalents (including the placements with banks not under lien) as at the reporting date stood at Rs. 1,284 million, compared to Rs. 1,908 million recorded for the previous year, while we maintained sound contingency funding lines amounting to Rs. 1.8 billion by 31st March 2022.

Cash Flow from Operating Activities

With the impressive growth in our lending volumes, net movement of MI's operating cash flows reflected an outflow of Rs. 1,506 million for the current year compared to Rs. 2,710 million inflows recorded for the previous year, amplifying the sustainable growth in lending book.

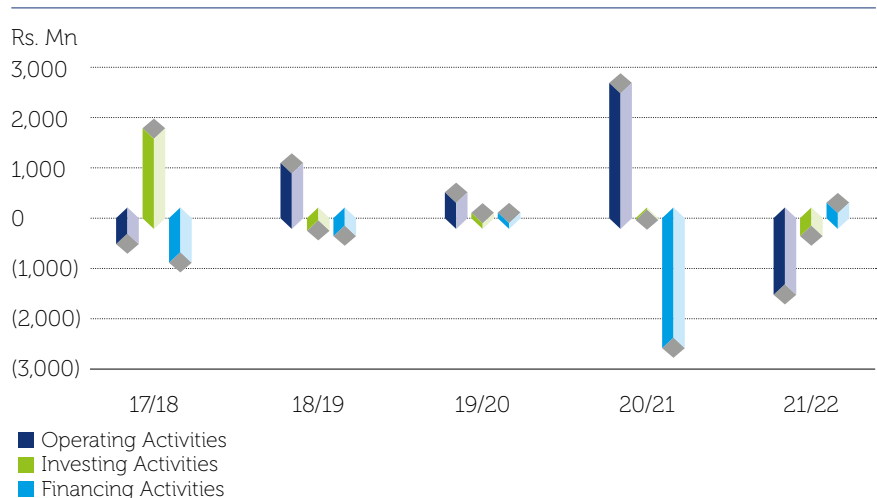
Cash Flow from Investing Activities

MI's cash flow from investing activities reflected an outflow of Rs. 358.2 million for the period under review, compared to Rs. 376 million outflows recorded in last year, with the increase in investments made in Property, Plant and Equipment.

Cash Flow from Financing Activities

Cash flow from financing activities showed a net cash inflow, totalling to Rs. 319.3 million as at 31st March 2022, compared to the negative cash flow of Rs. 2,569.6 million recorded during the previous period, demonstrating our efforts in maintaining required funding through borrowings to fund the growing loan book.

Cash Flow Analysis



Outlook

With the country bound to continue to face severe macroeconomic and socio-political challenges in the short- to medium-term given the challenging external position, mainly due to the downgrading sovereign rating as well as significant foreign exchange limitations, escalating inflation levels and emerging hardships for people and the business community alike, the financial outlook for the forthcoming year is likely to be largely dependent on the speed and success of combating evolving immediate challenges.

Whilst the tightening of monetary policy measures has resulted in an upward trajectory of interest rates, we can expect a rapid deceleration in credit growth, while inflation is bound to escalate corporate overhead costs, eroding earnings of the LFC sector, relative to the period under review. Moreover, with the proposed unwinding of moratoria granted thus far, we can expect the industry to witness a further impact on impairment charges. In the year ahead, the NBFI sector will be challenged by heightened cost escalation, deterioration in borrower credit worthiness, and subdued demand, adversely affecting the bottom-line of companies. Nevertheless, we are optimistic that the country and industry will remain resilient, uplifting stakeholder trust and confidence.

As a well-capitalised finance company having a remarkable history of over five decades, we are confident of our strengths and core competencies to successfully navigate these external headwinds and to demonstrate resilient performance despite on-going social economic challenges and adversities.



Alliances



GRI 103-2 and 103-3

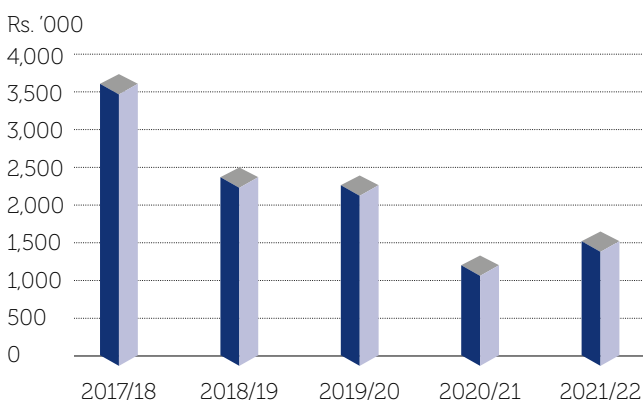
Having gained customer preference as a premier financial service brand, we believe in maintaining solid stakeholder relationships and social licence to drive corporate sustainability, within this dynamic and competitive business landscape. Having understood the evolving stakeholder needs, MI always strived to create a more inclusive future for our stakeholders through our shared growth approach, offering win-win solutions to accomplish varying stakeholder expectations, where everyone has the opportunity to prosper. Our two-dimensional approach in corporate relationship building has helped us gain competitive advantage in this value creation journey, transforming commercial and social alliances to new heights.

Performance Highlights

- ⊙ Social Investment **Rs. 1.5 Mn**
 - ⊙ **768** beneficiaries
 - ⊙ Over **58** years social bonding as a responsible corporate citizen
- ⊙ Increased Number of suppliers
 - ⊙ Efficient liquidity and gearing management
- ⊙ Over **26,800** new customers attracted
 - ⊙ Increased Deposit retention **84%**
- ⊙ **Stronger Bond with Customers**
- ⊙ **Created Strong Social Bond**
- ⊙ **Solid Business Intermediation**
- ⊙ **Enhanced Investor Returns**
- ⊙ **64.7%** growth in NPAT
 - ⊙ EPS improved by **64.7%**
 - ⊙ Dividend declaration - **Rs. 115** per share
 - ⊙ ROCE increased by **3.2%**

Social Alliances

Community Investment



Commercial Alliances

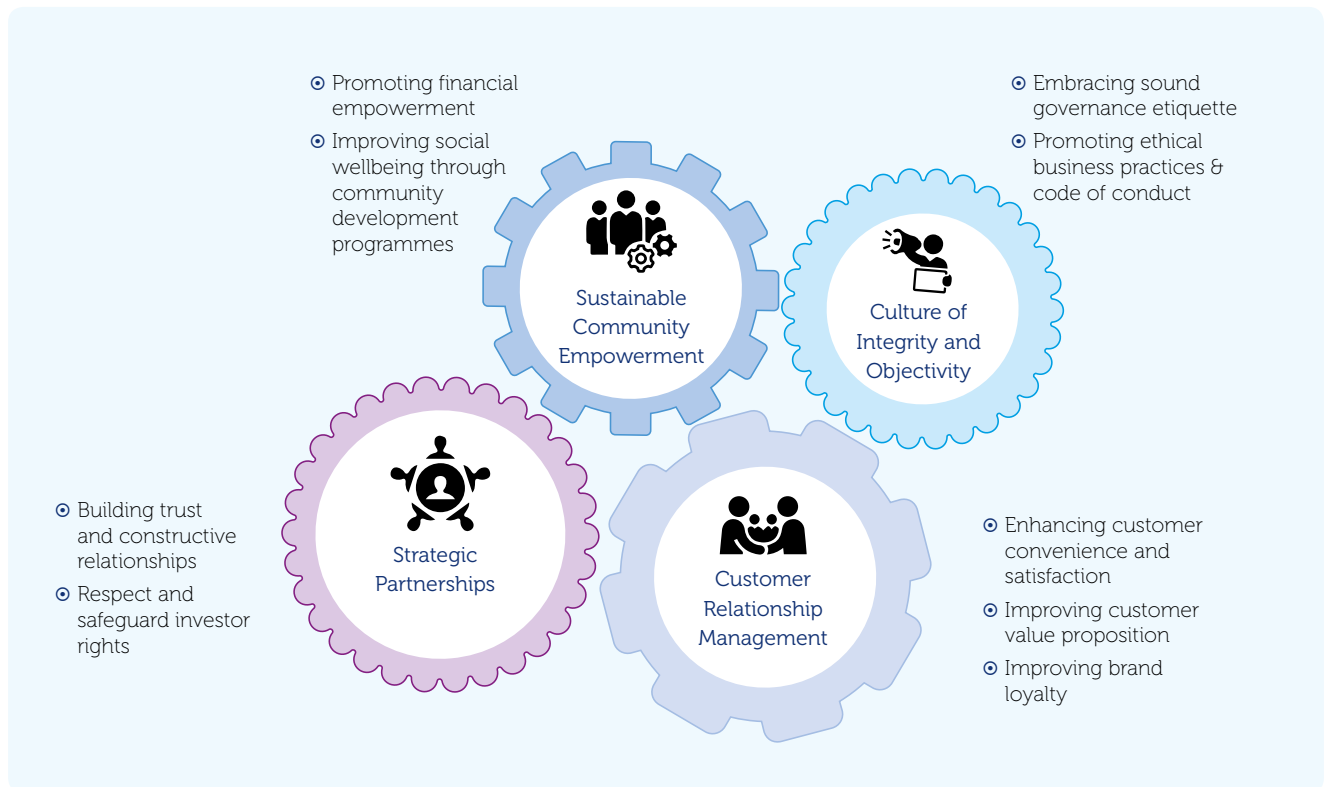
- ⊙ Growth in customer base - **26%**
- ⊙ Deposit Retention > **80%**
- ⊙ New Customers attracted > **26,800**



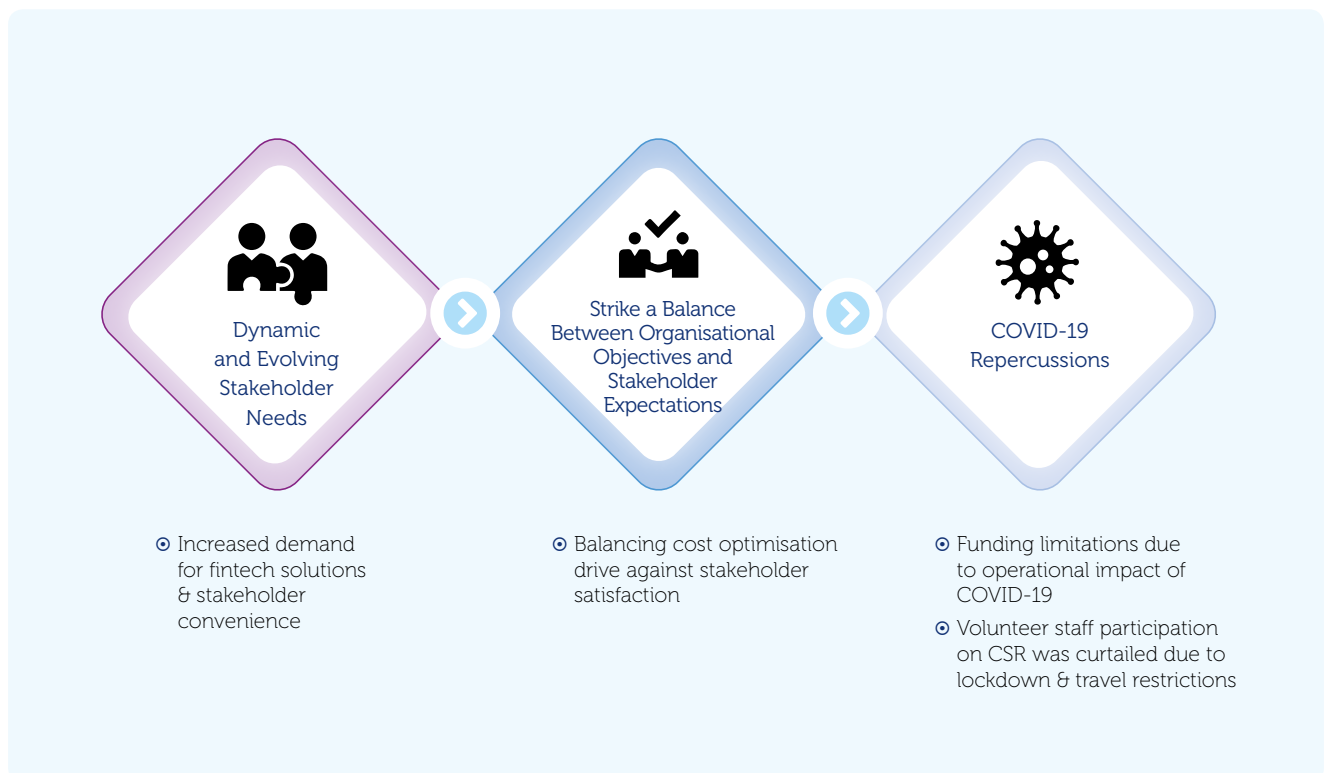
Detailed disclosures about our Alliances are made available in our website.

Alliances

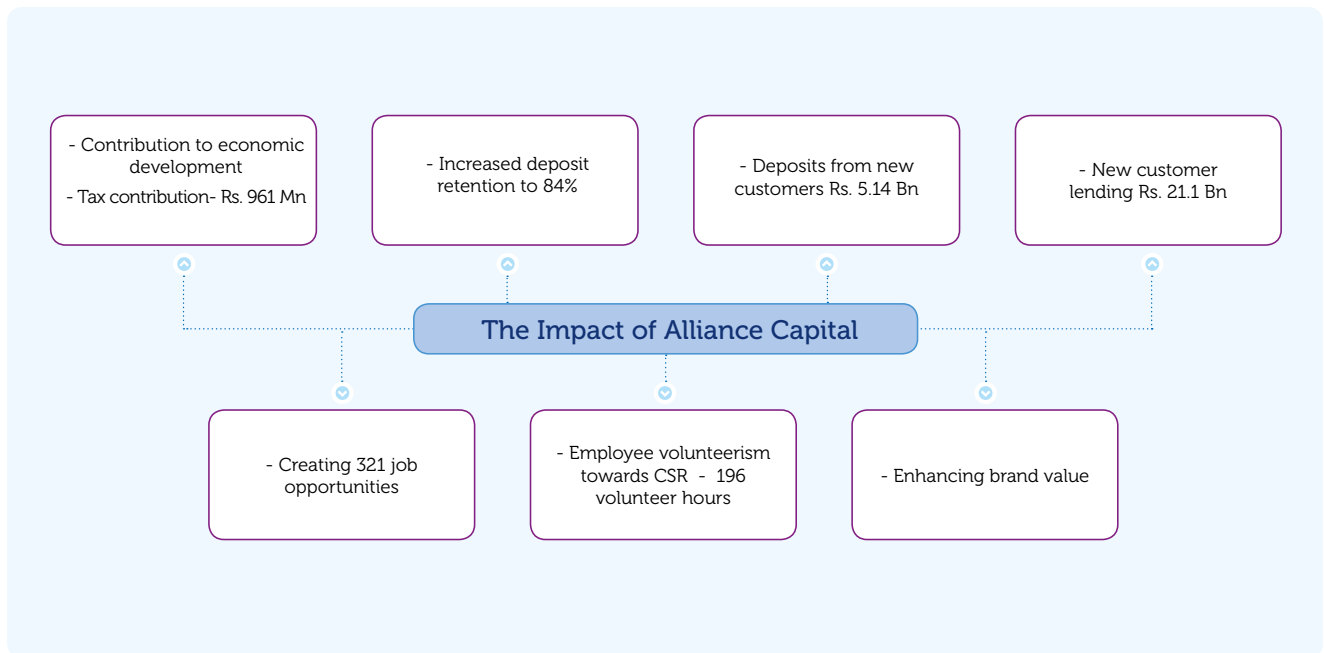
Material Focal Points



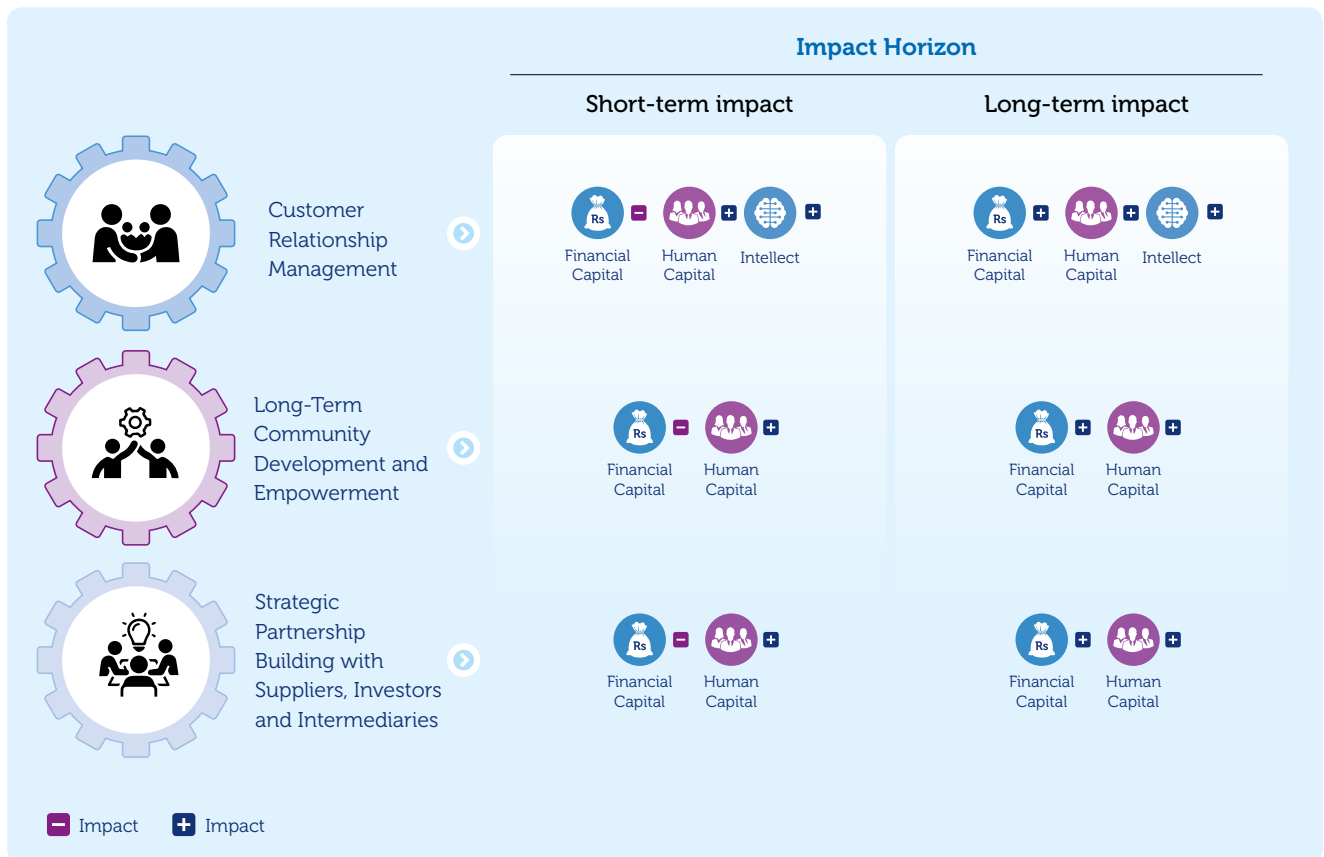
Challenges



Sphere of Impacts



Capital Trade off



Although investment in customer relationship management, community development projects, and strategic partnership building activities have a negative impact on the company’s financial capital in the short-term, it created positive outcomes on cash flows and profitability in the medium- to long-term by transforming these enriched relationships into sustainable business growth. These relationship management initiatives have generated direct positive results by developing our workforce and upholding our brand image while supporting the development of our intellectual and infrastructure facilities in the medium- to long-term, driving sustainable and inclusive growth prospects for the company.



Human Strength



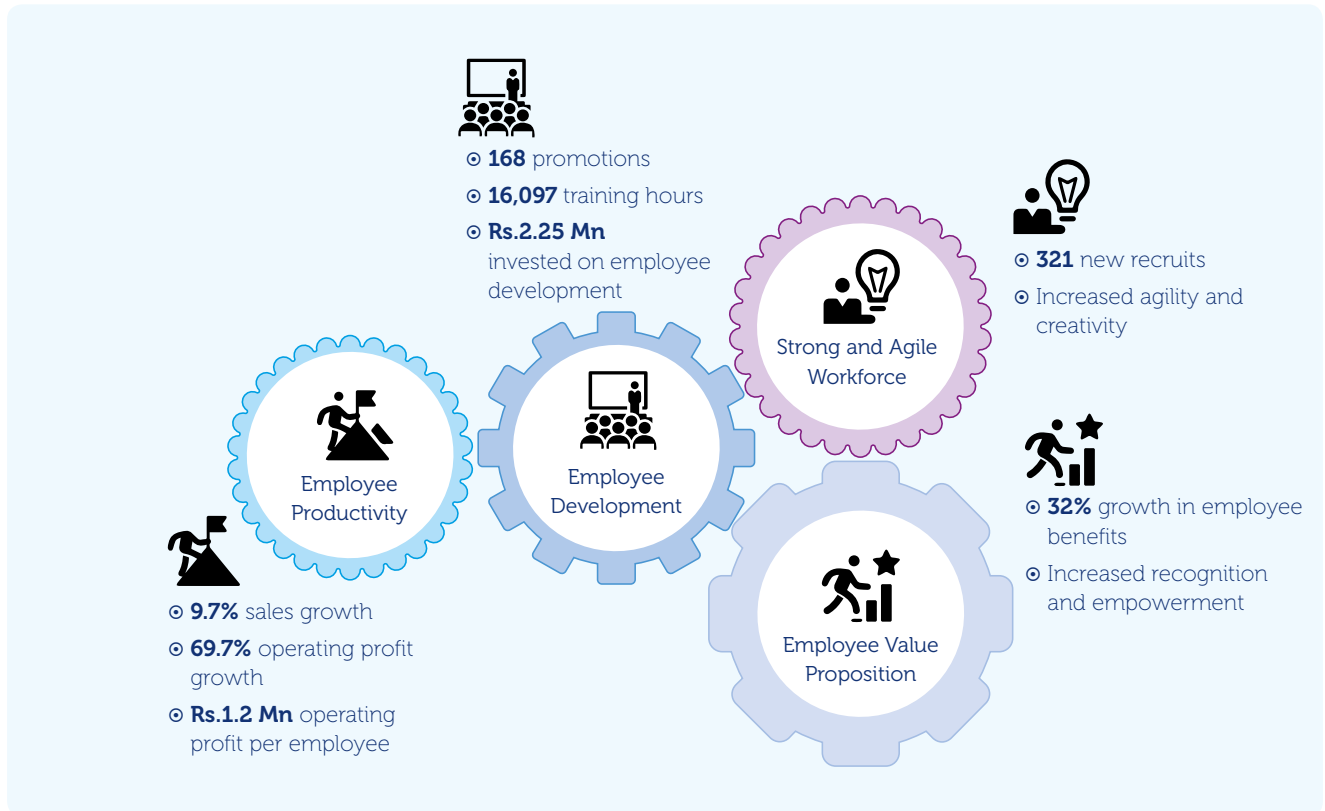
➤ GRI 103-2 and 103-3

Our culture, people, collective knowledge, skills, experience, positive attitudes and customer focus have been the fundamental components in our success story, and remained pivotal in delivering an exceptional service to our business partners even during tough and challenging periods.

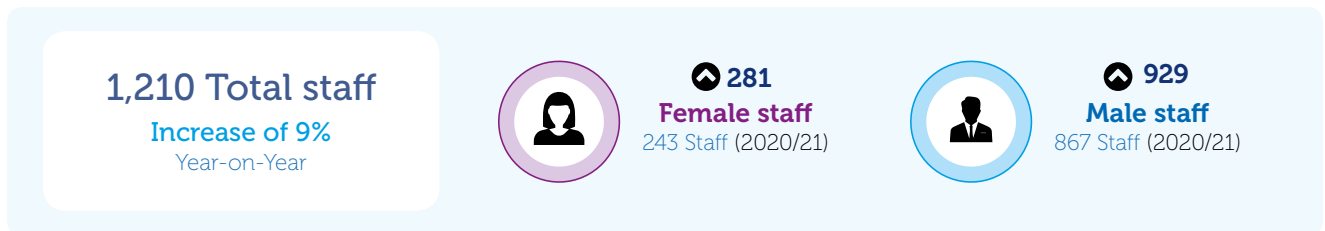
We have sensibly integrated our HR strategies, policies, and practices with MI's vision, mission, and corporate objectives to be well geared in enhancing stakeholder value in this volatile and competitive market. Well-structured recruitment, training, performance management and rewarding policies and procedures were adopted and 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 and engaged corporate culture and HR strategies have successfully attracted and retained highly-competent resource personnel. We also focus on creating win-win situations for both employees and for the Company by considering employees' career objectives, social ambitions and growth potential. In addition to monetary and non-monetary benefits provided to employees, MI provides a conducive work environment that motivates employees while also ensuring their health and safety during this pandemic times, through hygiene-conscious policies and procedures.

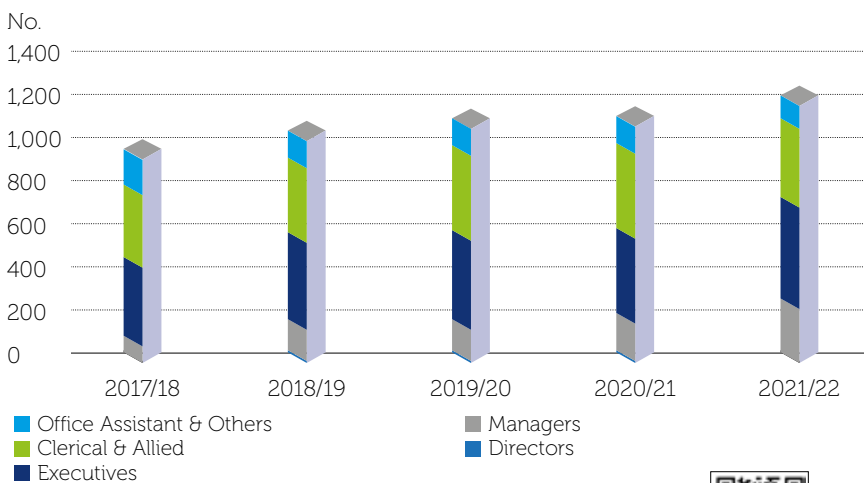
Performance Highlights



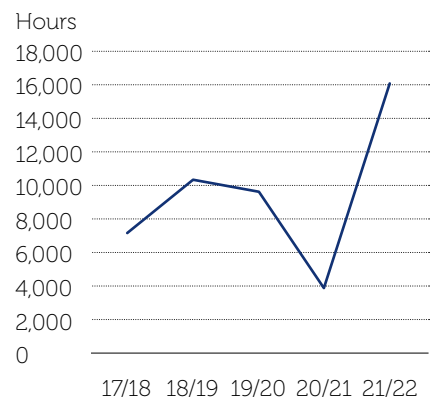
Workforce Diversity



Staff Strength



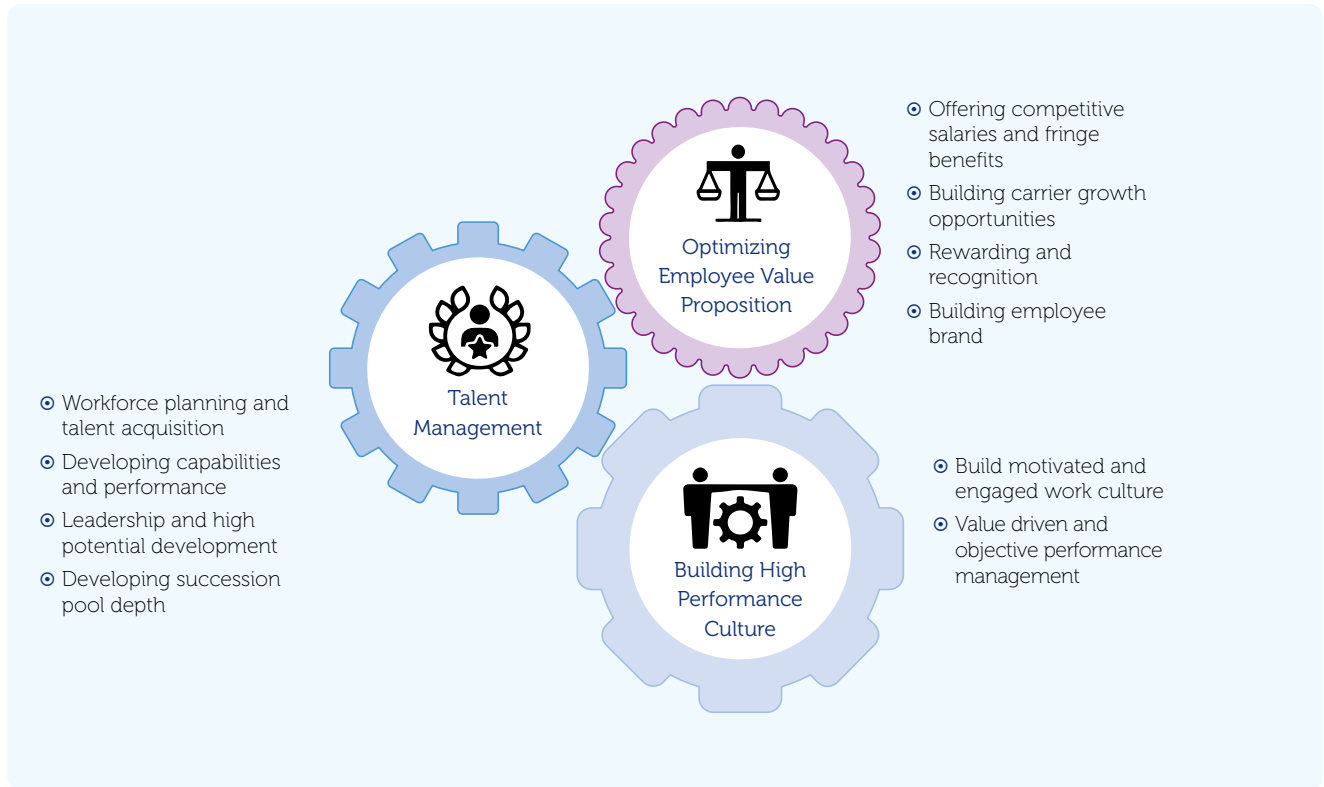
Hours of training



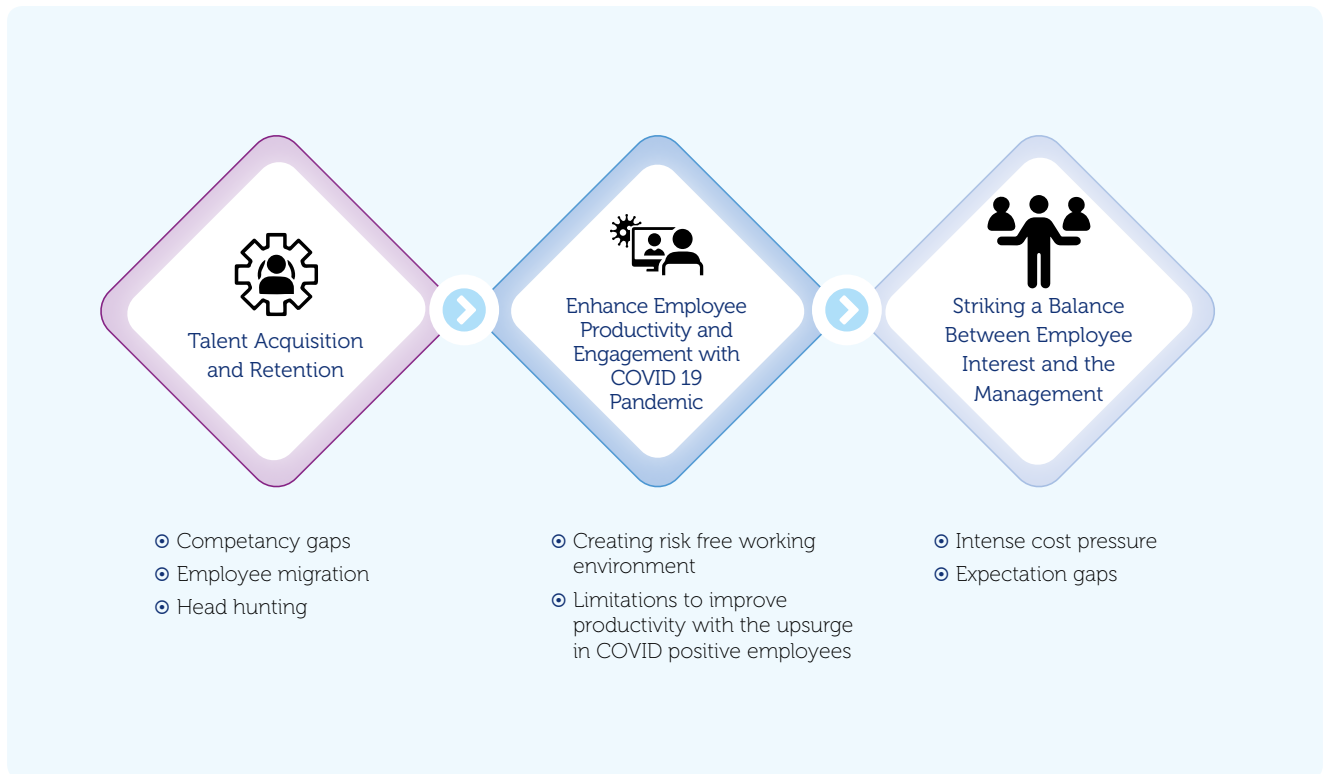
Detailed disclosures about our Human Strength are made available in our website.

Human Strength

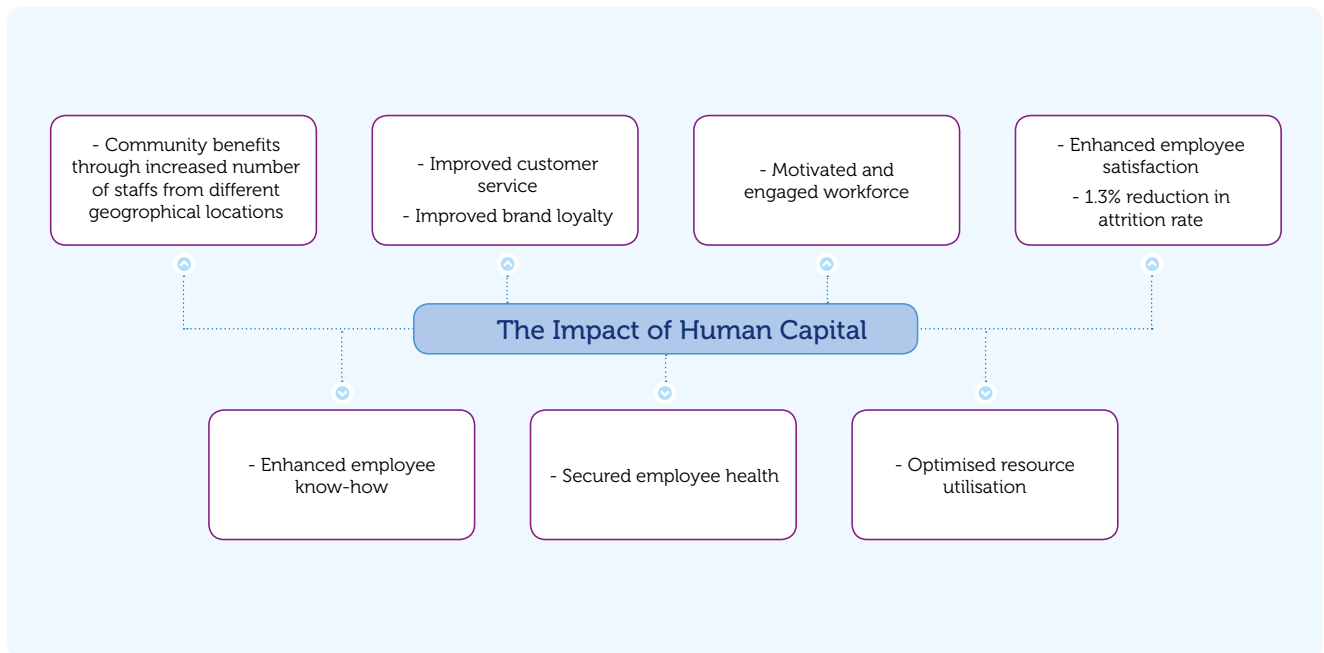
Material Focal Points



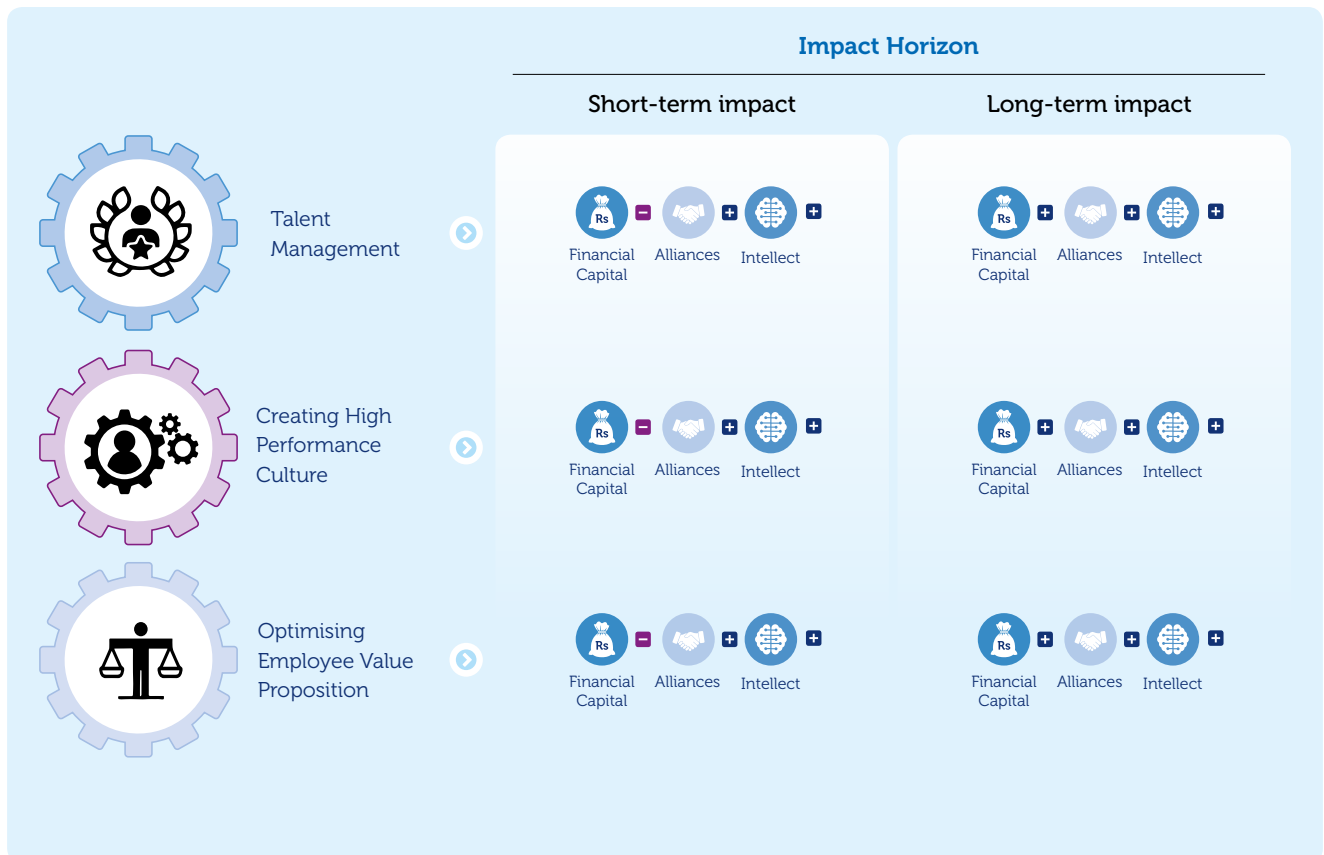
Challenges



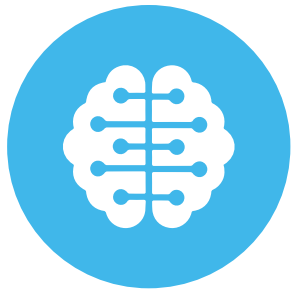
Sphere of Impacts



Capital Trade off



Although talent management initiatives towards building a high performance culture and optimising the employee value proposition may pose temporary challenges to the financial wealth of the Company, these HR dimensions positively impact cash flows and profitability in the medium and long term through increased efficiency, effectiveness, and performance. As we have forged ahead in nurturing our talents, we have already started to reap positive results by introducing innovative solutions, extending unparalleled service, improving our operational processes and uplifting our brand image, driving towards sustainable and inclusive growth.



Intellect



GRI 103-2 and 103-3

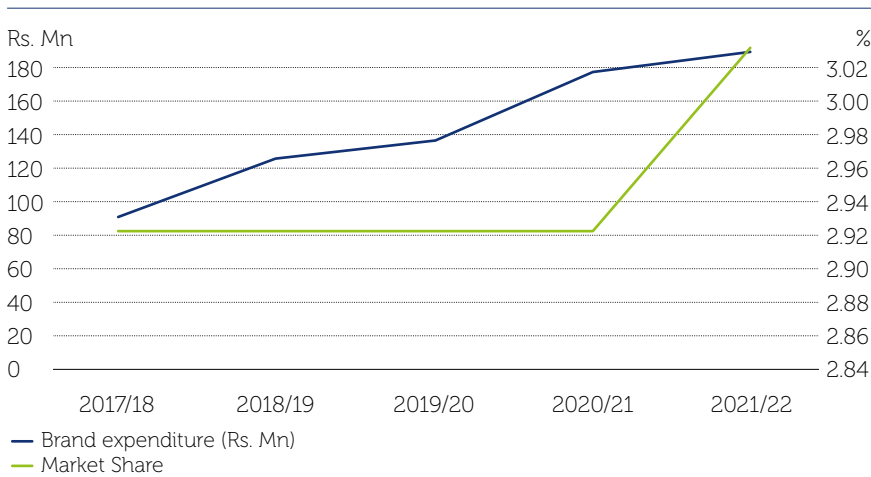
We possess a gamut of knowledge and expertise gathered through decades of service in our sector, accelerated by MI's talented growing workforce, which is well geared to deliver the outstanding service for which we are renowned. The MI brand has been perceived as a pleasant financial specialist and trustworthy partner throughout our remarkable journey of over five decades. Greater technological solutions in operations and service delivery have opened the way to enhance stakeholder returns and customer experience despite these pandemic conditions.

In our value creation journey, we continued to analyse the extent to which technology, combined with our experience and control procedures, generate long-term stakeholder benefits. Through increased process efficiency initiatives and automation, our employees were afforded the right working environment and tools during the pandemic, keeping productivity at acceptable levels. Our control strategies, policies and governance conformance brought our customers closer to the organisation, which in turn increased their trust in the Company.

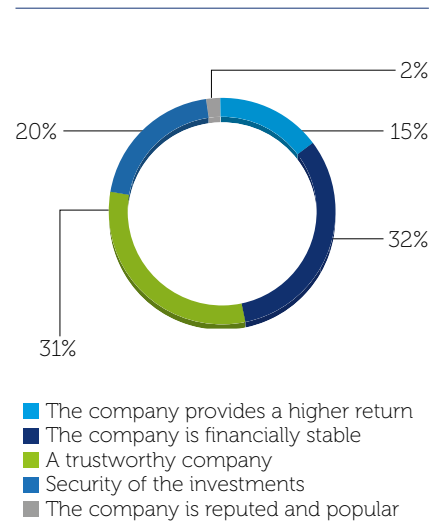
Performance Highlights

- Business continuity plan
- Remote access facilities
- IT help desk
- Ten process automations and in-house system developments
- Cost to income ratio declined by **1%**
- ROA improved by **0.83%**
- Reduction in NPL
 - 180 day from **14.09%** to **8.54%**
 - 90 day from **16.29%** to **9.83%**
- Improved Brand Image
 - Rs. 48.9 invested on branding
 - Deposit retention increased by **7%**
 - New customers attracted **> 26,800**
 - Sustained market share despite intense competition
- Embedded Innovation
- Productivity and Efficiency Enhancement
- Enhanced Customer Service Convenience
 - Broad based payment platforms
 - Expanded digital solutions
 - ATM launch
 - Improved service delivery

Market Share Vs Brand Expenditure



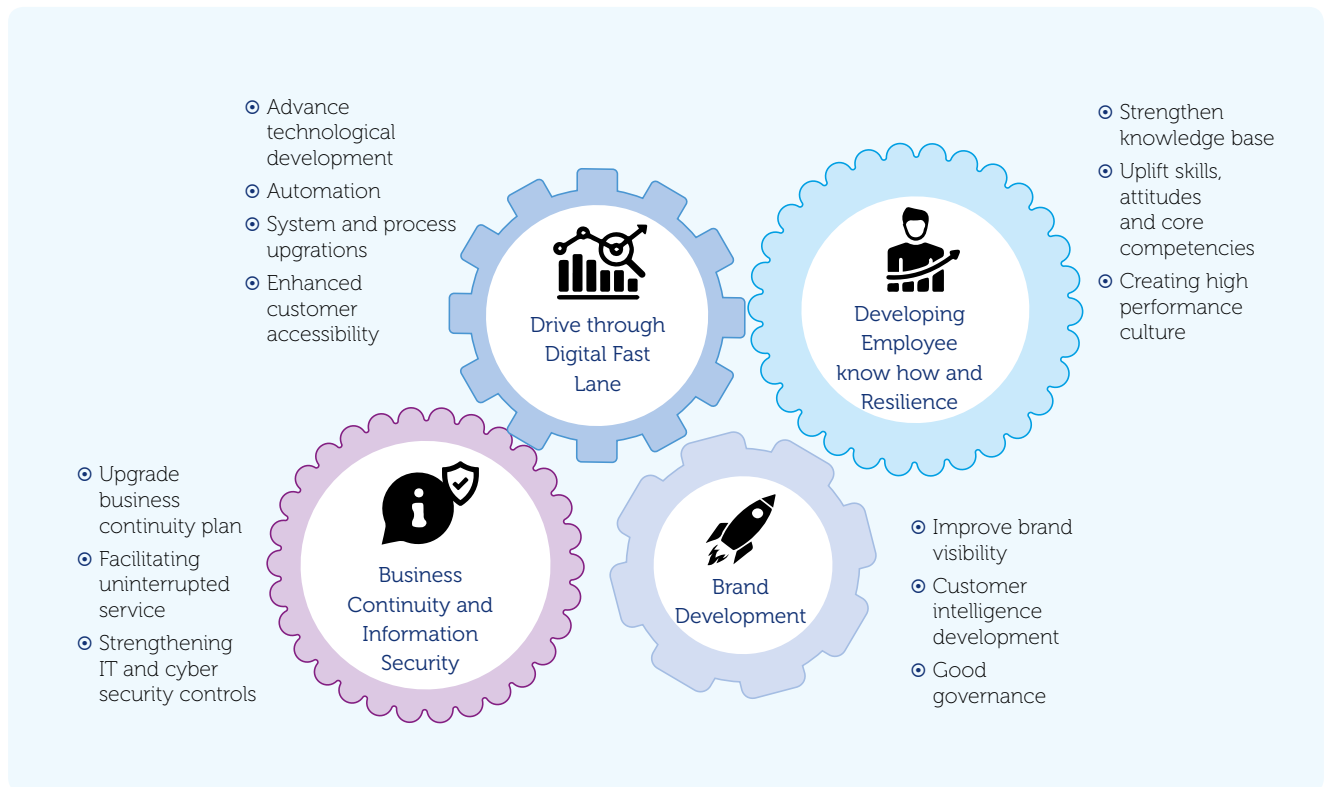
Customer Attitude Towards MI Brand



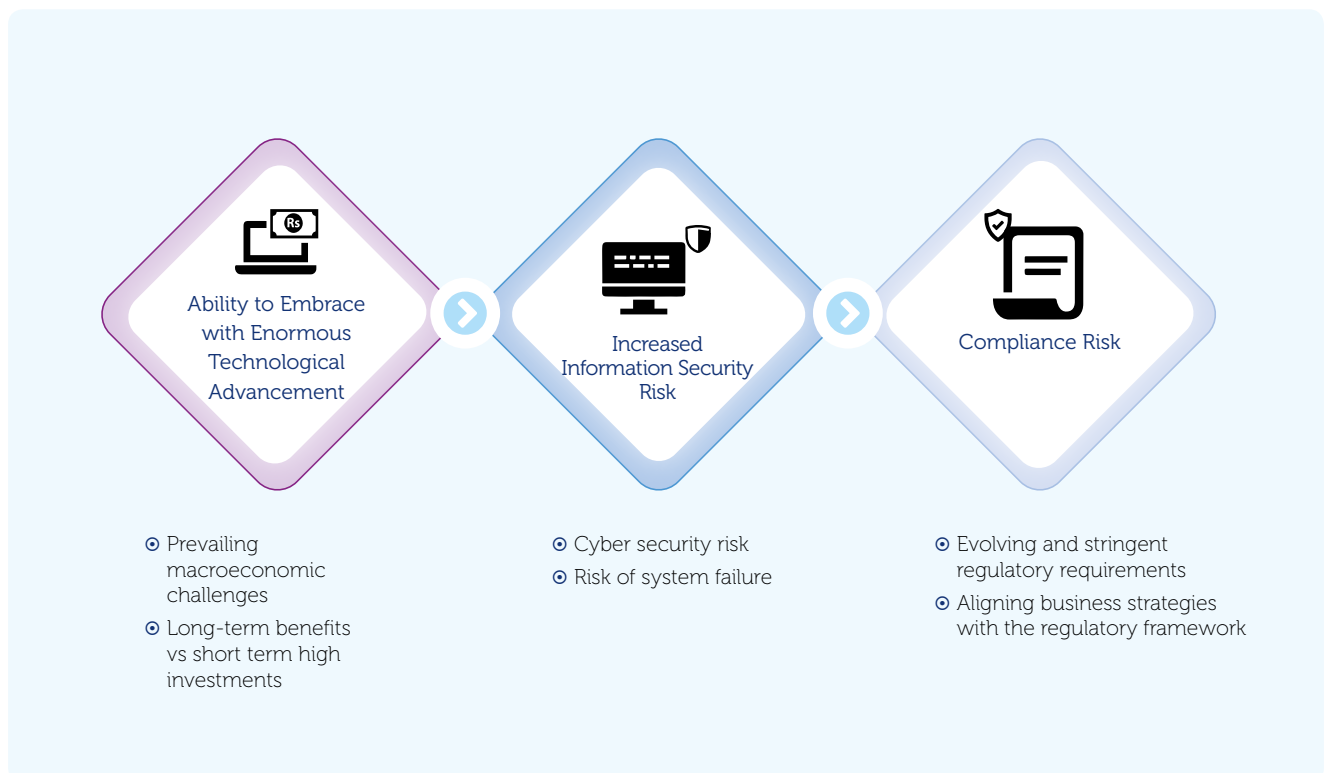
Detailed disclosures about our Intellect are made available in our website.

Intellect

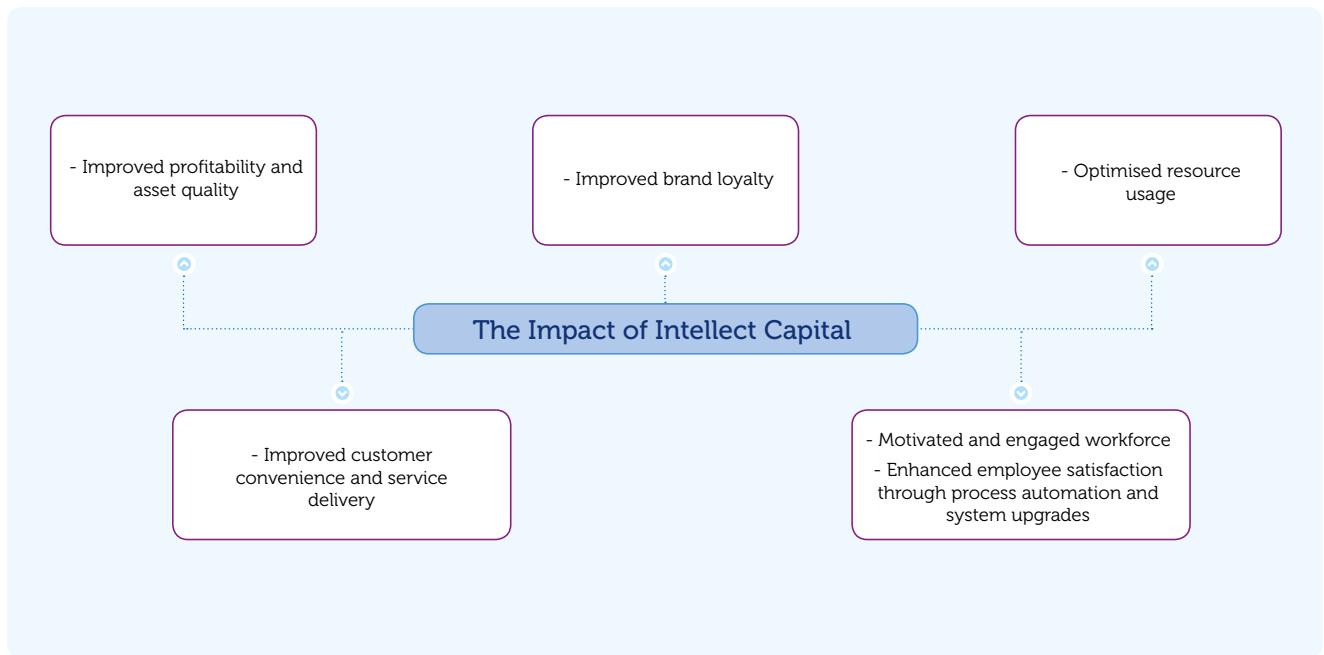
Material Focal Points



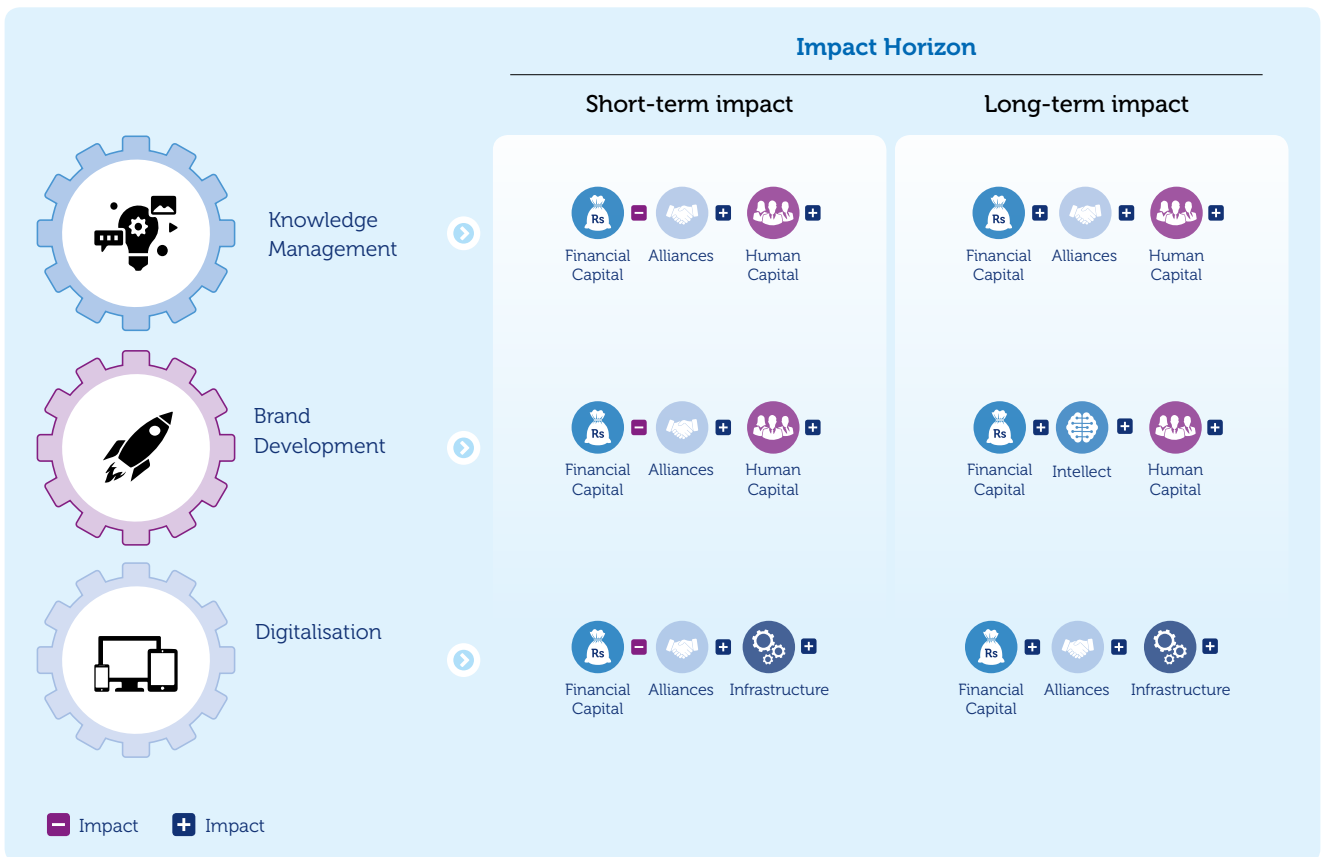
Challenges



Sphere of Impacts



Capital Trade off



The benefits from the investment we made in building our intellect has cascaded and enriched all capitals we utilise. Though investing technology involves significant capital expenditure with continuous operating expenditure on system and process upgrading and talent development, the benefits we gained in the long run through improved performance, market development and service delivery have created positive net impact in our financial wealth, while enabling the Company to stay ahead of the competition with enhanced infrastructure, alliances and human strength.



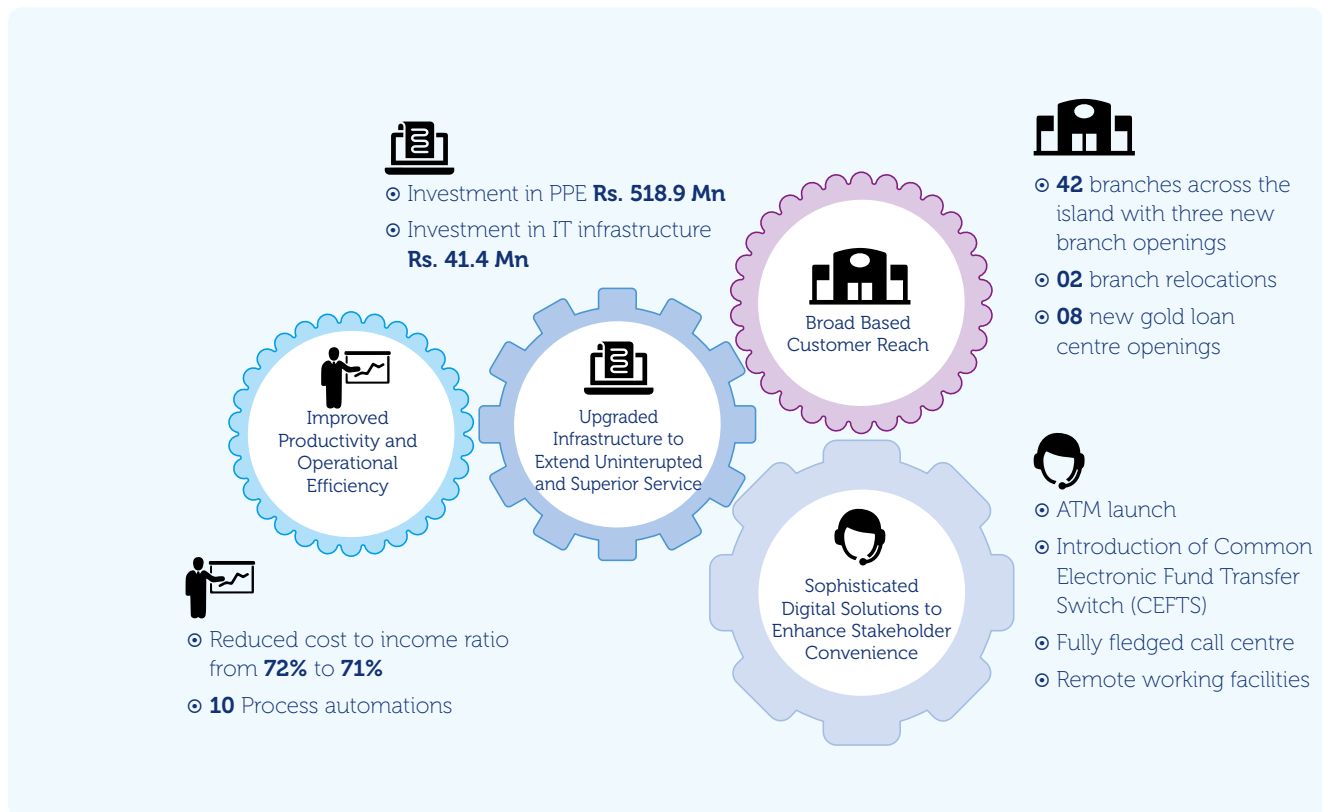
Infrastructure



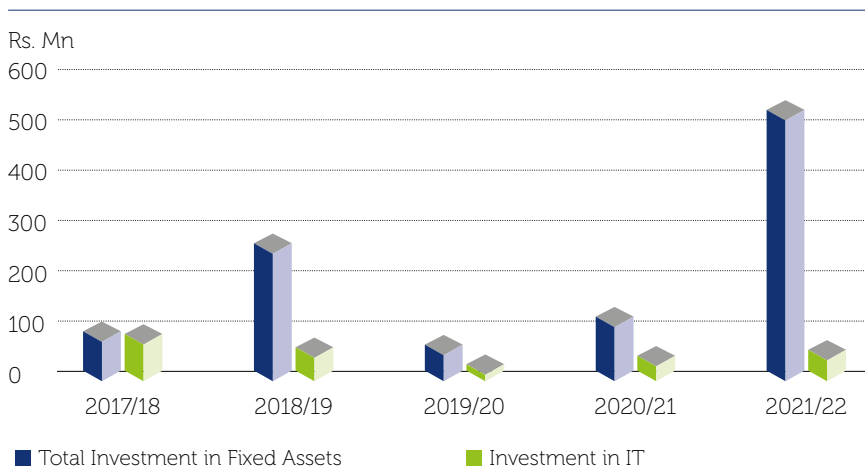
GRI 103-2 and 103-3

The infrastructure we deploy enables the Company to be flexible, innovative, and responsive to market needs and to be faster in getting its products and services to the market. Our extensive branch network, expanded digital platforms, and upgraded system infrastructure paves the way to stay competitive in the market, while enhancing customer experience and convenience. At the core of our infrastructure development strategies remains our relentless need to always exceed customer expectations, improving our productivity levels while optimising our resource utilisation. Thus, while aligning our business strategies to the new normal operating environment, we continue to upgrade our physical infrastructure and IT systems, reimagining evolving customer expectations and analysing our existing gaps to devise suitable infrastructure.

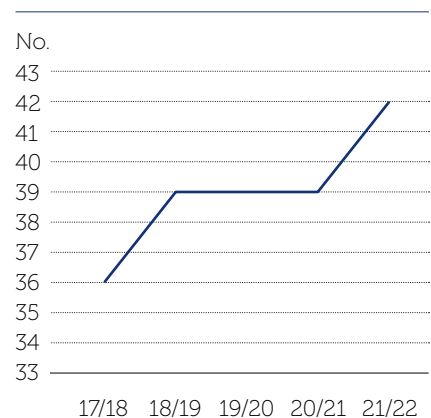
Performance Highlights



Investment in IT Vs Total Fixed Assets



Year on Year Growth (Rate) in Branch Network



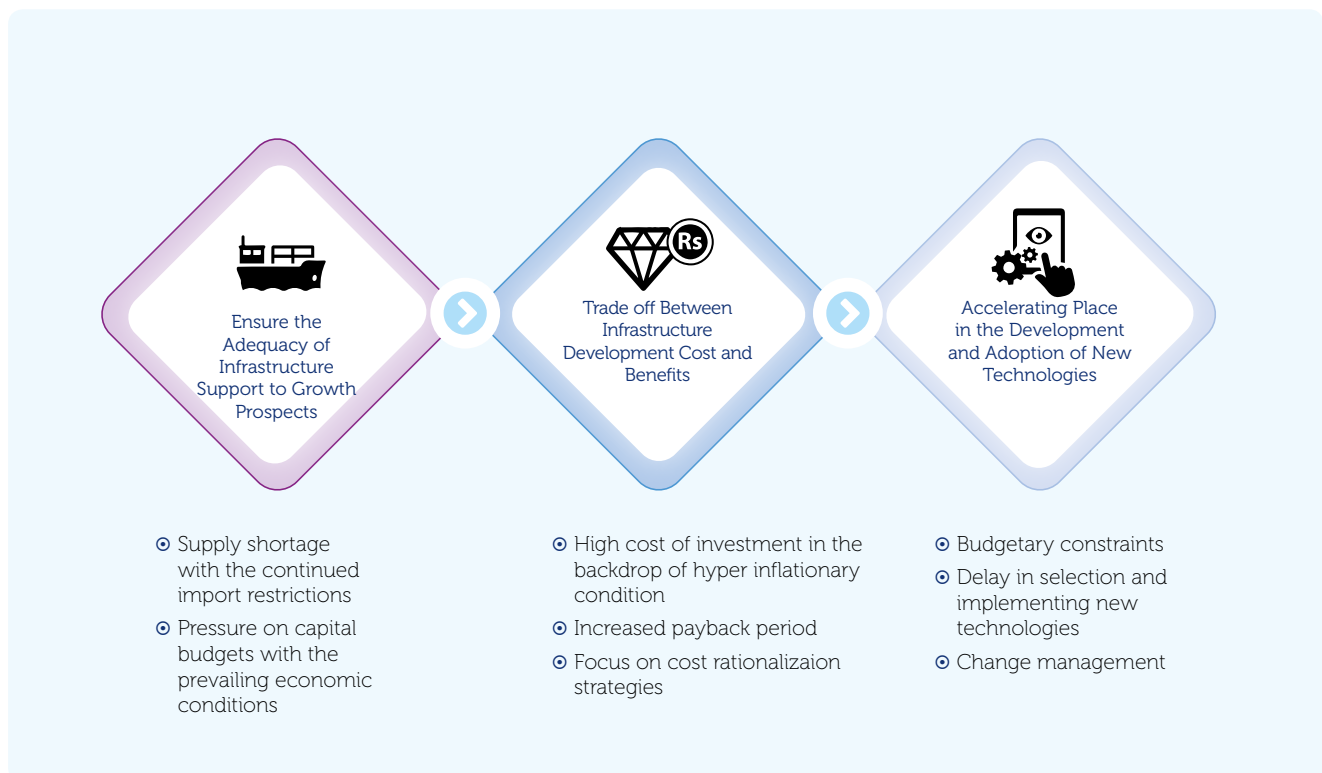
Detailed disclosures about our Infrastructure are made available in our website.

Infrastructure

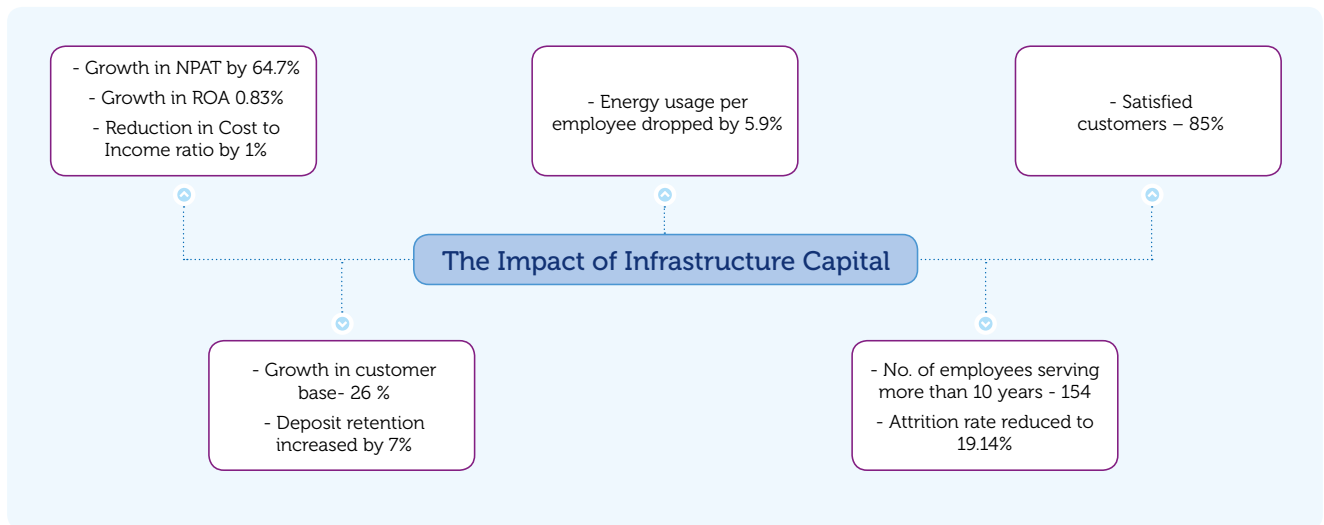
Material Focal Points



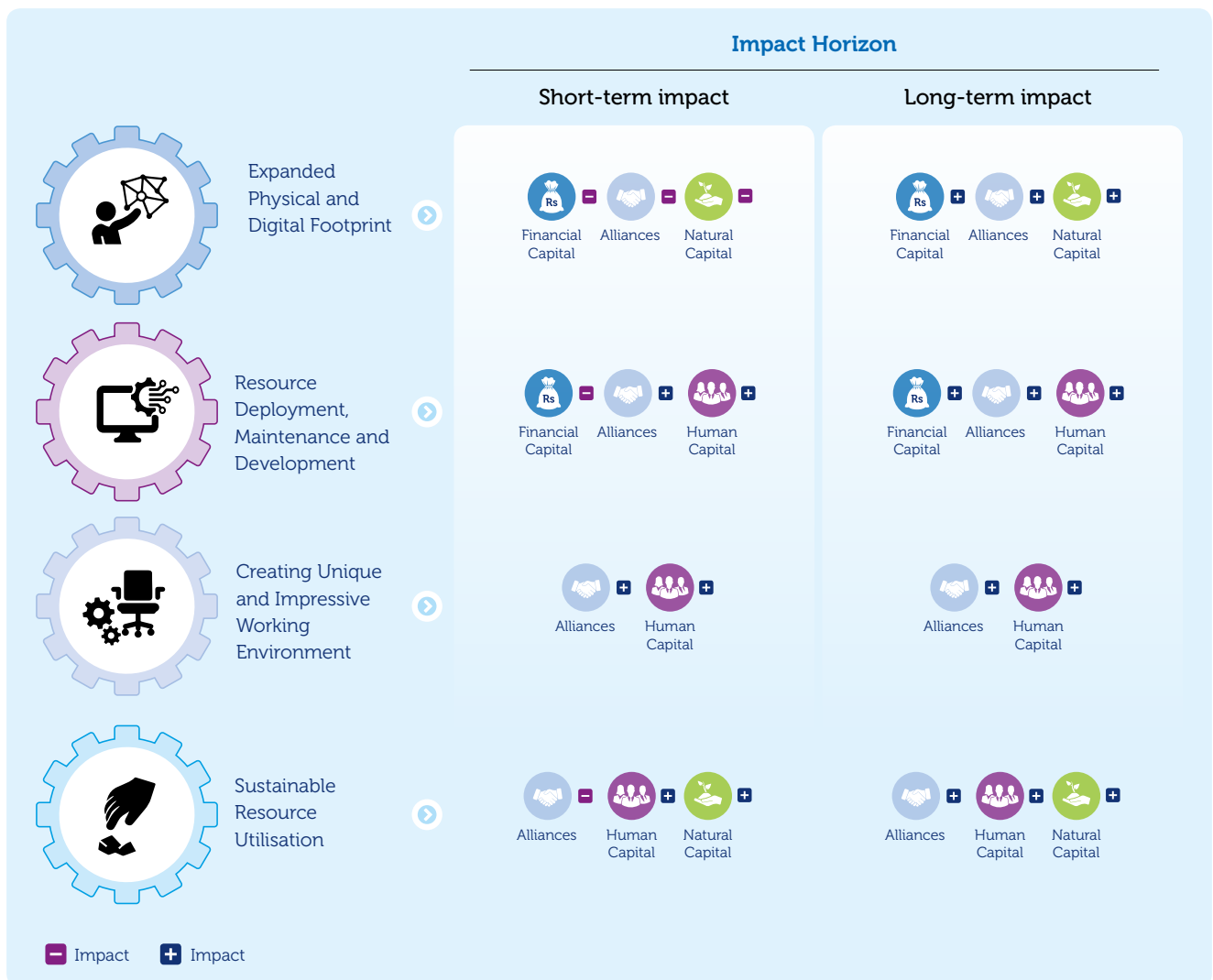
Challenges



Sphere of Impacts



Capital Trade off



By deploying the right infrastructure, we have seen our revenue grow through service excellence, which in turn has bolstered our financial wealth over time. Simultaneously, MI has been able to reduce its negative impact on natural capital by sharing infrastructure among departments and boosting the efficiency of existing infrastructure through regular evaluations and maintenance.



Nature



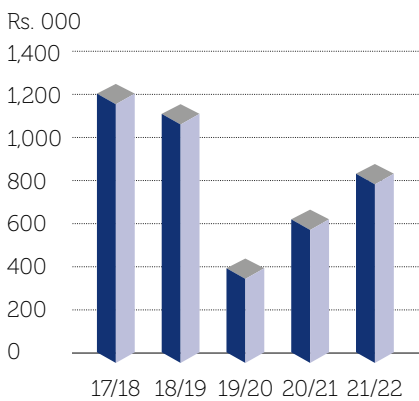
➔ GRI 103-2 and 103-3

Integrating sustainability concepts into our business strategy and corporate culture has indeed been a focal point in our journey, making our visionary aspirations a reality by creating a sustainable tomorrow for our society. Being a responsible corporate citizen for 57 long years, our intention of minimising the negative ecological footprint has been at the top in our priorities, once we commenced expanding our presence in the last two decades. The Sustainability Governance Committee works towards ensuring the environmental sustenance of our business model and is committed to conduct environmental conservation campaigns to safeguard natural resources for the benefit of future generation. While ensuring that our lending policies support the preservation of our natural resources, we minimised our negative impact by upholding a green corporate culture and implementing effective green policies and procedures. Moreover, we continued to encourage the efficient use of renewable resources – energy and water – while adhering to the 3Rs concept on both inorganic and organic waste management. To protect areas with high biodiversity, our branch expansion strategy took cognisance environmentally-rich sites when selecting branch locations.

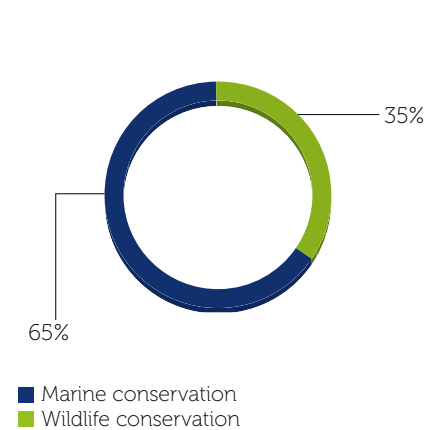
Performance Highlights

- Regular employee awareness on resource usage
 - Nature related employee volunteerism - **132** hours
 - Green oriented automation and digitalisation
- GRI Assurance
 - Embraced with Sustainable Financing
- Uphold Global Environmental Compliance
- Expanded internal waste management
 - 299%** growth in green lending
- Environmental and Habitat Conservation Investments
 - Investment in wild life conservation – **Rs. 662,000**
 - Donation to Marine Environment Protection Authority – **Rs. 281,000**
- Enculcating an Environmentally Friendly Corporate Culture
- Adopting Environmentally Responsible Business Practices

Investments on environment development projects



Volunteered Hours for Environmental Initiatives



Energy Usage - 1,293,628 kWh
 FY 2021/22 YoY **2%** ↑

Water Usage - 11,587 m³
 FY 2021/22 YoY **2%** ↑



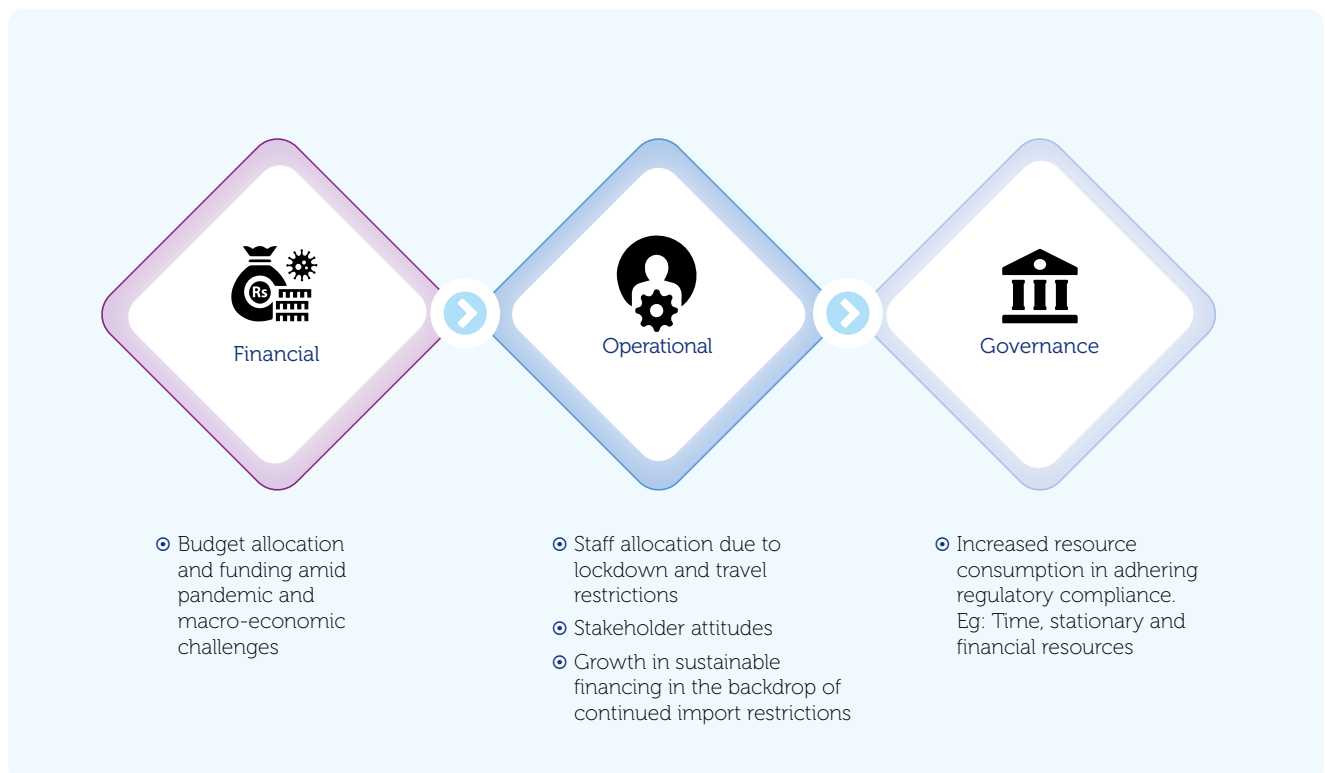
Detailed disclosures about our Nature are made available in our website.

Nature

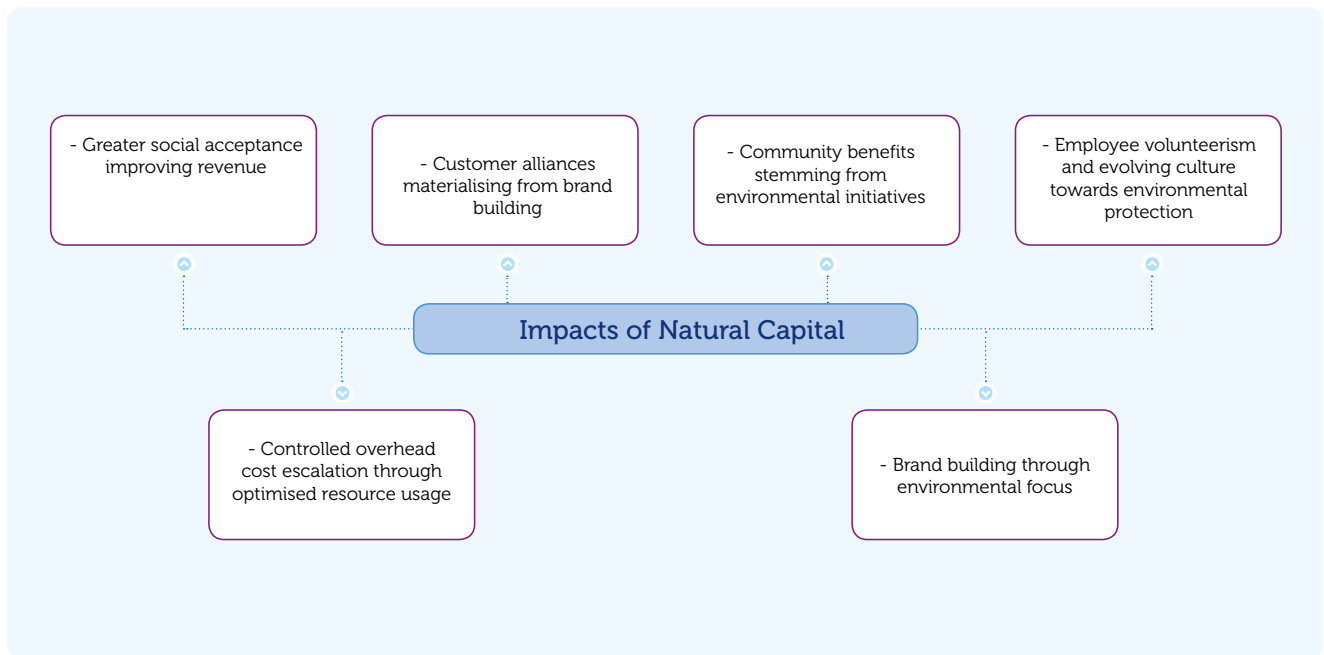
Material Focal Points



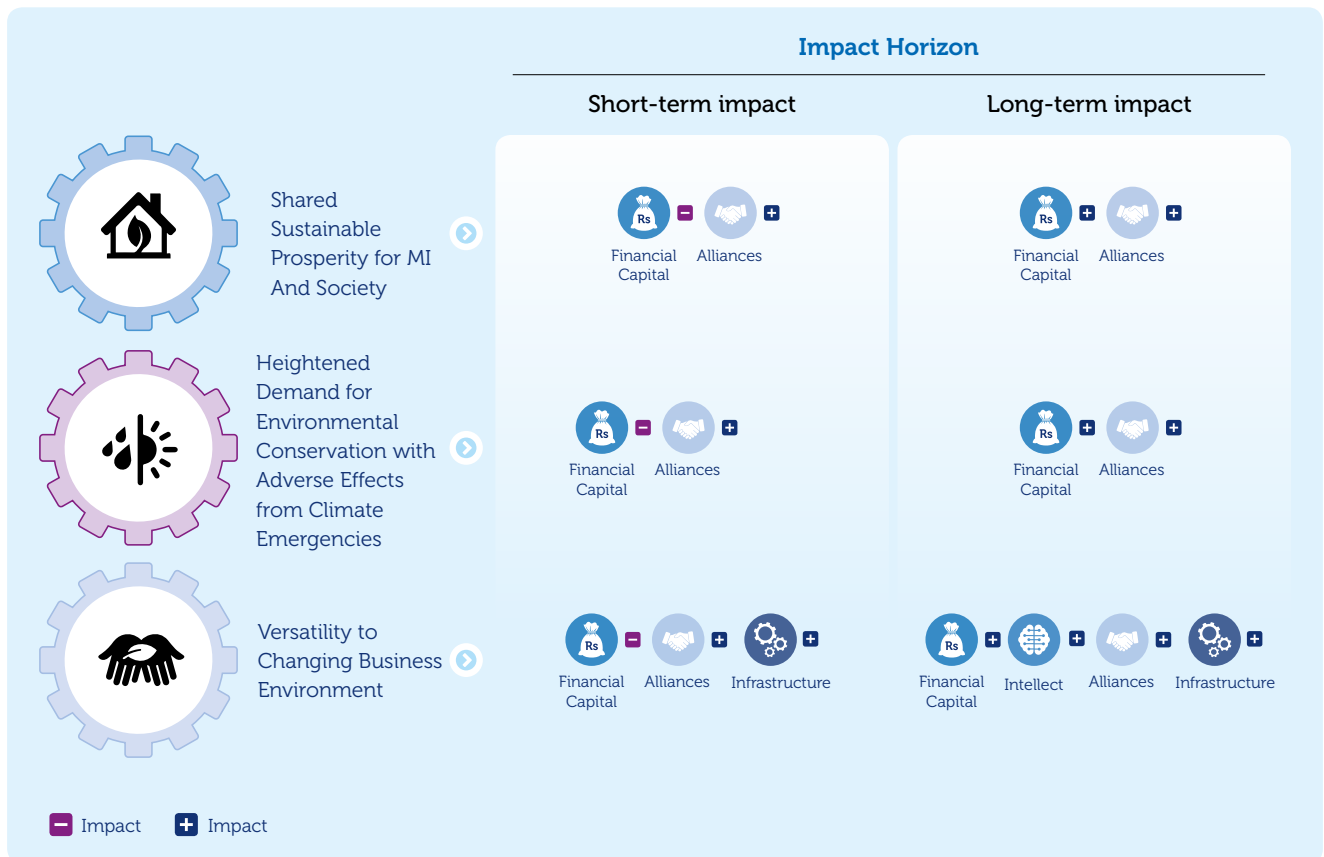
Challenges



Sphere of Impacts



Capital Trade off



Despite having to incur additional costs to safeguard the environment, the perceived benefits of environmental protection remained on a longer horizon with our improved environmental footprint, which enhances our brand image and social bonding, boosting revenue and profitability in the medium and long term. Moreover, the controlled use of resources enabled us to stay resilient in these unprecedented times, keeping control on costs amidst rising inflation.

GRI Standards Contents Index

“In Accordance Comprehensive”

GRI 102-55

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	102-3	Location of headquarters	236, Galle Road, Colombo 03, Sri Lanka.	304	
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	102-34	Nature and total number of critical concerns	Corporate Governance Report	125	
	102-35	Remuneration Policies	Corporate Governance Report	116,127	
	102-36	Process of determining remuneration	Corporate Governance Report	116,127	
	102-37	Stakeholders involvement in remuneration	Corporate Governance Report	127,129	
	102-38	Annual total compensation ratio	*Omitted and not disclosed due to confidentiality		
	102-39	Percentage increase in annual total compensation ratio	*Omitted and not disclosed due to confidentiality		
Stakeholder Engagement	102-40	List of stakeholder groups	Sustainable Value Creation Process - Stakeholder Matrix	38	5 to 8
	102-41	Collective bargaining agreements	Human Strength		34

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Category	Disclosure Number	Disclosures	Section in AR	Page Reference	
				Book Page	Web Page
	102-42	Identifying and selecting stakeholders	Sustainable Value Creation Process - Stakeholder Matrix	38	5
	102-43	Approach to stakeholder engagement	Sustainable Value Creation Process - Stakeholder Engagement	38	6 to 8
	102-44	Key topics and concerns raised	Sustainable Value Creation Process - Stakeholder Engagement	38	6 to 8
Reporting Practice	102-45	Entities included in the consolidated financial statements	Integrated Report Brief	8	
	102-46	Defining report content and topic boundaries	Integrated Report Brief Sustainable Value Creation Process - Material Matters	8 39	9 to 20
	102-47	List of material topics	Sustainable Value Creation Process - Material Matters	39	10 to 20
	102-48	Restatements of information	Integrated Report Brief	9	
	102-49	Changes in reporting	Integrated Report Brief	9	
	102-50	Reporting period	1st April 2021 to 31st March 2022	8	
	102-51	Date of most recent report	31st March 2021	9	
	102-52	Reporting cycle	Integrated Report Brief	8	
	102-53	Contact point for questions regarding the report	Integrated Report Brief	11	
	102-54	Claims of reporting in accordance with the GRI standards	Integrated Report Brief	10	
	102-55	GRI Content Index	GRI Standards Contents Index "In Accordance Comprehensive"	80 to 86	
	102-56	External assurance	Integrated Report Brief Independent Assurance Report on Sustainability	10 87	
GRI 103: Management Approach					
	103-1	Explanation of the material topics and its boundary	Sustainable Value Creation Process - Material Matters	39	9 to 20
	103-2	The management approach and its components	Sustainable Value Creation Process - Material Matters Financial Wealth Alliances Human Strength Intellect Infrastructure Nature Impact Management	39 48 to 59 60 to 63 64 to 67 68 to 71 72 to 75 76 to 79	10 to 20 1 to 22 1 to 37 1 to 14 1 to 19 1 to 15 1 to 236
	103-3	Evaluation of the management approach	Sustainable Value Creation Process - Material Matters Financial Wealth Alliances Human Strength Intellect Infrastructure Nature Impact Management	39 48 to 59 60 to 63 64 to 67 68 to 71 72 to 75 76 to 79	9 to 20 1 to 22 1 to 37 1 to 14 1 to 19 1 to 15 1 to 236

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				Book Page	Web Page
GRI 200: Economic Performance					
GRI 201: Economic Performance	201-1	Direct economic value generated and distributed	Impact Management		9 to 11
	201-2	Financial implications and other risks and opportunities due to climate change	Nature		12
	201-3	Defined benefit plan obligations and other retirement plans	Financial Statements	257-258	
	201-4	Financial assistance received from government	Impact Management		9
GRI 202: Market Presence	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Human Strength		27
	202-2	Proportion of senior management hired from the local community	Human Strength		10 to 11
GRI 203: Indirect Economic Impacts	203-1	Infrastructure investments and services supported	Impact Management		17 to 18
	203-2	Significant indirect economic impacts	Impact Management		15 to 17
GRI 204: Procurement Practices	204-1	Proportion of spending on local suppliers	Alliances		13
GRI 205: Anti-corruption	205-1	Operations assessed for risks related corruption	Alliances		20
	205-2	Communication and training about anti-corruption policies and procedures	Alliances		19 to 20
	205-3	Confirmed incidents of corruption and actions taken	Alliances		20
GRI 207: Tax 2019	207-1	Approach to tax	Sustainable Value Creation Process - Managing Our Tax Obligations		60 to 61
			Notes to the Financial Statements	225 to 226	
	207-2	Tax governance, control, and risk management	Sustainable Value Creation Process - Managing Our Tax Obligations		60 to 61
			Notes to the Financial Statements	225 to 226	
207-3	Stakeholder engagement and management of concerns related to tax	Sustainable Value Creation Process - Managing Our Tax Obligations		60 to 61	
		Notes to the Financial Statements	225 to 226		
207-4	Country-by-country reporting	Notes to the Financial Statements	225 to 226		
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 organization	Nature		10
			Impact Management		27 to 29

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				Book Page	Web Page
	302-2	Energy consumption outside of the organization	Nature		10 to 11
			Impact Management		27 to 29
	302-3	Energy intensity	Impact Management		29
	302-4	Reduction of energy consumption	Impact Management		28 to 29
	302-5	Reductions in energy requirements of products and services	Impact Management		27 to 29
GRI 303: Water and Effluents 2018	303-1	Water withdrawal by source	Impact Management		29 to 30
	303-2	Water sources significantly affected by withdrawal of water	Impact Management		29 to 30
	303-3	Water recycled and reused	Impact Management		29 to 30
	303-4	Water discharge	Impact Management		29 to 30
	303-5	Water consumption	Impact Management		29 to 30
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		8 to 9
	304-2	Significant impacts of activities, products, and services on biodiversity	Nature		8 to 9
	304-3	Habitats protected or restored	Nature		11
			Impact Management		33 to 35
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	Nature		8 to 9
GRI 306: Waste 2020	306-1	Waste generation and significant waste-related impacts	Impact Management		31
	306-2	Management of significant waste-related impacts	Impact Management		31
	306-3	Waste generated	Impact Management		31
	306-4	Waste diverted from disposal	Impact Management		31
			Nature		8
	306-5	Waste directed to disposal	Impact Management		31
			Nature		8
GRI 307: Environmental Compliance 2016	307-1	Non-compliance with environmental laws and regulations	Nature		13
GRI 400: Social Topics					
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	Human Strength		12-13, 31-32

Category	Disclosure Number	Disclosures	Section in AR	Page Reference	
				Book Page	Web Page
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Human Strength	26 to 27	
	31	Parental leave	Human Strength	31	
GRI 402: Labor/ Management Relations 2016	402-1	Minimum notice periods regarding operational changes	Human Strength	34	
GRI 403: Occupational Health and Safety 2018	403-1	Workers representation in formal joint management-worker health and safety committees	Human Strength	28	
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Human Strength	28 to 30	
	403-3	Workers with high incidence or high risk of diseases related to their occupation	Human Strength	28 to 30	
	403-4	Health and safety topics covered in formal agreements with trade unions	Human Strength	28 to 30	
	403-5	Worker training on occupational health and safety	Human Strength	29 to 30	
	403-6	Promotion of worker health	Human Strength	29 to 30	
	403-7	"Prevention and mitigation of occupational health and safety impacts directly linked by business relationships"	Human Strength	29 to 30	
	403-8	"Workers covered by an occupational health and safety management system"	Human Strength	28 to 31	
	403-9	Work-related injuries	Human Strength	30	
	403-10	Work-related ill health	Human Strength	28 to 31	
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	Human Strength	16	
	404-2	Programs for upgrading employee skills and transition assistance programs	Human Strength	19 to 24	
	404-3	Percentage of employees receiving regular performance and career development reviews	Human Strength	24 to 26	
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	27	

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				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		34
GRI 412: Human Rights Assessment 2016	412-1	Operations that have been subject to human rights reviews or impact assessments	Human Strength		33
	412-2	Employee training on human rights policies or procedures	Human Strength		33
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Human Strength		33
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	Alliances		16 to 18
			Impact Management		19 to 24
	413-2	Operations with significant actual and potential negative impacts on local communities	Alliances		17
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		6
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 the Board of Directors of Mercantile Investments and Finance PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2021/22

Scope

We have been engaged by the management of Mercantile Investments and Finance PLC ("the Company") to perform an independent assurance engagement, as defined by the Sri Lankan Standard on Assurance Engagements, on the sustainability reporting criteria presented in the Integrated Annual Report for the year ended 31 March 2022 (the "Report").

- ⊙ Reasonable assurance on the information on financial performance as specified on Impact Management web content pages 10 to 11 of the Report.
- ⊙ Limited assurance on other information presented in the Report, prepared in accordance with the GRI Standards: Comprehensive option.

Criteria applied by Mercantile Investments and Finance PLC

The sustainability reporting criteria presented in the Report has been prepared in accordance with The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, publicly available at GRI's global website www.globalreporting.org.

This Report has been prepared in accordance with the GRI Standards: Comprehensive option (the "criteria").

Mercantile Investments and Finance PLC's responsibilities

Mercantile Investments and Finance PLC's management is responsible for selecting the criteria, and for presenting the Report in accordance with the said criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to support the sustainability reporting process of the Report, such that it is free from material misstatement, whether due to fraud or error.

Ernst & Young's responsibilities

Our responsibility is to express a conclusion on the presentation of the Report in accordance with the GRI Standards: Comprehensive option based on the evidence we have obtained.

We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka and the terms of reference for this engagement as agreed with Mercantile Investments and Finance PLC in the engagement letter dated 03 January 2022.

The standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that

need to be made to the Report in order for it to be in accordance with the criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our independent assurance conclusion.

Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka and have the required competencies and experience to conduct this assurance engagement.

EY also applies Sri Lanka Standard on Quality Control (SLSQC 1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements, 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.

Description of procedures performed

We performed our procedures to provide an independent assurance engagement in accordance with SLSAE 3000.

Procedures performed in the reasonable assurance engagement depend on our judgement, including the assessment of the risks of material misstatement whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the reasonable assurance Indicators in order to design the assurance procedures that are appropriate in the circumstances. Our procedures also included assessing the appropriateness of the reasonable assurance indicators, the suitability of the criteria in preparing and presenting the reasonable assurance indicators within the Report and obtaining an understanding of the compilation of the financial information to the sources from which it was obtained.

Procedures performed in the limited assurance engagement consisted of making inquiries, primarily of persons responsible for preparing the Report and related information and applying analytical and other appropriate procedures. These procedures vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls

or performing procedures relating to checking aggregation or calculation of data within IT systems.

We also performed the below procedures as we considered necessary in the circumstances:

- ⊙ Perform a comparison of the content of the Report against the Global Reporting Initiative (GRI) - GRI Standards guideline.
- ⊙ Interviewing relevant organization's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- ⊙ Review and validation of the information contained in the Report.
- ⊙ Check the calculations performed by the organization on a sample basis through recalculation.
- ⊙ Advice, make recommendations and suggestions on the Sustainability Reporting indicators to improve the presentation standard.
- ⊙ Independently review the content of the Report and request changes if required.
- ⊙ Express an independent assurance conclusion on the performance indicators presented in the Sustainability Reporting criteria.

Emphasis of matter

Social, natural and intellectual capital management data/information are subjected to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

We also do not provide any assurance on the assumptions and achievability of prospective information presented in the Report.

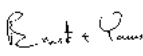
Restricted use

This report is intended solely for the information and use of Mercantile Investment and Finance PLC and is not intended to be and should not be used by anyone other than the specified party.

Conclusion

Based on our procedures and the evidence obtained, we conclude that:

- ⊙ The information on financial performance as specified on Impact Management web content pages 10 to 11 of the Report is properly derived from the audited financial statements of the Company for the year ended 31 March 2022.
- ⊙ 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 the GRI Standards: Comprehensive option.



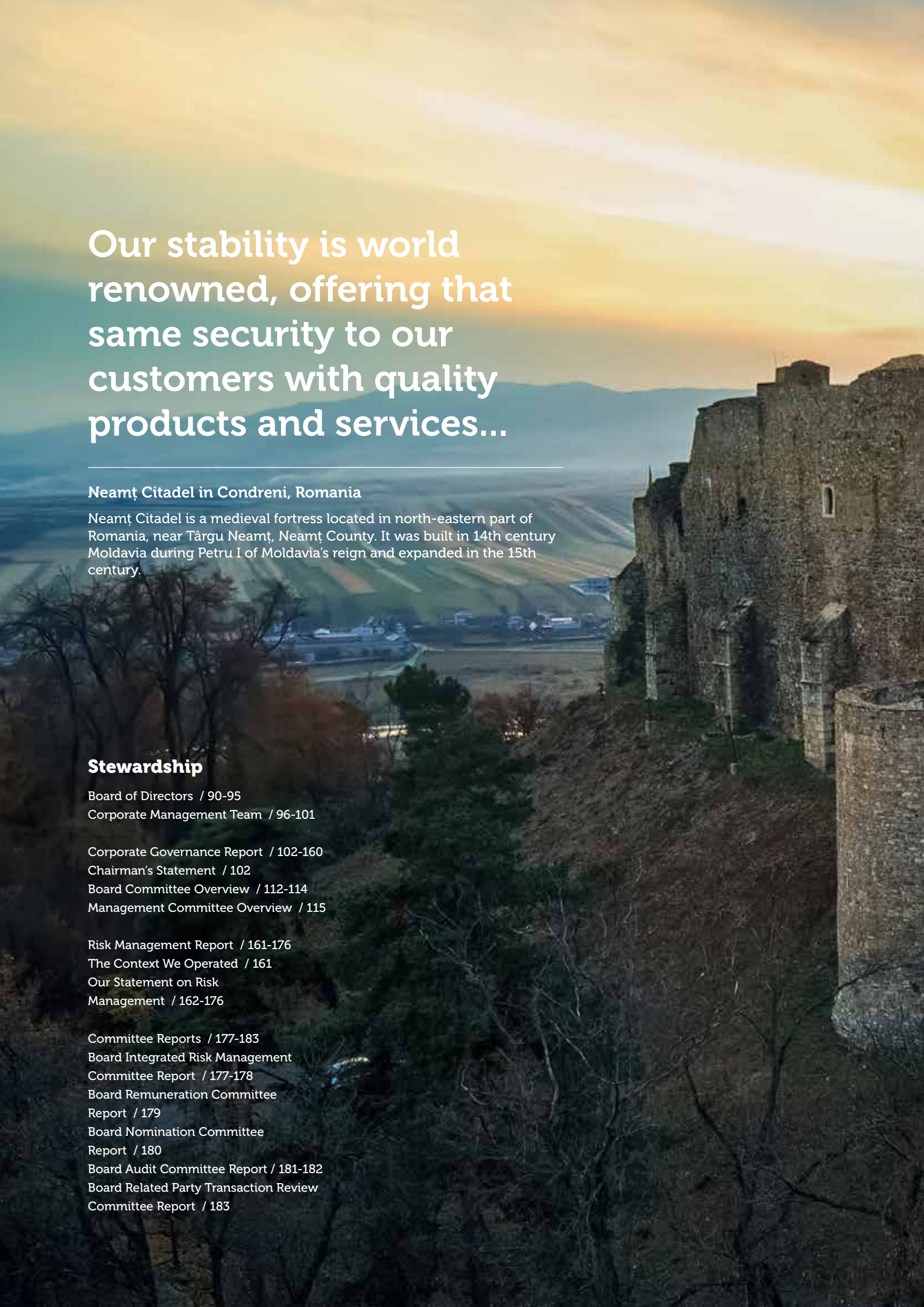
Chartered Accountant
Colombo

30th May 2022

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangathissa FCA FCMA LLB (London), Ms. A A Ludovick FCA FCMA, Ms. G G S Manalunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Susilman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: G B Goudan ACA, Ms. J S Paranavitane ACA LLB (Colomb), T P M Ruzeru FCMA FCMA

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Neamț Citadel in Condreni, Romania

Neamț Citadel is a medieval fortress located in north-eastern part of Romania, near Târgu Neamț, Neamț County. It was built in 14th century Moldavia during Petru I of Moldavia's reign and expanded in the 15th century.

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Board of Directors

GRI 102-22

Name of the Director	Date of Appointment to the Board	Date of Last Re-election as Director	Service period as a Director	Membership in Board Sub-Committees
 <p>Pandithasundara Dinuka Dilhan Perera Director Acting Chairman (Independent Non-Executive)</p>	21st February 2020	31st August 2020	2 years	<ul style="list-style-type: none"> ◉ Related Party Transaction Review Committee ◉ Nomination Committee ◉ Audit Committee ◉ Remuneration Committee
 <p>Gerard George Ondaatjie Managing Director (Executive)</p>	2nd December 1993		29 years	<ul style="list-style-type: none"> ◉ Nomination Committee ◉ Integrated Risk Management Committee ◉ Credit Committee
 <p>Sermal Hemaka Jayasuriya Finance Director (Executive)</p>	05th January 2001	28th July 2021	21 Years	<ul style="list-style-type: none"> ◉ Integrated Risk Management Committee ◉ Credit Committee ◉ Related Party Transaction Review Committee



Competencies					
Expertise	Sector	Qualities	Qualifications/ Experiences	Present Directorship/Position held with other Companies	Number of Shares held in MI as at 31st March 2022
<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 	<p>FCA, FCMA (SL), ACMA (UK), CGMA, MBA (PIM, Sri J'pura)</p>	<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 	<p>Nil</p>
<ul style="list-style-type: none"> ◉ Strategic Management ◉ Human Resource Management ◉ Financial Management ◉ Public Relation ◉ Governance ◉ Risk Management 	<ul style="list-style-type: none"> ◉ Tourism and Hotels ◉ Automobile ◉ Financial Services ◉ Trading Sector 	<ul style="list-style-type: none"> ◉ Strategic Thinker ◉ Visionary ◉ Analytical ◉ Idea Generator ◉ Able to deal with ambiguity ◉ Networking 	<p>B.Sc. (Accountancy) (Arizona State University – USA)</p>	<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. ◉ Member of the Colombo Port City Economic Commission 	<p>566,725</p>
<ul style="list-style-type: none"> ◉ Strategic Management ◉ Recoveries ◉ Human Resource Management ◉ Financial Management ◉ Fundraising ◉ Public Relation ◉ 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 	<p>FCA, FCMA (UK), CGMA, FCMA (SL), MBA (Sri.J.)</p>	<ul style="list-style-type: none"> ◉ Director of Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited, Mercantile Fortunes Insurance Brokers (Pvt) Ltd 	<p>Nil</p>

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	31st August 2020	30 Years	
 <p>Travice John Ondaatjie <i>Director (Executive)</i></p>	13th July 1995	31st August 2020	27 Years	
 <p>Anil Lasantha Naomal Dias <i>Director (Independent Non-Executive)</i></p>	26th March 2021	28th July 2021	1 year	<ul style="list-style-type: none"> ◉ Integrated Risk Management Committee ◉ Audit Committee ◉ Nominations Committee ◉ Related Party Transaction Review Committee ◉ Remuneration Committee

Competencies			Qualifications/ Experiences	Present Directorship/Position held with other Companies	Number of Shares held in MI as at 31st March 2022
Expertise	Sector	Qualities			
<ul style="list-style-type: none"> ◉ Strategic Management ◉ Human Resource Management ◉ Financial Management ◉ Public Relation 	<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 ◉ Former Director of Sri Lanka Tourism Promotion Bureau. 	525,670
<ul style="list-style-type: none"> ◉ Strategic Management ◉ Human Resource Management ◉ Financial Management ◉ Public Relation ◉ 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 	484,614
<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 ◉ Consensus builder 	FCMA (UK), MBA (USJP)	<ul style="list-style-type: none"> ◉ Director of YAgro (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>Eranjalie Deepthie Wickramasuriya <i>Director (Independent Non-Executive)</i></p>	26th March 2021	28th July 2021	1 year	<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	28th July 2021	1 Year	<ul style="list-style-type: none"> ◉ Remuneration Committee

Competencies			Qualifications/ Experiences	Present Directorship/Position held with other Companies	Number of Shares held in MI as at 31st March 2022
Expertise	Sector	Qualities			
<ul style="list-style-type: none"> ⦿ Business process management ⦿ Auditing ⦿ Risk management ⦿ Financial Management ⦿ Strategic Management ⦿ Treasury ⦿ Business counselling 	<ul style="list-style-type: none"> ⦿ Financial services ⦿ Trading ⦿ Manufacturing ⦿ Energy ⦿ Plantation 	<ul style="list-style-type: none"> ⦿ Strategic Thinker ⦿ Idea Generator ⦿ Analytical ⦿ Visionary ⦿ Listener 	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 Relation ⦿ 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)
*MCIM, MBA (Wales) - UK, Executive MSc
in Digital Marketing*

Areas of expertise and contribution:
24 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 Integrated Risk Management
Committee
Member of Credit Committee



DEVA ANTHONY

Chief Financial Officer/
Director (Non-Board)
FCA, FCMA (UK), CGMA, FCMA (SL), ACIM

Areas of expertise and contribution:
20 years experience in the Financial
Service sector and 6 years experience in
audit and assurance

Directorships and memberships:
Director of Mercantile Fortunes
Insurance Brokers (Pvt) Ltd
Member of Integrated Risk Management
Committee



SONALI PETHIYAGODA

Company Secretary
ACIS (UK), ACCS

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



RAVI EKANAYAKE

General Manager – Motor Division
Dipl. Engineering (UK)

Areas of expertise and contribution:
40 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:
20 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:
24 years experience in the Financial
Service sector



PRIYANTHA ATHUKORALA

General Manager - HR
MBA (Wales) –UK
ICF Certified Coach, NPL Business Practitioner

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



LAHIRU DAYANANDA

General Manager – Sales & Marketing
MBA – Anglia Ruskin University (UK)

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



JAYANKA KAHAWEVITHANA

General Manager - Legal
LLM (KDU), LLB (Hons.), Attorney-at-law, Notary Public, Commissioner for Oaths

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



PRASAD INDIKA

Assistant General Manager - IT
FBCS, Dip. (NIBM)

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



ROSHINI INDURUWAGE

Assistant General Manager – Deposits & Marketing
MBA – Edith Cowan University (Australia)

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



SHEHAN COORAY

Assistant General Manager - Recoveries
MBA-UK (University of Suffolk)

Areas of expertise and contribution:
24 years experience in the Financial Service sector
Over one and half years experience in inbound sector

Corporate Management Team



THARANGA DEEPAL PEIRIS

Assistant General Manager -
Microfinance
Dipl. Micro Finance (IBSL)

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



INDUNIL JAYAWARDENA

Assistant General Manager - Credit Risk
*MBA - Sp (Finance) - Manipal University
India*

Areas of expertise & contributions
22 years experience in Commercial &
Development Banking
6 years experience in Leasing

Directorships and memberships:
Member of Integrated Risk Management
Committee



HIRANTHA BANDARA TENNAKOON

Assistant General Manager - Recoveries
MBA (UK)

Areas of expertise & contributions
22 years experience in the Banking and
Financial Service Sector
3 years experience in the
Pharmaceutical Industry



CHANDANA NANAYAKKARA

Assistant General Manager - Finance
*ACA, ACMA (SL), CTA, MBus (Finance),
MFE*

Areas of expertise and contribution:
16 years experience in the Financial
Service sector
6 years experience in audit and
assurance sector



PUBUDU DAYARATNE

Assistant General Manager – Business
Development and Credit
AMSLIM

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



PRASAD WICKRAMASINGHE

Senior Manager – Payments & Cost
Control
Diploma in taxation (CA Sri Lanka)

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



AVINDRA WIJESUNDARA

Senior Manager – Credit Operations

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



CHAMINDA PARANAYAPA

Senior Manager – Insurance

Areas of expertise and contribution:
32 years experience in the Insurance Field



WASANTHA PETIKIRI

Senior Manager – Legal
LLB (Hons.), Attorney-at-Law, Notary Public and Commissioner for Oaths

Areas of expertise and contribution:
18 years experience in the Financial Services Sector



DINESH PERERA

Regional Manager – Leasing
MBA -Australian Institute of Business - Adelaide University (Australia), Member of MABE (UK)

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



NILUSHA PERERA

Regional Manager
MBA (UK)

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



MANEL BANDARA

Regional Manager
Fellow member of SLICM, PGD. in Business Management (Colombo), BA (Colombo)

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

Corporate Management Team



DINESH PRABHATH

Head of Internal Audit
FCA, ACMA (UK), CGMA, B.Sc.(Acc.Sp) Sri Jayawardanepura

Areas of expertise and contribution:
10 years experience in the Financial Service sector
3 years experience in audit and assurance sector



RAMIDU COSTA

Head of Compliance & Risk Management
FCCA (UK), MCISI (UK), MBA (Cardiff Metropolitan University - UK) Distinction (Gold Medalist)
BBA (Acc.Sp) Colombo, Certified Lean Cadet

Areas of expertise and contribution:
5 years experience in the Accounting/ Insurance /Financial Analysis Shared Services
10 years experience in the Accounting and Financial Services Sector

Directorships and memberships:
Member of Integrated Risk Management Committee



ROHITHA RUPESINGHE

Senior manager - Recoveries

Areas of expertise & contributions
33 years experience in Financial Services Sector



ANJULA GANEGODA

Senior Manager - Recoveries
CMA Passed Finalist

Areas of expertise & contributions
20 years experience in Financial Services Sector



INDIKA GALAHITIYAWA

Senior Manager – Corporate Leasing

Areas of expertise & contributions
16 Years experience in the Financial Service sector



ERANDA WITHANA

Senior Manager – Legal & Recoveries

Areas of expertise & contributions
18 years experience in Financial Services Sector



NUWAN ALWIS

Senior Manager – Information Technology
BSC-IT (NATIONAL UNIVERSITY OF IRELAND), PMP®

Areas of expertise & contributions
19 Years experience in Software industry in Sri Lanka/India/Malaysia/Singapore/ UAE/Oman/Soloman Island

DAVID RANJAN ASIRVATHAM

Senior Manager – Gold Loans
AIB (Sri Lanka)

Areas of expertise & contributions
43 years experience in Financial Services Sector including Banking Sector. Specialized in Pawning and Gold Loans for last 21 years.

CHAMARA JAYAWARDANE

Senior Manager - Recoveries
BA (Hons) UK ,ADBM

Areas of expertise & contributions
18 years experience in Financial Services Sector

Corporate Governance Report

Chairman's Statement

High profile corporate failures evidenced in recent times displayed a clear link to poor Corporate Governance especially for the finance industry where public money is involved. Moreover, emerging political and economic crisis, rising competition from peers, rapid and disruptive technological developments, demographic and generational changes and ever tightening rules and regulations have mounted the requirement for high standards in Corporate Governance as well. In such a context, immense pressure is exerted on the industry to demonstrate greater accountability, transparency, good governance, and sound financial and risk management to all its stakeholders, in order to safeguard sustainable operations and asset growth.

After facing an arduous operating environment throughout last three years, we stood committed to responsible and ethical business practices geared to protect stakeholder interest and lasting sustainable value. In doing so, we accepted the position of ethical, transparent and accountable leadership by formulating the requisite strategies to direct the company to its desired aspiration. Moreover, it was perceived good governance as an uncompromising pursuit that delivered superior returns to our investors whilst meeting other stakeholder obligations as a publicly quoted company.

How we Adopted Good Governance

Our governance structure depicts how the Board of Directors has structured the governance process to support its ability to create value, and to better discharge its responsibilities and accountability bestowed upon them. On the other hand, the Board is the primary responsible authority for identifying, overseeing, and evaluating economic concerns by monitoring the effectiveness of conformance and risk management. In doing so, MI Board confirmed to amplify required clarity as to who is responsible for what and to whom at all levels across the company. In this regard, MI has established a number of committees

and these committees are guided by the directions/regulations issued by the Central Bank of Sri Lanka from time to time, and a number of Board-approved governing documents such as policies, frameworks, terms of reference, and charters, which are reviewed and approved by the Board at least annually.

During the year under review, we successfully adopted a Board-approved Compliance Policy to further regularise our compliance function by giving due consideration to its independence and operational effectiveness. On the other hand, by establishing clear Board-approved Audit Committee Terms of Reference (TOR) checklist and an IRMC TOR checklist we provide greater guidance and a road map to the Directors on what milestones we have reached and what is needed to be achieved in future, in terms of regulatory compliance.

As usual, we were able to maintain transparency throughout, providing both financial and non-financial information by ensuring that information is accurate, complete, and made available in a timely fashion to the stakeholders. Also, assurance certificates were obtained for our statutory financials, internal controls, sustainability, and GRI indicators. Finally, the publication of this Integrated Annual Report, which includes extensive voluntary disclosures that go beyond compliance requirements, is a clear demonstration of our accountability to our stakeholders.

Future Governance

In order to keep pace with the latest developments of best practices of good governance, Central Bank's new Direction on Corporate Governance (Finance Business Act Direction No. 5 of 2021) was introduced in December, 2021, which will be effective from the next financial year onwards. Along with transitional implications, this direction will gradually make greater reforms in the finance business sector especially relating to Board composition, sub-committee composition, risk management, and compliance functions.

We will strive to safeguard the high standards already formed within our corporate culture whilst striving to meet our strategic objectives. In a rapidly-evolving industry with cascading economic and political landscape, we expect to nurture staff to face complexities and manage risk and at the same time reap the potential through greater resilience.

Declaration

I declare that the Board of Directors and all other employees will contribute to work towards the set corporate objectives while complying with all regulatory and statutory requirements along with established policies, procedures, and standards covered by MI's internal Code of Conduct.



P.D.D. Perera
Acting Chairman

30th May 2022

Our Journey in Corporate Governance

Governance Actions during the FY 2021/22

- ◉ Newly developed and approved internal policies covering investments, operational risk management, compliance, new product development, branch expansion and operation, information classification, COVID revival and rehabilitation, etc.
- ◉ Improved risk profiling and transaction monitoring AML MIS reports for better monitoring of AML risk
- ◉ Made significant organisational structural changes to enhance ultimate value to the stakeholders while motivating the workforce
- ◉ Acquisition of new talents for future succession planning and development
- ◉ Timely submission of weekly, monthly, and quarterly financial and non-financial information for better transparency
- ◉ All Corporate Depositor Liabilities and statutory payments, which have fallen due, were paid on or before due dates



Governance Goals Beyond 2022

- ◉ Timely adoption and compliance of the new governance direction No. 05 of 2021 issued by Central Bank for improved transparency, independency, disclosure, and accountability
- ◉ Effective adoption of credit measurement direction to resort to stringent 120-day NPL classification and 1st April 2023 90-day NPL Classification.
- ◉ Planned migration to a fully-fledged 360 degree IT system for better digitalisation and decentralisation
- ◉ Widening the scope of internal audit and compliance to cope with business dynamics
- ◉ Expanding of risk management and compliance section by incorporating new talents along with upgraded policies and procedures
- ◉ Improve the quality, relevance, and timeliness of corporate information provided to the Board through better MIS dashboards
- ◉ Fully fledged periodic appraisal and reward system to drive individual targets
- ◉ Planned branch rationalisation/concept branch deployed with minimal cost

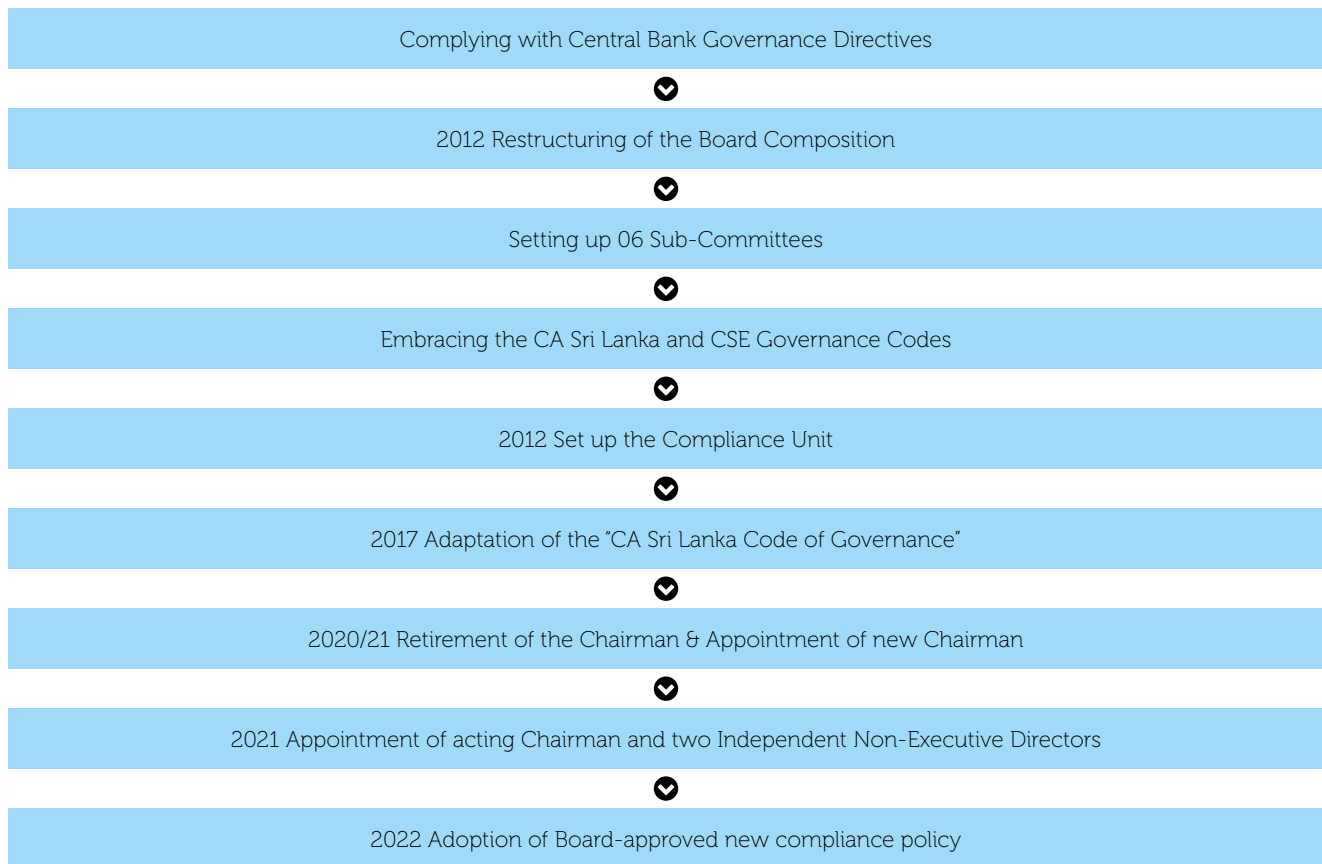


Governance Objectives

- ◉ 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 behavior to minimise reputational risk and safeguard the Company's brand

Corporate Governance Report

Corporate Governance in the Past Decade

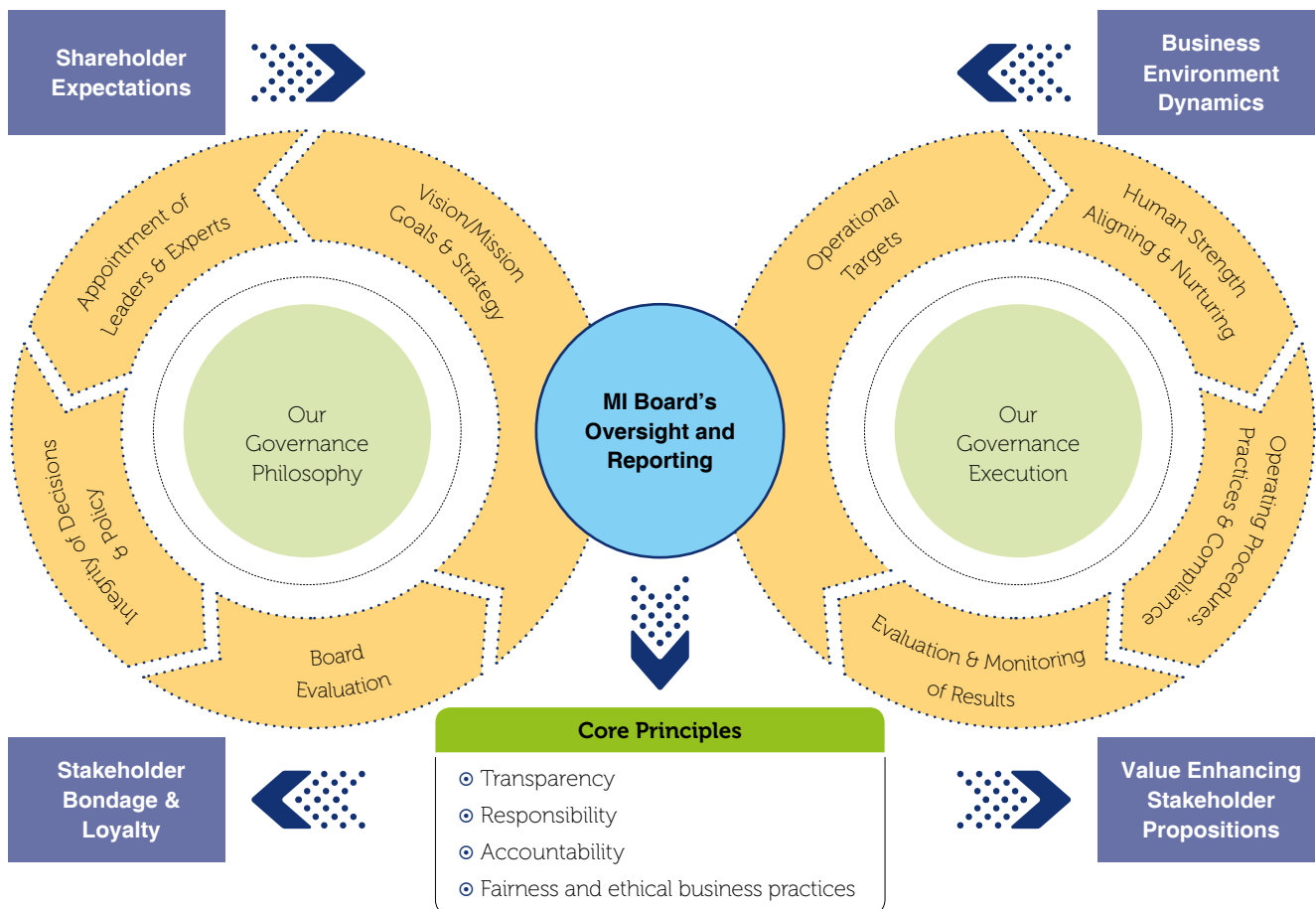


Governance Framework

The Governance Framework at MI is well established with effective oversight mechanisms, well set checks and balances, own internal benchmarks, and processes and structures that are aligned to best practices and industry standards. Through an effective governance framework and leadership of the Board of Directors, governance practices have been embedded within operating processes by integrating principles and practices in the day-to-day business operation processes, and moreover incorporated to MI's strategic decision-making process. 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). During the financial year, a set of new policies, especially compliance and risk policies were introduced and changes to the existing policies and procedures were adopted in order to ensure all regulatory requirements are duly complied with.

The governance framework contains MI's 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 this unique 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.

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. (Pages 16 and 40)
- ⦿ **Appointment of Leaders and Experts:** Considering the skill composition required to achieve Company objectives, the Nomination Committee after due assessment, recommends members to the Board (Page 180). The Board then appoints sub-committees through which the Board exercises its oversight over the Company's affairs. (Pages 112 to 114)
- ⦿ **Integrity of Decisions and Policy:** Board and sub-committees schedule regular meetings allowing transparent information flows. As a result, a number of policies were developed and revised during the year and many effective decisions were made (Page 117). These policies laid the foundation for clear, consistent instructions to staff encompassing internal control mechanisms and are aligned towards the strategic objectives of the Company.
- ⦿ **Board Evaluation:** The sufficiency and effectiveness of the Board's decision and policymaking in achieving strategic objectives is periodically evaluated by the Remuneration Committee. (Page 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. (Page 106)
- ⦿ **Operational Targets:** Vision/mission, strategic goals and objectives are met with effective strategy for drilled down and cascaded down operational targets, to the strategic business units and support departments. (Page 40)
- ⦿ **Human Strength Aligning and Nurturing:** The perfect corporate culture is created within the Company while providing the staff with effective training and development skills, in order to align human resources with culture and ultimately achieve operational targets. (Pages 65 to 67).
- ⦿ **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. (Pages 106 to 107)
- ⦿ **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 deployed strategy. (Page 16)
- ⦿ **Core Principles:** The Company believes that the corporate governance is guided by transparency, responsibility, accountability and fairness and ethical business practices which build trust, integrity and good governance.

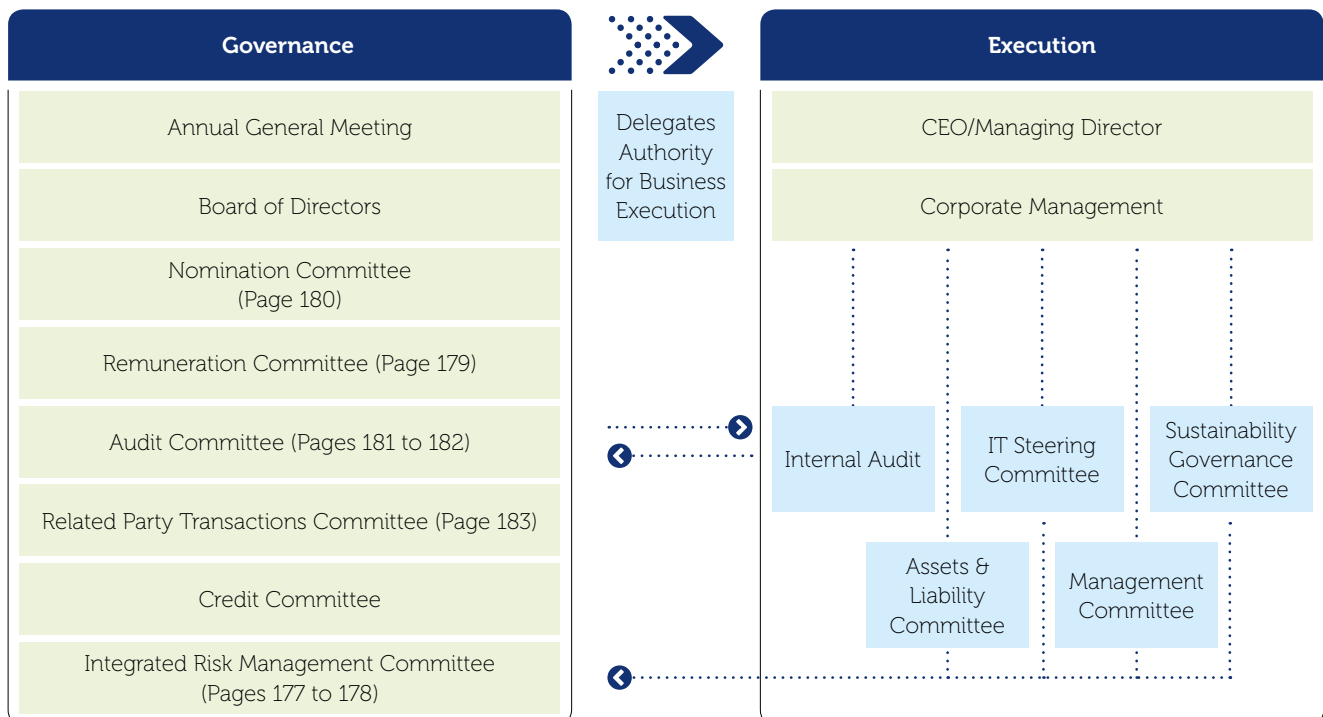
Corporate Governance Report

Governance Structure

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

We strongly believe that the good corporate governance practices deployed are vital in creating and sustaining shareholder value over time. 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. In order to build a sound governance structure, MI Board and its sub-committees ensure that ethical behaviour, transparency, and good conduct is in place in whatever discipline, matter, or transaction executed.

There is an effective feedback mechanism in place for the Board of Directors to be kept informed of the Company's process and key concerns, as the Management team is required to report periodically to the Board through the IRMC and Audit Committee. Apart from this, information flows without inhibitions 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

The Internal audit division conducts random detailed audit reviews of MI's total business operation in order to ensure there is strict compliance of staff to internal procedures and policies and also to the prevailing regulations and directions provided by the regulatory authorities. The internal audit is headed by a qualified Chartered Accountant, having appropriate knowledge of the business to conduct quality audits. Findings, changes, and developments suggested by the internal audit were presented to the Board through the Audit Committee depending on the materiality.

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. In the light of the pandemic-driven environment and escalating risk, and new regulations of the internal audit scope were broadened during the financial year incorporating wider review requirements including system audits.

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 161 to 176 for a comprehensive overview of MI's Risk Management process.) Under the Chairmanship of Mr. Anil Dias, a number of enhancements were undertaken, which included a KRI dashboard.

The Compliance Function

In the midst of ongoing challenges, the Head of Risk and Compliance Management of respective business units and support divisions were guided to comply with regulations and directions and sought clarifications and disseminated regulator instructions for better clarity of staff.

The Head of Risk and Compliance Management reviewed MI's level of compliance against the existing and newly introduced directions and regulations imposed by the regulatory bodies. The Compliance Unit was 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 organisation structure was revised during the year in order to ensure the compliance function is carried out aligning with onsite recommendations and the directions imposed by the regulatory bodies.

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 is well-informed about the latest information of the Company's activities by its sub-committees. Based on the information, the Board makes decisions to enhance the effectiveness of business operations.
- Strategic milestones of the Company are depicted in the strategic plan, which is reviewed and updated once in every three years. The Board reviews and approves all policies which have been implemented and also any possible risk, repercussions, and future impacts. MI's strategic plan for the next three years was approved by the Board in 2021 incorporating sustainability issues (environmental and social).
- While a fresh three-year strategic plan is being finalised for FY 2022 to 2025, the Company's 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 of 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.
- The Board is provided with the latest and most timely information and feedback by the Board-appointed sub-committees and the audit function in order to make timely and effective decisions.
- Performance of the Key Management Personnel was reviewed bi-annually to ensure the best combination of expertise is retained to assist MI in reaching its objectives.
- The Board is involved in developing succession plans for the entire organisation, especially the Key Management Personnel (KMP).
- 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 and other cascading adverse effects to the economy posed challenges for many industries and sectors and also impacted most of Sri Lankan society. In order to face these challenges, the Board made immediate accurate and quick decisions aligning with the external factors. While upholding sustainable business practices, the Board made decisions about internal operations, resource management, and policies and procedures.

In order to ensure constant effectiveness of our service, the staff continued to report to work from 2020, adjusting to the new normal while following the strict health guidelines within and outside the office premises. Services rendered by the call centres and IT division further supported the smooth flow of operations.

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 all MI stakeholders. He is an Independent Non-Executive Director and a qualified finance professional who continues to independently direct the affairs of the Board. (Refer the Chairman's role, duties, and responsibilities stated in page 123 in this report).

Our Board Dynamics

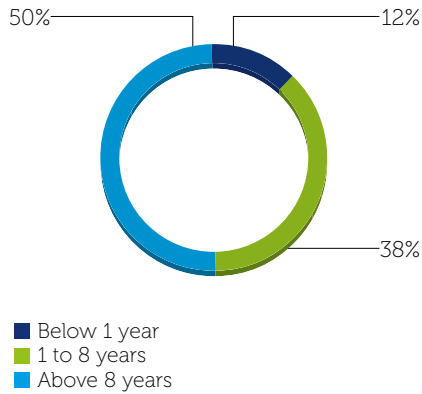
➤ GRI 102-22

Diversity, Skills, and Composition

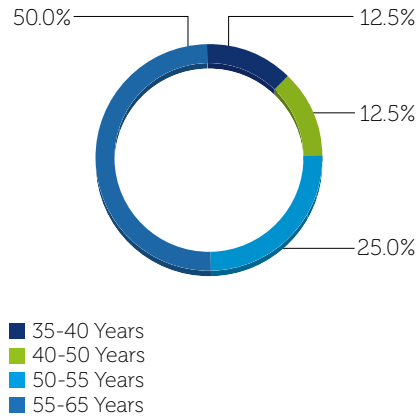
In the financial year under review our Board comprises eight Directors possessing the right blend of skills and experience with representation from both genders and comprises individuals who possess vast knowledge in the spheres of banking and finance, leisure, and accounting. A procedure was also implemented during the year in order to ensure orderly succession of appointments, ensuring the composition of Board of Directors is in line with the Company's direction.

Corporate Governance Report

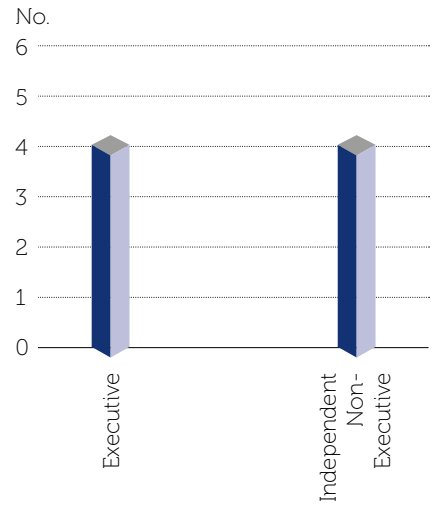
Length of Service



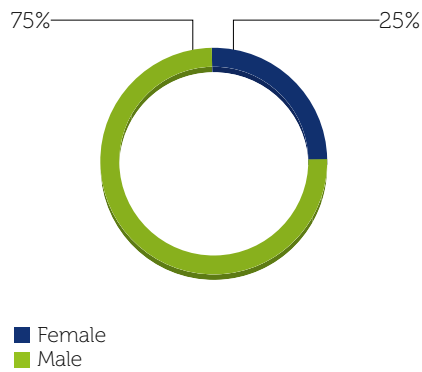
Age Composition



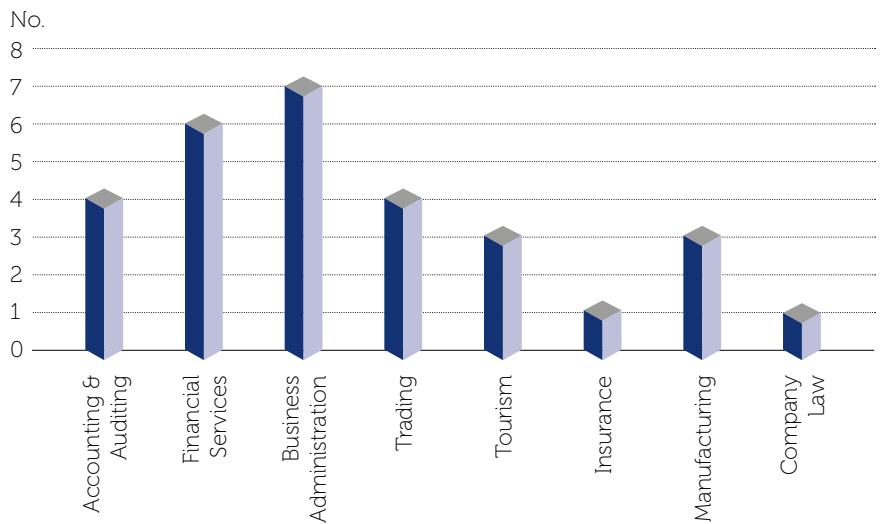
Director Category



Gender Composition



Professional Background and Experience



Memberships in Associations & Councils

GRI 102-13

- Member of the Finance Houses Association of Sri Lanka
- Member of the Leasing Association of Sri Lanka
- Member of the Ceylon Chamber of Commerce
- Member of the Integrated Reporting Council of Sri Lanka



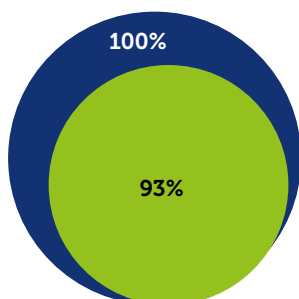
Board Meetings

GRI 102-21

The Board meetings are guided by a pre-set meeting calendar and predetermined schedule along with other key matters which require the Board's attention and approval. The meetings were scheduled on a monthly basis in order to diligently evaluate the results of the Company's business operations. Due to the COVID risks, physical and e-based meetings were conducted as appropriate to ensure safety and at the same time to facilitate regular Director meetings and review of Company progress.

Scheduling 	<ul style="list-style-type: none"> Twelve (12) Board meetings were scheduled monthly to allow monitoring of performance, with regulatory and key matters to be addressed in a timely manner.
Agenda 	<ul style="list-style-type: none"> The Company Secretary prepared the agenda for Board meetings with the guidance and supervision of the Chairman.
Papers Compiled and Distributed 	<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 for the Board meetings, 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 vital for decisions.
Before the Meeting 	<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 key matters discussed to the Board.
Board Meeting 	<ul style="list-style-type: none"> The Managing Director/CEO together with the Finance Director updated the Board of Directors on the operational, financial and non-financial performance of the Company, including updates relevant to the LFC sector, developments in the external environment, and matters pertaining to the sustainability agenda of the Company. Updates on the risk dashboard and changes in the risk profile were presented to the Board. Board papers submitted by the divisional heads were discussed and approved by the Board. The precise combination of skills enabled the Board to contribute towards a meaningful discussion and appropriate resolutions.
After the Meeting	<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 2021/22



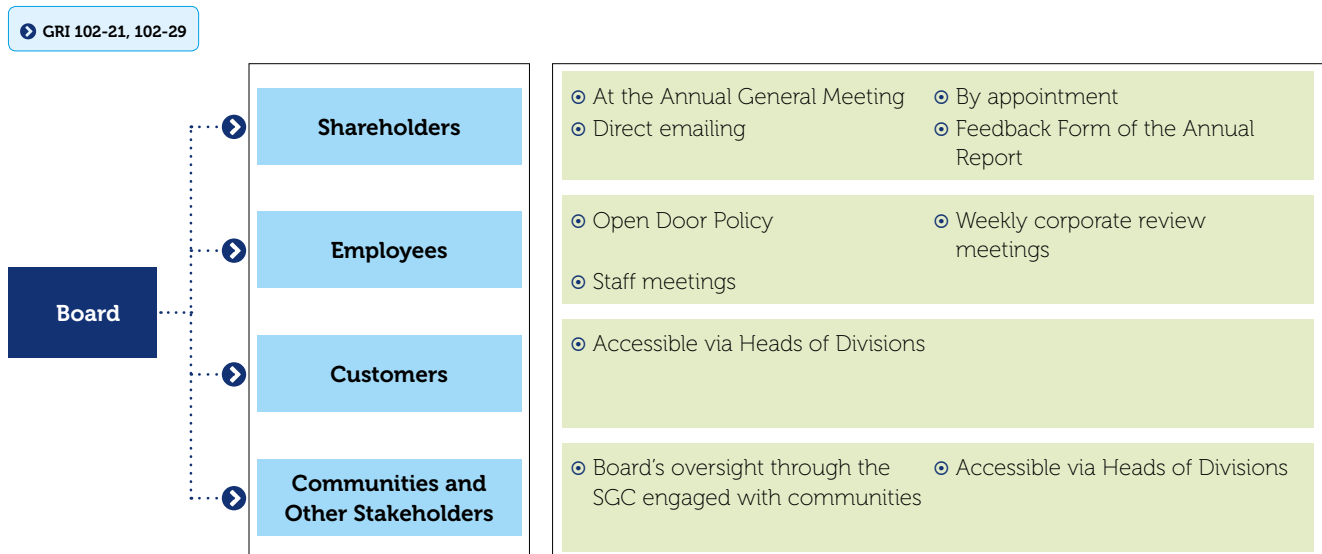
- The Number of Board Papers Submitted – 152
- The Number of Board Papers Approved – 142

Corporate Governance Report

Highlights of the Board's Special Reports taken up by the Annual Work Cycle FY 2021/22

2021 April	
<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"> Single Borrowers / Top ten Borrowers March 2021
▼	
2021 May	
<ul style="list-style-type: none"> Annual Audited financial Statements Annual Report of the Board Of Directors 	<ul style="list-style-type: none"> Money Market and Unit trust Investments
▼	
2021 June	
<ul style="list-style-type: none"> Politically Exposed Persons " PEP" Delegated Approval Limit for Gold Loan Operations 	<ul style="list-style-type: none"> Taxes, Statutory dues and levies payable June 2021 MI's Cash flow forecast from June 2021 to November 2021
▼	
2021 July	
<ul style="list-style-type: none"> MI Compliance Status for CBSL Rules/Directions ALCO Summary Report for the April 2021 to June 2021 	<ul style="list-style-type: none"> Profitability Gap – Current year Vs. Previous year
▼	
2021 August	
<ul style="list-style-type: none"> MI Compliance Status for CBSL Rules/Directions CDM Process 	<ul style="list-style-type: none"> Single Borrowers / Top Fifteen Borrowers -June 2021
▼	
2021 September	
<ul style="list-style-type: none"> Taxes, Statutory dues and levies payable September 2021 Home Working Policy 	<ul style="list-style-type: none"> MI Compliance Status for CBSL Rules / Directions/Guidelines Single Borrowers / Top Fifteen Borrowers -Sept 2021
▼	
2021 October	
<ul style="list-style-type: none"> Cyber Security Measures Taken Company's Status update of implementation of Supervisory Concerns 	<ul style="list-style-type: none"> ALCO Summary Report for July 2021 to September 2021
▼	
2021 November	
<ul style="list-style-type: none"> Competitor Analysis as at 30th September 2021 Investments Policy 	<ul style="list-style-type: none"> Terms of Reference to the Audit Committee MI Compliance Status for CBSL Rules / Directions/Guidelines
▼	
2021 December	
<ul style="list-style-type: none"> Purchase of Fixed Assets Company's Status update of implementation of Supervisory Concerns 	<ul style="list-style-type: none"> Taxes, Statutory dues and levies payable December 2021 BIRMC Activity Report for July 2021 to October 2021
▼	
2022 January	
<ul style="list-style-type: none"> Company Investments Summary Report ALCO summary Report 	<ul style="list-style-type: none"> Risk Activity Report Purchase of Fixed Assets
▼	
2022 February	
<ul style="list-style-type: none"> Company Status update of Implementation of Supervisory Concerns Authorized Signatory 	<ul style="list-style-type: none"> Write off List February 2022 Single Borrowers / Top Ten Borrowers
▼	
2022 March	
<ul style="list-style-type: none"> ATM Cards handling Procedure for Branches Review Risk Profiling of Depositors 	<ul style="list-style-type: none"> Business Continuity Plan Risk Activity Report

Board's Interaction with Stakeholders



Independent Selection of Board Members

GRI 102-23

Skilful individuals with diverse backgrounds and knowledge levels and experience contribute their invaluable proficiency for the betterment of the Company by functioning as active members of the Board. The combination of expertise has proved its effectiveness over the decades 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.

Responsibilities of the Board Sub-Committees

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

The Board delegates its power to its sub-committees in order to strengthen the Board's oversight over the core business functions. The key areas of the Board-appointed sub-committees' 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
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Members and FY 2021/22 Meeting Attendance

● P. D. D. Perera 11/11	● A.L.N. Dias 1/1	● A.L.N. Dias 4/4	● E.D. Wickramasuriya 2/2	● P. D.D. Perera 7/7	● G.G. Ondaatjie 10/10
● A.L.N. Dias 11/11	● P. D. D. Perera 1/1	● G.G. Ondaatjie 2/4	● P. D. D. Perera 2/2	● E.D. Wickramasuriya 7/7	● S.H. Jayasuriya 10/10
● E.D. Wickramasuriya 11/11	● M. K. S. Pieris 1/1	● S.H. Jayasuriya 4/4	● A.L.N. Dias 2/2	● A.L.N. Dias 7/7	
		● D. Fonseka	● G.G. Ondaatjie 1/2	● S.H. Jayasuriya 7/7	
		● D. Anthony			
		● 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







○ Mr. M. K. S. Pieris appointed to Remuneration Committee on 30th April 2021

● Independent Non-Executive Directors	● Executive Directors	● Secretary	● Corporate Management
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 Audit Committee	 Remuneration Committee	 Integrated Risk Management Committee	 Nomination Committee	 Related Party Transaction Review Committee	 Credit Committee
--------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------

Key Responsibilities

○ Make recommendations on matters in connection with the appointment of the external auditors and service period, audit fee, resignation or dismissal of the auditor.	○ 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.	○ Effective overseeing of the implementation of the Credit Policy.
○ The implementation of Central Bank guidelines issued to auditor from time to time and application of relevant accounting standards.	○ 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.	○ Maintaining of sound credit review, disbursement and recovery process by meeting on a regular basis.

 Audit Committee	 Remuneration Committee	 Integrated Risk Management Committee	 Nomination Committee	 Related Party Transaction Review Committee	 Credit Committee
<ul style="list-style-type: none"> Review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process 	<ul style="list-style-type: none"> Engage with stakeholders to obtain input on remuneration-related matters where necessary. 	<ul style="list-style-type: none"> Determine the appropriate risk appetite limits in addition to limits imposed by regulations 	<ul style="list-style-type: none"> Recommend ways in which the Board could improve its performance. 	<ul style="list-style-type: none"> Adopting Related Party Transaction policies to uphold good governance for the best interest of the company and its stakeholders. 	<ul style="list-style-type: none"> Monitor and evaluate special reports called for by the Board
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Monitoring the implementation and effectiveness of such policies. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Identify suitable individuals for future succession. 	<ul style="list-style-type: none"> Updating the Board of Directors on the related party transactions of the Company on a quarterly basis. 	<ul style="list-style-type: none"> Set lending directions based on the current economic climate and risk appetite of the company
<ul style="list-style-type: none"> Reviewing the scope of work and engaging with External Auditors and Corporate Management to identify and resolve concerns. 	<ul style="list-style-type: none"> The Committee reviewed and obtained Board approval for the Board Remuneration Policy drawing due reference to industry best practices during the financial year. 	<ul style="list-style-type: none"> 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
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Key Actions During FY 2021/22

<ul style="list-style-type: none"> ○ The Committee monitored the progress on implementation of the recommendations made in the Statutory Examination Reports of the Central Bank of Sri Lanka (CBSL) through regular follow-up reports tabled during the year under review. 	<ul style="list-style-type: none"> ○ Performance Evaluation of Directors and recommendation of Executive Director's Increments for the Year ○ The Committee determined the bonus payable and the annual increments to the staff 	<ul style="list-style-type: none"> ○ Approved the newly developed compliance policy, investment policy, information classification policy and operational risk management policy ○ Developed and approved the IRMC Terms of Reference checklist 	<ul style="list-style-type: none"> ○ Board approved appointments of two Assistant General Managers during the year to the Corporate Management Team. 	<ul style="list-style-type: none"> ○ Reviewed and monitored related party Transactions of MI throughout the financial year. 	<ul style="list-style-type: none"> ○ The Committee reviewed the credit risk analysis process to ensure effective management of asset quality.
<ul style="list-style-type: none"> ○ Followed up with the matters highlighted by the Internal Auditors. Also, Internal Auditors presented their observations and recommendations on remedial actions to be taken by the Corporate Management. 		<ul style="list-style-type: none"> ○ Effective overlook of branch level performance and risk reports 	<ul style="list-style-type: none"> ○ 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. 	<ul style="list-style-type: none"> ○ Carried out reviews over the on-going systemization of related party transactions reports 	<ul style="list-style-type: none"> ○ During the challenging operating context, Committee set the lending directions of the company for prudent management of credit growth, while aiming at maintaining and improving credit quality.
<ul style="list-style-type: none"> ○ 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 CBSL. 		<ul style="list-style-type: none"> ○ Development of KRI's with standardized Risk Dashboard display and presentation. 		<ul style="list-style-type: none"> ○ Developed and approved the related party transaction committee Terms of Reference (TOR) 	

Submission Status of the Board Papers FY 2021/22

Papers submitted- 29	Papers submitted- 2	Papers submitted- 25	Papers submitted- 4	Papers submitted- 10	Papers submitted- 14
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MANAGEMENT COMMITTEE OVERVIEW

Executive Committee	Assets & Liability Committee (ALCO)	Sustainability Governance Committee	IT Steering Committee	Head Office Credit Committee
Key Responsibilities				
<ul style="list-style-type: none"> Review operational concerns to eliminate or manage risk. Review management information on performance. Identify early warning signals. Assess gaps and variance reports between targets and actual performances 	<ul style="list-style-type: none"> Evaluate and make recommendations to the Board on asset and liability concerns focusing on funding, liquidity and interest rate risks. 	<ul style="list-style-type: none"> Assess prevailing sustainability concerns. Develop internal sustainability goals and measure progress. Initiate sustainability projects, with social and environmental focus. 	<ul style="list-style-type: none"> Ensure information security and safety from cyber threats. Review the performance of IT systems and identify the gaps to develop/update the systems. Review the effectiveness of existing IT controls and recommend on new controls to improve system security. 	<ul style="list-style-type: none"> Determine the credit risk appetite of the Company. Develop a positive credit culture at MI. Identify lapses in credit evaluation with a view to overcome. Proactively involve in recovery process to improve asset quality.
Actions during FY 2021/22				
<ul style="list-style-type: none"> Monthly performance reviews were done in the presence of Executive Directors and GM's and other Head of Divisions of strategic business units and support divisions. Respective cluster AGMs, regional managers and other key officers were invited as appropriate to take up ongoing key operational functional issues. Strategic and operational decisions were taken based on Company performance and evolving industry and process changes. 	<ul style="list-style-type: none"> With the increasing trend of policy rates, ALCO monitored interest rate trends and advised the Treasury division on reprising risk. Provided information to the Board on material risks related to liquidity levels and liquidity planning based on forecast and best practices. Reviewed liquidity risk and interest rate sensitivity of the Company and made recommendations on maintaining liquidity levels within risk appetite limits. 	<ul style="list-style-type: none"> Amidst the challenging environment, few CSR projects were carried out targeting social wellbeing and environmental protection. Identified and reviewed key sustainability focus areas. 	<ul style="list-style-type: none"> Reviewed and approved the newly implemented digital platforms. 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. Made recommendations to Board on, future IT strategy and migration to a fully-fledged external IT vendor. 	<ul style="list-style-type: none"> Streamlined the internal processes to improve a process-driven system in Credit Department. Improved post disbursement follow up mechanism of the Company especially with the call center operation and Quality Assurance Team (QAT) Identified skill gaps in terms of technical skills in credit analysis and initiated trainings.

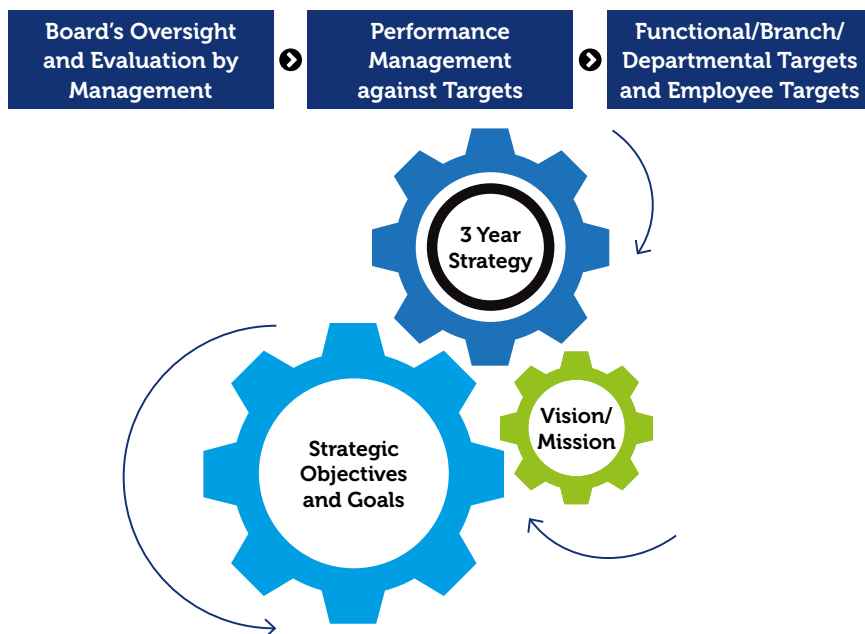
Governance Beyond 2022

Governance remains the hallmark of a well-run organisation but for many, it continues to be an untapped opportunity. A critical challenge for companies in the post-pandemic era is 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 that is prudently governed, 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 2023-2025,' which describes our future responses to post-pandemic challenges, changing customer expectations, advancing through the technological landscape and competitive environment and widening regulations. The plan also includes precautionary action for extreme economic and social conditions and master plans for operational changes required by inconsistent market conditions.

Corporate Governance Report

Strategic Planning Process



Managing Director's Role

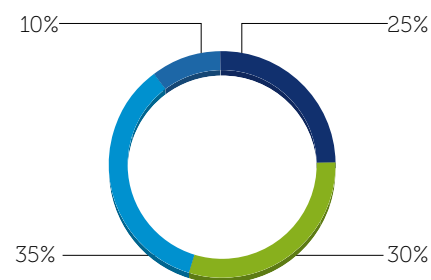
The Managing Director is the CEO of the Company with delegated authority by the Board for detailed planning and development of the corporate plan. He holds the responsibility to guide overall activities of the Company in accordance with the external regulations and internal policies, while ensuring MI's workforce and all operations are focused towards Company objectives.

The Corporate Management Committee's Role in Governance

GRI 102-19, 102-26, 102-32

- ⦿ In addition to the Board sub-committees, responsible personnel are appointed for management committees which are guided by the Managing Director/Senior Management member. Credit Committee, Sustainability Governance Committee, IT Steering Committee and Asset and Liability Committee are considered as management committees. These committees focus on implementing best practices and promote a strong culture of accountability.
- ⦿ The Management Committee provides insights of the performance of strategic units to the Managing Director and other Executive Directors. It is the Management Committee's responsibility to enhance value creation to the shareholders, while adopting sustainable business approaches in creating sustainability value. Towards this end the Corporate Management Committee works closely with the Sustainability Governance Committee (SGC) to fulfil wider stakeholder obligations.
- ⦿ Being in the financial services sector, we strive to provide a service that extends beyond the expectations of our stakeholders with distinct intentions. Understanding that the 'people' are the main resource of the Company, an 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 Management Meeting Focus



- Strategic Governance and Compliance
- Performance Management
- Risk Management
- Other

Employee Training on Regulations and Enriching Institutional Knowledge

GRI 102-27

New staff members who joined the Company underwent an overall knowledge-sharing induction programme covering corporate history, etiquette, and expectations, and subsequently staff were given effective training sessions focusing on their job role and scope. Training sessions were also conducted on the 'Customer Protection Framework' for employees who are directly dealing with customers on a semi-annual basis to ensure compliance with the framework. 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 65 to 67 for more details).

Performance Evaluation, Rewards, and Recognition

GRI 102-28, 102-35, 102-36

- ⦿ Considering role and responsibilities associated with the Managing Director and other Board members, the Remuneration Committee evaluated the performance on an annual basis.
- ⦿ Rewarding the expertise and the extent of personal contribution, a competitive remuneration package is decided for each Executive Director by the Remuneration Committee.

The performance targets were determined in accordance with the Company's objectives and Strategic Plan. The staff performance was appraised against these pre-determined targets and rewarded accordingly.

Compliance

In maintaining public trust, which was built over time, compliance and business integrity play a vital role. Complying with the regulatory requirements, the Company made all statutory payments to the Government, regulatory institutions, and employees on time.

The Board of Directors executed a strong and sound governance framework at all levels of the organisation, ensuring conformity with external rules and regulations and internal policies and procedures. No material breaches were identified during the FY 2021/22 that requires separate disclosure.

Key Internal Policies and Controls	Policy Reviewed/ Newly Issued During FY 2021/22
Outsourcing Policy	√
Audit Committee TOR Checklist	√
IRMC TOR Checklist	√
Operational Risk Management Policy	√
Compliance Policy	√
Information Classification Policy	√
Terms of Reference Head Office Credit Committee	√
Terms of Reference Board Credit Committee	√
Post COVID Revival and Rehabilitation Policy	√
Product Development Policy	√
Incident Response Policy	√
Branch Expansion and Operation Policy	√
Investments Policy	√
Key External Regulations	Compliance Status
Finance Business Act No. 42 of 2011	√
Securities and Exchange Commission of Sri Lanka (SEC) Act No. 36 of 1987 (as amended)	√
Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL)	√
Finance Companies (Corporate Governance) Directions issued by CBSL (New Direction will be applied from 1st July 2022)	NA
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 WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE 2017, ISSUED BY CA SRI LANKA

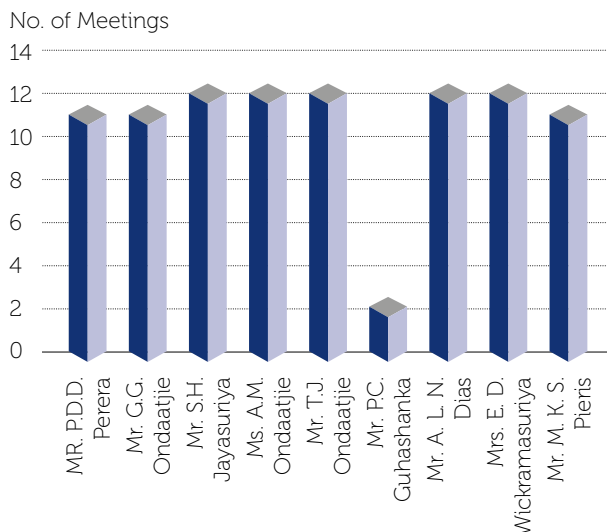
Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
Section 1 The Company: A. Directors A.1. The Board	Principle – A.1	Adopted	The Company is governed by an effective Board of Directors comprising of qualified and experienced individuals with diverse backgrounds and expertise. The Board of Directors provides the necessary leadership in moving towards its visionary thinking, setting the strategic direction for the Company, upholding a successful business model that is encompassed by effective strategic management with sound controls, ensuring good governance. The profiles of the Board members with their qualifications, competencies, and experience are provided on pages 90 to 95.

GRI 102-19, 102-22, 102-26

MI's Board comprises an Independent Non-Executive Chairman who heads the Board and is well supported by an Executive Managing Director and Directors of both Executive and Non-Executive capacity maintaining a sound balance of independence. In April 2021, Mr. M.K.S. Pieris, an Independent Non-Executive Director, was appointed to the Board, while Mr. P. C. Guhashanka resigned from the position of Independent Non-Executive Director of MI's Board.

Board meetings	Code – A. 1.1	Adopted	The MI Board met 12 times during the financial year (FY) 2021/22, at monthly intervals, to review performance and take decisions for the prudent management of Company affairs. A formal notice of meeting with agenda was sent by the Company Secretary at least seven days prior to meetings, to all Directors. There were no special Board meetings held during the FY 2021/22.
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Attendance at Board Meetings



Board responsibilities	Code – A. 1.2	Adopted	The Board takes responsibility for setting the overall strategy and level of risk appetite in governing affairs of the Company and approves capital and operating plans presented by Management for the achievement of the strategic objectives it has set. This ensures the efficient application of MI resources for the achievement of corporate objectives. (Refer Approving Strategic Plan pages 40 to 45). The Board discharges these responsibilities through continuous meetings that cover regular reviews of financial performance, non-financial performance, critical business issues, and the annual strategy review process.
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Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
<ul style="list-style-type: none"> Formulation and implementation of a sound business strategy 			<p>During the last quarter of FY 2021/22, the Company finalised the next medium-term 'Strategic Plan,' covering financial periods 2022/23 to 2024/25 and considering the economic volatility arising from the foreign exchange crisis, the final plan will be reviewed and submitted for Board approval during the first quarter of FY 2022/23. However, the guiding document in governing business activity during this period under review remained the medium term FY 2021/22 to 2023/24 Strategic Plan approved in 2021. The Board revisited the Company's vision and mission and overall business objectives and set short, medium, and long term goals supported by the strategies, policies, and procedures for every aspect of the business. Employees were educated about the Company policies and procedures and encouraged to adhere to and concentrate on implementing the proposed strategy moving forward in the medium term and beyond 2022.</p> <p>In keeping with MI's topdown hierarchical approach, the Board ensured that the corporate objectives and goals, corporate values and strategies were 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 key performance targets set for financial year 2021/22 is disclosed in the Financial Highlights section on pages 18 to 19.</p>
<ul style="list-style-type: none"> Appointing the Chair and the Senior Independent Director if relevant 			<p>N/A</p>
<ul style="list-style-type: none"> The CEO and Management team possess the skills, experience, and knowledge to implement strategy 			<p>Mr. Gerard Ondaatjie, the Managing Director (MD) of the Company, acted in the capacity of the Chief Executive, handling day-to-day functions, working closely with the Corporate Management team. He and the Corporate Management team possess extensive knowledge and skill with widespread experience in the finance sector in order to execute the set strategy and achieve organisational objectives.</p> <p>Brief biographical particulars of each member of the Corporate Management team are provided on pages 96 to 101.</p>
<ul style="list-style-type: none"> Adoption of an effective CEO and Senior Management succession plan 			<p>At MI, succession to Key Managerial Positions (KMP) primarily focuses on developing and grooming people internally so as to have adequate options within the Company for replacement of KMP's in future. The succession plan was Board-approved on 27 March 2018 to facilitate this process.</p>
<ul style="list-style-type: none"> Approving budgets and major capital expenditure 			<p>Key strategic financial decisions in relation to funding, pricing, liquidity, and decisions on capital expenditure and reviewing annual budgets are overseen and approved by the Board after due deliberation and decision-making. By approving the next three-year plan, the budget, including capital expenditure, was established by the Board for the concluded FY 2021/22 and for FY 2022/23 once the new three-year corporate plan is approved in the first quarter of FY 2022/23.</p>
<ul style="list-style-type: none"> Determining the matters expressly reserved to the Board and those delegated to the Management including limits of authority and financial delegation 			<p>The role of the Board and matters expressly reserved for the Board are clearly laid out in the 'Board Responsibility Document' and the Executive Directors' detailed role within the organisation is specified in their Job Description.</p> <p>The Board has delegated its authority to the Corporate Management for each specific function, headed by the Executive Directors or Senior Head of Division. (Refer list of company policy documents issued on page 117). The powers vested are governed by the corporate policy, procedures, and other instructions issued by the Board from time to time.</p>

Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
<ul style="list-style-type: none"> Effective systems to secure integrity of information, risk management, and internal controls 			<p>Managing risk associated with a finance company business is a prime responsibility of the MI Board. For this purpose, the Integrated Risk Management Committee and an Audit Committee was established to have close oversight over risky activities and to obtain feedback on the effectiveness of risk management practices and internal control mechanisms regularly.</p> <p>A comprehensive set of Board-approved internal control policies have been adopted by MI to instil a prudent management environment and to evaluate the methods and procedures for risk management, implementation of the Company's corporate governance framework, and compliance with related laws and regulations. This internal control framework ultimately aims to safeguard stakeholder interest and this most importantly involves safeguarding shareholders' investment and the Company's assets and to ensure the reliability and integrity of the information handled and its privacy. The following reports provide a comprehensive overview in this regard:</p> <ul style="list-style-type: none"> Risk Management Report on pages 161 to 176 Board IRMC Report on pages 177 to 178 Board Audit Committee Report on pages 181 to 182 Directors' Statement on Internal Control on pages 198 to 199 Auditor's Assurance Report on adequacy of internal control on financial reporting on page 200 Integrity of management information and its privacy on page 139
<ul style="list-style-type: none"> Compliance with laws, regulations, and ethical standards 			<p>To monitor MI's compliance with laws and regulations, the Board has established a sound compliance system through a dedicated Compliance Officer. Head of Risk Management and Compliance submits a monthly compliance update to the Board, highlighting any compliance issues. At the same time, the Board has hand-picked knowledgeable officers to head core divisions; individuals who are experienced and conversant with applicable regulations. These individuals independently report 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>
<ul style="list-style-type: none"> All stakeholder interests are considered in corporate decisions 			<p>The Board-approved 'Communication Policy' of MI applicable to the period under review clearly specifies the way information about stakeholder expectations should be gathered and ultimately disseminated, to ensure our Corporate responsibilities to shareholders and other stakeholders are discharged in a timely and appropriate manner. The two-way Communication Policy is an effective mechanism applied by the Company in order to gain a clear understanding of the latest developments in stakeholder interests.</p> <p>Refer: Stakeholder Engagement and Impact (pages 38 to 39) and Alliances (pages 60 to 63).</p>
<ul style="list-style-type: none"> Sustainable business development in corporate strategy, decisions, and activities and adopting 'Integrated Reporting' 			<p>In keeping with MI's fundamentals and business model, the business strategy followed is directed at creating long-term sustainable growth and enhancing stakeholder value as a constant exercise.</p> <p>MI's integrated business model articulated on pages 36 to 37 highlight the sustainable value generated through the Company's business process.</p>

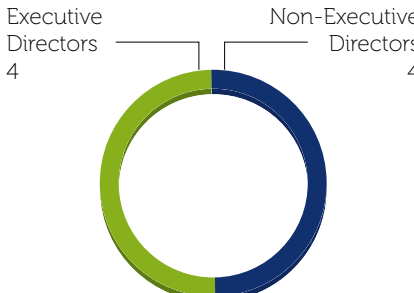
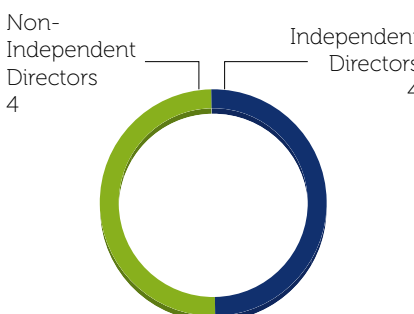
Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
<ul style="list-style-type: none"> Ensuring the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations 			<p>MI's accounting policies are reviewed annually by the Board and Audit Committee to ensure inclusion of the changing business requirements, developing international and local accounting standards and industry best practices. MI placed significant emphasis on compliance with the Finance Business Act, Anti-Money Laundering regulations, Listing Rules, and all other relevant regulations applicable to the LFC sector.</p> <p>Refer 'Independent Auditors' Report on pages 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>
<ul style="list-style-type: none"> Establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans, and related risks 			<p>The Managing Director/Executive Directors held regular meetings with the Corporate Management team and other key officers to monitor progress towards the attainment of corporate objectives. Greater emphasis was placed on managing evolving risk and volatility from the economic crisis which hit amidst depleted economic conditions. As a routine practice, they instructed and guided Corporate Management to identify gaps and specified means of bridging them. Toward this end, Executive Directors and other department/functional heads reviewed financial budgets, departmental/functional plans and changes in risk profiles to ensure up to date evaluation of progress while establishing clear communication lines among employees (Refer Financial Wealth pages 48 to 59).</p>
<ul style="list-style-type: none"> Process of corporate reporting on annual and quarterly basis or more regularly 			<p>Company prepares financial reports on a monthly basis and circulates to the Board to review the financial status of the Company and make timely decisions. In keeping regulatory deadlines, the Company published interim accounts on a quarterly basis in three languages, complying with State Language Policy and circulated its Annual Report to investors and updated Financial Statements on the CSE website in keeping with regulations.</p>
<ul style="list-style-type: none"> Fulfilling other Board functions are vital given the scale, nature, and complexity of the organisation 			<p>Board was committed throughout the year 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.</p> <p>Key Policy Document updated (Refer page 117)</p>
Compliance with laws and access to independent professional advice	Code – A. 1.3	Adopted	<p>The Board collectively affirms and also the Directors individually affirm their duty to abide by the laws of this land for the running of the Company. An affirmation on compliance to applicable laws and regulations is given on page 193 by the Directors.</p> <p>The Board reviewed and reapproved the policy established for Directors to obtain independent professional advice. They have full access to all relevant information and can obtain independent professional advice, if necessary, at the Company's expense. This procedure enhances the level of independence of the decisions made by Directors and improves the quality of decisions as it seeks expert opinion or advice when necessary.</p>

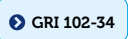
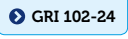
Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)										
Company Secretary	Code – A. 14	Adopted	<p>All Directors have access to the Board Secretary, Mrs. Pethiyagoda, who is a qualified Chartered Secretary with over 20 years of experience in a related field. Her services were available to all Directors, particularly the Non-Executive Directors, who needed additional support to ensure they received timely and accurate information. The Company Secretary is mainly responsible for advising the Board on corporate governance issues, Board procedures, and compliance with applicable laws and regulations. Currently, the role prescribed under schedule G of the code for Company Secretaries is undertaken by Mrs. Pethiyagoda in executing her routine functions.</p> <p>Additional requirement of obtaining appropriate insurance coverage for all the Key Management Personnel as recommended by the Nomination Committee will be looked into in the next financial year.</p>										
Independent judgement	Code – A. 15	Adopted	<p>All Directors are provided an equal opportunity to express their views independently and they bring forward their independent judgement to bear at Board proceedings. The Directors have ample time to review Board papers and other circulated information prior to a meeting.</p> <p>The majority of Executive and Non-Executive Directors hold memberships in Board sub-committees, hence assisting in strategy formulation, financial compliance, and governance matters on a periodic basis.</p> <p>Directors are required to disclose all transactions with the Company, including those of their close family members as required by the relevant Sri Lanka Accounting Standards and the Companies Act.</p>										
Dedication of adequate time and effort by the Board	Code – A. 16	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 the 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 pages 112 and 118.</p>										
<p>Board Meeting Discussion Composition</p> <table border="1"> <caption>Board Meeting Discussion Composition Data</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Performance</td> <td>25%</td> </tr> <tr> <td>Risk Management & Compliance</td> <td>40%</td> </tr> <tr> <td>Strategic Planning</td> <td>25%</td> </tr> <tr> <td>Other</td> <td>10%</td> </tr> </tbody> </table>				Category	Percentage	Performance	25%	Risk Management & Compliance	40%	Strategic Planning	25%	Other	10%
Category	Percentage												
Performance	25%												
Risk Management & Compliance	40%												
Strategic Planning	25%												
Other	10%												
One-third of Directors can call for resolution to be presented to the Board	Code – A. 17	Adopted	Not applicable as no such resolution was presented to the Board during 2021/22.										

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
Training needs of Directors	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 programme with regard to the affairs of the Company and laws and regulations applicable to the Company is in place for any new Directors to be appointed to the Board. It also apprises of the responsibilities of a Director in terms of the applicable rules and regulations.</p>
A.2 Chairman and Chief Executive Officer	Principle – A.2	Adopted	<p>The position and role of the Chairman and Managing Director have been kept separated in line with corporate governance best practices. There is a clear division of responsibilities at the helm of the hierarchy, between the running of the Board and the executive responsibility of running MI's business. The Acting Chairman is an Independent Non-Executive Director. Managing Director is conferred with executive authority to manage the business.</p>
Division of responsibility between the Chairperson and MD/ CEO	Code – A. 2.1	Adopted	<p>The Managing Director (MD) Mr. Gerard Ondaatjie as the Chief Executive Officer having delegated authority by the Board, displays leadership for corporate management in handling routine affairs of the Company. As part of his role, he apprises the Board of the status of Company performance, proposes strategies, and advises Board on operational aspects on an ongoing basis and tables proposal recommendations, information necessary for the Board's direction and approval.</p>
A.3 Chairman's Role	Principle – A.3	Adopted	<p>The Acting Chairman of the Board, Mr. Dinuka Perera, is a Non-Executive Director who continued to demonstrate leadership to the Board by discharging Board functions effectively and in a methodical manner.</p>
Chairperson's role in conducting Board proceedings	Code – A. 3.1	Adopted	<p>Having financial experience, Mr. Dinuka Perera, the Acting Chairman, was able to properly maintain a high level of independence 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 were effectively discharged by taking up matters raised by Directors and Corporate Management ⦿ Ensure adequate information was provided to the Directors ⦿ Maintain a high level of independence and impartiality in Board matters and ensure effectiveness of the Board ⦿ Prepare and circulate a formal agenda for the Board under his supervision ⦿ Obtain advice from across the Board and ensure critical issues were addressed in a timely manner ⦿ Conduct the AGM within the specified regulatory timeframe and ensure active communication with the shareholders ⦿ Ensure Director responsibilities and Board sub-committee terms and reference were clearly set forth


Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
A.4 Financial Acumen Availability of sufficient financial acumen and knowledge within the Board	Principle –A.4	Adopted	The Board is equipped with qualified Directors in the field of finance and accountancy and possesses the necessary financial wisdom. Having been on the Board since 2001, the Finance Director Mr. S.H. Jayasuriya is a financial professional who advises the Board on matters of finance. Each Director at MI brings a particular range of diversified skills and expertise to the boardroom table, which range from accounting and auditing, financial services and insurance, business administration, engineering, recoveries, legal and human resources. Refer Directors' profiles on pages 90 to 95.
A.5 Board Balance	Principle – A.5	Adopted	As per Finance Companies Corporate Governance Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka, the 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-making.
Presence of Non-Executive Directors	Code – A. 5.1	Adopted	Four out of eight Directors on the MI Board are Non-Executive Directors including the Board Acting Chairman. This ensures the importance and materiality of the Non-Executive Directors' opinion in the decision-making process of the Board.
Executive Vs. Non-Executive Directors			
 <p>Executive Directors 4 Non-Executive Directors 4</p>			
Independent Directors	Code – A. 5.2	Adopted	All the Non-Executive Directors are independent, in terms of the criteria defined by CSE Rule 7.10.4 on corporate governance.
Independent Vs. Non-Independent Directors			
 <p>Non-Independent Directors 4 Independent Directors 4</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 independence in decision-making. The Independent Non-Executive Directors complied with independence criteria stipulated by the CBSL, SEC, CSE, and ICASL guidelines during the financial year 2021/22.
Signed Independence Declaration by the Non-Executive Directors	Code – A. 5.4	Adopted	During the FY 2021/22, each Non-Executive Director of the Company has made written submissions as to their independence as per schedule K of the Code.

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
Determination of independence of Non-Executive Directors	Code – A. 5.5	Adopted	Based on the written submissions made by the following Non-Executive Directors and taking into account the criteria specified in Section 4.4 of the Corporate Governance Direction issued by CBSL, the Board deems the said Directors 'Independent' as at 31 March 2022. 1. Mr. P.D.D. Perera 2. Mr. A.L.N. Dias 3. Mrs. E.D. Wickramasuriya 4. Mr. M.K.S. Pieris
Appointment of an Alternate Director by a Non-Executive Director	Code – A. 5.6	Adopted	Not applicable as no Alternate Director was appointed during 2021/22.
Senior Independent Director (SID)	Code – A. 5.7	Adopted	Chairman's/Acting Chairman's and Managing Director's roles remained separate throughout the FY and therefore there was no requirement to appoint a Senior Independent Director.
Confidential discussion with SID	Code – A. 5.8	Adopted	Refer Code – A. 5.7 above.
Meeting of Non-Executive Directors	Code – A. 5.9	Adopted	The Chairman held meetings with Non-Executive Directors without the presence of the Executive Directors 1 time during FY 2021/22.
Recording of concerns in Board minutes	Code – A. 5.10	Adopted	Board concerns raised during Board meetings were discussed and recorded by the Company Secretary in the Board Minutes. There were no issues or concerns raised that could not be unanimously resolved, requiring same to be recorded.
 A.6. Supply of information	Principle – A.6	Adopted	Comprehensive timely information is an essential part of the decision-making process. At MI, financial and non-financial information are analysed and circulated seven days prior to the Board meeting to enable informed and accurate decisions.
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, geographical areas, overall plans and performance from Senior Management. Regular reports also provide the Board and Board sub-committees information on risk appetite profile, emerging risks and analytics, credit exposures, asset and liability management including liquidity, compliance, and other vital matters. This enabled the Board Directors to review situations and risks with enough time and prepare for discussions and make inquiries for additional information from the Management when necessary.
Adequate time for effective Board meetings	Code – A. 6.2	Adopted	The Company Secretary ensured that the required Notice of Meeting, agenda and information documents including Board papers were circulated to all Directors at least seven days prior to holding of Board meetings. This ensured that the Board members had adequate time to study and analyse the related papers and prepare thoroughly for Board meetings. From this financial year Board Minutes were circulated to Directors within two weeks of the Board meeting.
A.7. Appointments to the Board 	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 Ms. 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 112 which provides the Nomination Committee's composition, attendance at Committee meetings and the formal process that the Committee will adopt for future appointments. The Nomination Committee Report for the financial period 2021/22 is given on Page 180.

Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
Assessment of Board Composition by the Nominations Committee	Code – A. 7.2	Adopted	<p>The Board made a comprehensive evaluation of all Directors by using the annual self-assessment process, to assess whether the experience and the exposure of the Directors are adequate to meet the strategic demands faced by the Company and findings of these assessments are taken into consideration in the appointment of future Directors.</p> <p>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 a necessity for the appointment of an additional Director during the financial period.</p>
Disclosure of new Director appointments to shareholders	Code – A.7.3	Adopted	<p>When the new Directors were appointed to the Board, a brief resume of each new Director including the nature of his/her experience, the names of Companies in which the Director holds Directorship, membership in the Board sub-committees etc., is provided to the Central Bank of Sri Lanka, Colombo Stock Exchange, and the regulator. Mr. M. K. S. Pieris was appointed to the Board during the year under review as an Independent Non-Executive Director.</p>
A.8 Re-election	Principle – A.8	Adopted	<p>The Nominations Committee provides recommendations on Directors who are retiring by rotation for shareholder approval at the AGM.</p> <p>Directors are required to submit themselves for re-election at least once in every three years by the shareholders for the time being 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 will retire by rotation in the financial year 2021/22 and are eligible for reappointment:</p> <ol style="list-style-type: none"> 1. Mr. P. D. D. Perera
Election of Directors by shareholders	Code – A. 8.2	Adopted	<p>As explained in Principle A.8 above, following Directors are eligible for re-election;</p> <ol style="list-style-type: none"> 1. Mr. P. D. D. Perera 2. Ms. A. M. Ondaatjie
Resignation of Directors	Code – A. 8.3	Adopted	<p>One Board member resigned during the financial year under review and provided a written communication to the board by mentioning reasons for his resignation.</p>
A.9 Appraisal of Board Performance	Principle – A.9	Adopted	<p>The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily.</p> <p>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 of its performance and its committees for the FY 2021/22. The assessment mainly focused on the Board's contribution towards developing and monitoring strategy; the mix of knowledge and skills on the Board and in committees; the 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. The outcome of such assessments was discussed at both Board and Committee level and actions taken as appropriate.</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 2021/22 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 2022 for future consideration.</p>

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Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)																
Process to review the participation, contribution, and engagement of individual Directors at time of re-election	Code – A. 9.3	Adopted	The Nomination Committee has a robust process to review the participation, contribution, and engagement of each Director at the time of re-election.																
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 2022.</p> <p>Based on the report, the Nomination Committee is expected to consider future needs 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	The following information pertaining to Directors is provided in the Annual Report:																
			<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>90 to 95</td> </tr> <tr> <td>Composition of the Board Sub-Committees</td> <td>112</td> </tr> <tr> <td>Directors' Interest in Transactions</td> <td>195 to 196</td> </tr> <tr> <td>Directors' Shareholdings</td> <td>196</td> </tr> <tr> <td>Directors' Remuneration</td> <td>225</td> </tr> <tr> <td>Directors' Attendance at Board Meetings</td> <td>118</td> </tr> <tr> <td>Directors' Attendance at Sub-Committee Meetings</td> <td>112</td> </tr> </tbody> </table>	Information	Pages	Brief Profile with Qualification, Experience, and Expertise	90 to 95	Composition of the Board Sub-Committees	112	Directors' Interest in Transactions	195 to 196	Directors' Shareholdings	196	Directors' Remuneration	225	Directors' Attendance at Board Meetings	118	Directors' Attendance at Sub-Committee Meetings	112
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A. 11 Appraisal of the Chief Executive Officer	Principle – A. 11	Adopted	<p>Through a formal appraisal process, the Chairman and other Board members reviewed the performance of the Managing Director for FY 2021/22.</p> <p>The Remuneration Committee through a formal evaluation decided his remuneration package, and changes thereof.</p>																
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. Performance of the Managing Director is reviewed on an ongoing basis by the Board, evaluating the extent to which organisational objectives have been achieved from an overall perspective.																
Evaluation of MD's Performance	Code – A. 11.2	Adopted	MD's performance assessment by the Board is an ongoing process. The performance of the MD is evaluated by the Board at the end of each financial year by taking into consideration the performance results of the Company, evaluating the actual against the financial and non-financial targets set at the beginning of the financial year.																
B. Directors' Remuneration	Principle – B.1	Adopted	The MI Board recognises that the existence of a formal and transparent remuneration procedure aligned effectively with Directors' interests and those of shareholders. Having a clear process and guidelines ensured no Director was involved in deciding his or her own remuneration package.																

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Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
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. Refer the Remuneration Committee Report on page 179.
Remuneration Committee composition	Code – B. 1.2, B. 1.3	Adopted	In keeping to specific terms of reference, the Board has established a Remuneration Committee, which determines the compensation and benefits of the executive Directors and the Corporate management while ensuring no Director is involved in setting his/her remuneration. The report of the Remuneration Committee is given on page 179.
Remuneration of Non-Executive Directors	Code – B. 1.4	Adopted	The Board as a whole decides the remuneration of the Non-Executive Directors, including the members of the Remuneration and Nomination Committee. The Non-Executive Directors receive a fee for attending meetings of the Board and Board Committees. Fees paid to the Non-Executive Directors are neither performance related nor pensionable.
Remuneration Committee's access to Managing Director and professional advice	Code – B. 1.5	Adopted	Based on the Remuneration Committee's composition, the advice of the Chairman of the Company is already available since he chairs the Committee as well. When deciding on remuneration of other Executive Directors, the Committee also obtains advice from the Managing Director as necessary. The Remuneration Committee was not required to seek external professional advice to expedite its duties for the FY 2021/22.
B.2 The level and makeup of remuneration structure	Principle – B.2	Adopted	Top executive positions are filled with individuals of high calibre, who will be attracted, retained, and motivated by the Board together with the Remuneration Committee. In order to do so the Board is aware that the level and makeup of remuneration affect human motivations and decisions, and consequently, risk outcomes that are ultimately borne by shareholders. The Company remuneration policy has been devised in a way that considers retention requirements. Individual's performance based on respective officers' targets and goals was appraised annually. Bonuses, increments, and career advancement opportunities were linked to appraisals.
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 a fair policy on remuneration, all Executive Directors including the Managing Director are afforded a suitable and competitive remuneration package. The MI Board is aware that the remuneration of Executive and Non-Executive Directors should reflect the market expectations and concluded that it was sufficient enough to attract and retain the quality of personnel needed to run the Company.
Executive Directors' remuneration should be de-signed to promote the long-term success of the Company	Code – B. 2.2	Adopted	Refer B.2.1 above.
Comparison of remuneration with other Institutions	Code – B. 2.3	Adopted	The Remuneration Committee in deciding the remuneration of the Directors takes into consideration the level of remuneration paid by other comparable companies in order to attract, motivate, and retain individuals and is also mindful of the performance and risk factors entailed. Therefore, the remuneration structure of the Company is reviewed periodically in comparison to that of peers in the industry. This mechanism ensures the remuneration packages of the Executive Directors are on par with the industry/market while ensuring alignment of rewards with strategic and short-term objectives of the Company.

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
Remuneration comparison with other group companies	Code B. 2.4	Adopted	MI does not have subsidiary companies or a parent company under its structure to which it could draw reference. However, pay levels of peer Directors within the Company are considered when deciding on Executive Director remunerations.
Executive Directors' performance related payments	Code – B. 2.5	Adopted	Refer Principle B.2 and Code – B. 2.1 above.
Executive share options	Code – B. 2.6	Not applicable	There were no executive share option schemes offered to any Director during the financial year 2021/22.
Deciding Executive Director remuneration	Code – B. 2.7	Adopted	In deciding remuneration of Executive Directors, the Remuneration Committee referred to provisions set out in Schedule E of the Code. (See comments given in Principle B.2 for details on Executive Director remuneration). There were no long-term incentive schemes or share option schemes proposed for Executive Directors during this period.
Early terminations clauses in service contract of Directors	Code – B. 2.8	Partially Adopted	The Remuneration Committee is considering incorporating early termination compensation commitment clauses in service contracts of the Executive Directors from FY 2021/22 and implementing them for all subsequent appointments.
Early terminations of Directors	Code – B. 2.9	Not applicable	There were no early terminations carried out during FY 2021/22.
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 option schemes were afforded to Non-Executive Directors during FY 2021/22.
B.3 Disclosure of Remuneration	Principle – B.3	Adopted	The MI Remuneration Policy is fair, competitive, and reflects the performance of the business. A statement on MI's Remuneration Policy is provided on page 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.
Names of members in the Remuneration Committee and remuneration paid to Directors	Code – B. 3.1	Adopted	Details of the Remuneration Committee composition with meetings held and participation status of members is provided on page 112. Details relating to remuneration paid to Executive and Non-Executive Directors in aggregate is disclosed on page 225.
C. Relations with shareholders	Principle – C.1	Adopted	The Board deems necessary that there is a constructive relationship with its shareholders, being MI's foremost stakeholder. Therefore, through the holding of the AGM, both MI and the shareholders have the opportunity to communicate and address doubts and proposed ideas. 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 308 for further information in this regard).
C.1 Constructive use of AGM			
Notice of the AGM and related papers	C.1.1	Adopted	The Annual Report which includes the 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 2020/21 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 and performance and provides opportunity for shareholders to review progress early and present views and seek clarifications at the AGM.

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Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
Separate resolutions for each separate issue	Code – C. 1.2	Adopted	The Company proposes separate resolutions for all substantially separate matters to provide shareholders an opportunity to deal with each material issue separately with the option of voting either for or against the resolution or withholding their vote. A separate resolution is passed for the adoption of the Report of the Directors and Statement of Accounts and the Report of the Auditors contained in the Annual Report. Forms of Proxy allow shareholders the option to direct their proxy holder to vote for or against each resolution or to with-hold their vote on any matter. Clear Proxy Instructions are attached to the Annual Report covering this section.
Level of proxies at AGMs	Code – C. 1.3	Partially Adopted	Proxy forms are made available in the Annual Report released with adequate prior notice to all shareholders in accordance with the Companies Act. The Company has in place an effective mechanism through the Company Secretarial Division to record all proxy votes logged for each resolution and the number of votes for or against or withheld for each resolution.
Availability of all Board sub-committee Chairmen at the AGM	Code – C. 1.4	Adopted	At the AGM held for the previous financial year 2020/21 for review, the Chairpersons of all the Board sub-committees were present to answer any questions raised by the shareholders.
Voting procedures at General Meetings	Code – C. 1.5	Adopted	The Notice of Meeting for the AGM for FY 2021/22 which contained the procedures governing voting will be sent to the shareholders 15 working days prior to the date of the AGM.
C.2 Communication with shareholders	Principle – C.2	Adopted	A meaningful engagement with all stakeholders is recognised as a top priority of the Board, and hence the Board continues to have an effective ongoing dialogue with all key parties, either directly or through various corporate communication methods as given on page 38. Therefore, building and maintaining good stakeholder relationships helps the Company manage and respond to expectations, minimise reputational risk, and help build strong partnerships, all of which support the commercial sustainability of the organisation.
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. It is considered that the Annual Report and AGM are the primary modes of communication. As per the revised Communication Policy 2021, financial information such as Annual Reports and interim reports are made available to shareholders via the CSE website or sent by mail. All shareholders are encouraged to attend the Annual General Meeting and extraordinary meeting of shareholders.
Policy and methodology for communication with shareholders	Code – C. 2.2 & C. 2.3	Adopted	A Board-approved 'Communication Policy' which specifies communication methods and channels has been adopted which specifies an interactive method for MI shareholders. The Communication Policy document was made available for divisional heads, who in turn adopt policies through their subordinates.
Disclosure of contact person for shareholders	Code – C. 2.4	Adopted	The persons who are responsible for communication with different stakeholders of MI are clearly specified in the MI Communication Policy. The Company Secretary acts as the intermediary between the shareholders and the Board and she is the main point of contact for the shareholders for their concerns and clarifications.

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
Process to raise awareness of major issues and concerns of shareholders	Code – C. 2.5	Adopted	Major issues and concerns impacting shareholders are communicated via meetings with shareholders in accordance with the Communication Policy document. All shareholders are encouraged to attend the Annual General Meeting and other meetings of shareholders to discuss MI's progress and concerns. Shareholders may send enquiries to the Board in writing or by completing the attached shareholder feedback form given at the end of the Annual Report and sending it to the given contact point.
Person to contact in relation to shareholder matters	Code – C. 2.6	Adopted	The Company Secretary is the main point of contact for shareholders to raise matters. In line with the Open Door Policy of the Company, shareholders are welcome to contact any Executive Director or members of the Corporate Management to obtain clarifications regarding their concerns.
The process in responding to shareholder matters	Code – C. 2.7	Adopted	Refer comment on Principle C.2.5 above.
C.3 Major transactions	Principle – C.3	Adopted	The MI Board has established a process to capture and disclose any material transactions proposed that would alter or vary the net asset position of Company. 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 for transparency 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 proposed 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.
Disclosure of requirements and shareholder approval by special resolution as required by SEC and CSE	Code – C. 3.2	Adopted	As per the comment provided in above C.3 and 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 31 March 2022, 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 FY 2021/22, 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.

Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
Balanced and understandable assessment of the Company	Code – D. 1.2	Adopted	<p>Taking on the responsibility of presenting a balanced and understandable assessment of the Company, MI's Board disclosed unbiased assessment, which includes all the positive and negative impacts to the stakeholders, through an Annual Report for the year under review. (Refer pages 187 to 193).</p> <p>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.</p>
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 Finance Director/ CFO that the Financial Statements give a true and fair view and has been prepared in accordance with appropriate accounting standards and also on the effectiveness of the risk management and internal control mechanism of the Company for the financial year under review is given on page 197.
Directors' Report	Code – D. 1.4	Adopted	The Annual Report of the Board of Directors (Directors' Report) provides an affirmation of the Company's compliance with laws and regulations and confirms the going concern assumption and the effectiveness of the internal control system that is in place. (Refer pages 187 to 193).
Directors' and Auditors' responsibility statement	Code – D. 1.5	Adopted	<p>The Statement of Directors' Responsibilities is given on pages 187 to 193, while Auditors' Responsibility is clearly specified in the Auditors' Report of the Financial Statements issued by Messrs Ernst & Young, Chartered Accountants, given on page 196. The responsibility of Directors over internal controls is given in the Directors' Statement on Internal Control on pages 198 to 199.</p> <p>In keeping to this section, the statement on Internal Control issued by the Board complies with content of Annexure L of the Code.</p>
Management Discussion and Analysis	Code – D. 1.6	Adopted	'Management Discussion and Analysis' given on pages 36 to 79 covers all the requirements of this section by providing a comprehensive commentary of the Company's performance according to the International Integrated Reporting Framework covering MI's business model, industry risks and opportunities, SWOT analysis, and future predictions.
Calling of an EGM when net assets fall below 50% of shareholders' funds	Code – D. 1.7	Adopted	The net assets of the company totalled Rs. 10 billion and was well above this requirement (50%) during the year 2021/22 and the likelihood of such an adverse situation is remote. However, if such a situation were to arise an EGM will be called and shareholders will be notified.
Adequacy and accuracy of related third-party transaction disclosures	Code – D. 1.8	Adopted	<p>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 practices recommended by the CA Sri Lanka 2017 Corporate Governance Code.</p> <p>(Refer Related Party Transaction Review Committee Report, given on page 183 for detailed committee information and the Financial Statements, given on pages 263 to 267 for details on related party transactions during FY 2021/22).</p>

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
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 in order to safeguard shareholders' investments and the Company's assets. Employees, irrespective of hierarchy, are required to ensure strict compliance with set procedures of internal controls.
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 own 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 Schedule 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 clarification of any significant matters from External Auditors as well.</p> <p>The IRMC in parallel, in keeping with 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 in this regard.</p>
Robust assessment of the principal risks faced by the Company	Code – D. 2.2	Adopted	A clear assessment of the Company's risks and the process of risk identification, measurement, and controls are given on pages 161 to 176 in the Risk Management Report.
Internal Audit function	Code – D. 2.3	Adopted	<p>MI's Internal Audit Division is headed by a Chartered Accountant, who is responsible for ensuring an independent audit is conducted. In keeping with the annual audit plan, the Internal Audit team investigates all the aspects of the Head Office and branches, focusing more on the operations and processes which involve high risks.</p> <p>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.</p>
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, 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>The Audit Committee, with the support of the Integrated Risk Management Committee and the Head of Risk Management and Compliance, continuously reviewed the effectiveness of the risk management process and internal controls and ensured the soundness of the risk management process and internal controls and managed to report any deficiencies and matters to the Board with recommendations.</p>

Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 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 is actually 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 policies, corporate reporting structure, and content was thoroughly reviewed under the guidance of the Audit Committee Chairman.
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 181 to 182.
Terms of reference of the Audit Committee	Code – D. 3.2	Adopted	<p>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 Chartered Accountants of Sri Lanka.</p> <p>Refer Audit Committee Report pages 181 to 182.</p>
Disclosures of the Audit Committee	Code – D. 3.3	Adopted	<p>To obtain information regarding the composition, objectives, and duties of the Audit Committee, refer section 8.2 (a) to 8.2 (q) in Part 2 of this supplement on pages 149 to 152.</p> <p>The names of Directors forming the Audit Committee and their participation level at meetings are disclosed on page 112.</p> <p>Report of the Audit Committee is given on pages 181 to 182. In keeping with this section, the Report specifies the determination made by the Committee in relation to External Auditors' independence.</p>
D.4 Related Party Transaction Committee	D.4	Adopted	<p>MI established a Related Party Transaction Review Committee in 2015 which reviews all the Material Related Party Transactions of the Company on a periodic basis.</p>
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 transaction details are disclosed as follows:</p> <ul style="list-style-type: none"> ⦿ Related parties including KMPs, refer pages 139 and 263 to 267 ⦿ Directors' Interest in Contract, refer pages 195 to 196 <p>As per LKAs 24, Central Bank of Sri Lanka, and CSE regulations.</p>
D.4.2 Composition of Related Party Transaction Review Committee	D.4.2	Adopted	The composition and work of the Related Party Transaction Review Committee for the financial year 2021/22 are set out in the Committee Report on page 183.

GRI 102-25

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
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 the financial year 2021/22. The updated terms of reference and Related Party Transaction Review Policy approved by the Board 18th February 2022 govern all future activities of the Related Party Transaction Review Committee covering additional best practices recommended by the CA Sri Lanka Corporate Governance Code.
D.5 Code of Business Conduct and Ethics	Principle – D.5	Adopted	A comprehensive Board-approved Human Resource Policy document is in place defining HR policies and procedures to all staff. The document upholds best corporate practices on HR management and expects employees to uphold sound business conduct keeping to highest ethical standards and best practices. The approach to ethics considers the impact of actions on a broad range of stakeholders and to the reputation of MI.
Compliance with requirements on business conduct and ethics	Code – D. 5.1	Adopted	The Company's HR Policy on Business Conduct and Ethics, which is applicable to the Directors and the employees at MI, is included in the 'Human Resource Handbook'. The HR handbook is 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 192 stating, "All the members of Board of Directors and Key Management Personnel have complied with the 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 detects and reports any price sensitive information promptly. Refer comments given on Code C.2.7, C.3 and C.3.1 on page 131.
Policy and process for monitoring and disclosure of Directors' and KMP's share purchases	Code – D. 5.3	Adopted	The 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 with 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 Company-wide 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 on Corporate Governance' on page 102.
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 102 to 160 sets out the manner in and the extent to which the Company has complied with the Code.
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 on 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.

 GRI 102-16

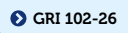
Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
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, the Company Secretary's division minutes discussions and views of all that is presented at AGMs. Shareholders' views and other matters are taken up with the Board and sub-committees depending on materiality and urgency of the matter at hand.
E.2 Evaluation of Governance Disclosure	Principle – E.2	Adopted	Corporate governance related matters along with adequate disclosures are communicated to all shareholders via the Annual Report and the AGM as mentioned.
F. Other investors F.1 Individual shareholders	Principle – F.1	Adopted	Individual shareholders are encouraged to carry out their own analysis or seek independent advice on investing or divesting decisions. MI's annual report contains sufficient information for prospective investors to carry out extensive analysis. Further, MI publishes quarterly accounts on the CSE website so that retail investors could make judgements of the performance of the Company on an ongoing basis.
F.2 Shareholder voting	Principle – F.2	Adopted	MI's shareholder base comprises a small base of investors comprising very few individual investors. All investors are encouraged to participate in General Meetings of the Company.
G. Internet of Things and cybersecurity			
G.1 Process of identifying cybersecurity risks with-in the organisational network and from outside	Principle – G.1	Adopted	Recent cyber-attacks on global banks and the cyber risk emerging after the global spread of COVID-19 have emphasised the necessity of financial institutions to enhance vigilance and remain agile to face evolving cybersecurity risks. MI has identified the significance of cybersecurity as an 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	The AGM – IT is the Chief Information Security Officer (CISO) of the Company and is a highly-qualified fellow member of the British Computer Society with over 18 years' experience in a related field. An IT Security Policy is in place which covers cybersecurity aspects of the Company and contingency plans have been effectively communicated to all relevant officers in charge.
G.3 Allocation of adequate time on Board agenda on cybersecurity	Principle – G.3	Adopted	The IT Steering Committee established in 2016 met regularly to discuss IT-related potential and emerging risks at local and global level within the FY 2021/22. The IT Steering Committee through the Finance Director, who is the Chairman of the Committee, reports to the Board on any cybersecurity-related threat or potential risk through IRMC.
G.4 Effectiveness of cybersecurity risk management process	Principle – G.4	Adopted	The annual internal audit plans have given prominence to the importance of having an IT audit for the Company which covers cyber-security aspects as well. The Company conducted a thorough internal IT audit using PricewaterhouseCoopers (Private) Ltd. in the financial year under review which encompassed a cybersecurity review.
G.5 Annual Report dis-closure on process of cybersecurity risk identification	Principle – G.5	Adopted	Refer risk management report on pages 161 to 176.

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2021/22 Update)
H. Environment, Society, and Governance (ESG)			
<div style="border: 1px solid blue; border-radius: 5px; padding: 2px; display: inline-block;"> GRI 102-18, 102-19, 102-26, 102-29, 102-31 </div>			
H.1 ESG Reporting	Principle – H.1	Adopted	<p>ESG factors create long-term stakeholder value by embracing opportunities, managing risks derived from economic, environmental, and social developments and their potential implications, and impact the business activities of the entity. 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.</p> <p>MI believes in meeting the responsibilities MI has towards its key stakeholders, namely, shareholders, customers, employees, suppliers, and the community in the optimal way through our business activities. We have embraced a suitable sustainability strategy to enhance MI's impact on the economy, society, and the environment in keeping with MI's sustainability vision, goals, and ideologies as explained on pages 16 to 17.</p> <p>MI's annual performance and progress for FY 2021/22 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 encompass wider economic impact, on page 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 on pages 36 to 37.
H 1.2 – Environmental Factors	Code – H. 1.2.1	Adopted	Refer 'Nature' on pages 76 to 79.
H 1.3 – Social Factors	Code – H. 1.3.1	Adopted	Refer Overview and Stakeholder Engagement on pages 38 to 39, and Alliances on pages 60 to 63, and Human Strength on pages 65 to 67.
H 1.4 – Governance	Code – H. 1.4.1	Adopted	Refer Business model on pages 36 to 37, Overview, Stakeholder Engagement and Material Topics and its reference to approach and monitoring on pages 10 to 11, and 38 to 39 and Corporate Governance Report on pages 102 to 160.
H 1.5 – Board's role on ESG factors	Code – G. 1.5.1	Adopted	Refer Management Discussion and Analysis Strategy on pages 36 to 79, and Overview on pages 10 to 11.

Corporate Governance Report

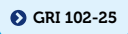
MERCANTILE INVESTMENTS AND FINANCE PLC'S COMPLIANCE WITH FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 3 OF 2008 AS AMENDED BY DIRECTIONS NO. 4 OF 2008, NO. 6 OF 2013 AND DIRECTION NO. 05 OF 2020 ISSUED BY THE CENTRAL BANK OF SRI LANKA 'CORPORATE GOVERNANCE DIRECTIONS'

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>Complied</p> <p> GRI 102-26</p>	<p>Strategic objectives, corporate values, overall business strategy and policies of the Company set by the Board were communicated to all levels of the Company through meetings, communications, and regular discussions.</p> <p>The Board approved the on-going Strategic Plan developed up to 2022-2024 at the meeting held on 30th March 2021 by taking into consideration the challenging short-term COVID-19 business climate and economic uncertainty. Considering the sudden socio-political crises from the foreign exchange shortage since March 2022, a three year plan up to 31/03/2025 will be revisited and revised to align with the changing volatile economic and business environment.</p> <p>MI has developed policy on Code of Conduct and Ethics for all employees, in line with strategic objectives and corporate values of the company. The corporate values have been effectively communicated to all employees through HR sessions and staff development programmes, guiding staff on expected values.</p> <p>Refer strategy on pages 40 to 46 for the corporate objectives and values on page 16.</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>	<p>Complied</p>	<p>The Board has provided direction in the development of short-, medium- and long-term strategy of the Company with the objective of promoting sustainable profitability growth and meeting stakeholder obligations.</p> <p>Strategic plan covering the three-year period from FY 2021/22 - 2023/24 was approved on 30th March 2021 which covered the financial year under review. A fresh Strategic Plan covering the period from FY 2022/23 to FY 2024/25 was under the development phase as at 31 March 2022 and same will address the prevailing challenging context of operating environment due to the political and economic crisis.</p> <p>MI's overall risk parameters have been set up with regular reviews in place through the Integrated Risk Management Committee (IRMC) and Assets and Liabilities Committee (ALCO).</p> <p>Revised Risk Management policy was approved by the Board on 25th October 2021, by incorporating especially the operational risk appetites and stress testing scenarios, under the given volatile conditions.</p> <p>(Refer Risk Report pages 161 to 176)</p>
<p>c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.</p>	<p>Complied</p>	<p>Assets and Liabilities Management Committee (ALCO) and Integrated Risk Management Committee (IRMC) review risks and systems that have been developed to manage and mitigate risks. ALCO reviews performance monthly and IRMC meets every quarter or earlier if required. Minutes and reports of said committees are tabled at Board Meetings for Directors' review and further action. (The process or risk identification and measurement established to manage risk prudentially is explained on pages 161 to 176)</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.</p>	Complied	<p>A Board-approved communication policy is in place and reviewed, as and when required. The communication policy was last reviewed and approved by the Board of Directors on 8th February 2021.</p> <p>Further, the Annual General Meeting (AGM) held with the participation of the Directors, Shareholders, and other interested parties facilitates effective discussion among the shareholders and the Board on matters which are relevant and of concern to the general membership.</p> <p>Specific emphasis was placed on adopting communication methods in line with the prevailed COVID health guidelines and greater use of virtual and non-interactive channels of 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. Under the Board's delegated authorities, the Audit Committee monitors the effectiveness of the internal control systems on behalf of the Board and reports to the Board periodically on a continuous basis. 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 continuous review of the Company's management information systems, with specific focus on the accuracy, timeliness, and security of the systems. During the FY 2021/22 PricewaterhouseCoopers (Private) Ltd. conducted a comprehensive IT general control audit submitting their findings and recommendations to the Audit Committee.</p>
<p>f) Identifying and designating Key Management Personnel, who are in a position to:</p> <ul style="list-style-type: none"> ⦿ Significantly influence policy; ⦿ Direct activities; ⦿ Exercise control over business activities, operations, and risk management. 	Complied	<p>Directors, COO, CFO, General Managers, Assistant General Managers, Company Secretary, Head of Risk & Compliance and Head of Internal Audit have been identified and designated as the Key Management Personnel of the Company, who are in a position to significantly influence policies, direct activities, and exercise control over business activities and risk management of the Company. They possess the required qualifications and experience to hold such positions and have been given clear job roles to exercise effective control over their respective functions.</p>
<p>g) Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel.</p>	Complied	<p>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
h) Ensuring that there is appropriate oversight of the affairs of the Finance Company by Key Management Personnel, that is consistent with the Finance Company's policy.	Complied	<p>The performance and key areas of the business are reviewed by the Board of Directors at their monthly meetings.</p> <p>Relating to material concerns, periodic activity reports are 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 Managing Director has been given the authority by the Board and he is accountable 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 including credit, marketing, and recoveries meetings that enabled the Senior Management to stay focused during these challenging times to attain respective immediate goals and targets.</p>
<p>i) Periodically assessing the effectiveness of its governance practices, including;</p> <ul style="list-style-type: none"> ⦿ The selection, nomination and election of Directors and appointment of Key Management Personnel; ⦿ The management of conflict of interests; and ⦿ The determination of weaknesses and implementation of changes where necessary. 	Complied	<p>New appointments are approved by the Board and re-elections are approved by the shareholders at the Annual General Meeting. The Key Management Personnel are duly recruited by the Executive Directors under the delegated Board authority and supervision of the Managing Director and involved a streamlined recruitment process.</p> <p>During the year under review, three Key Management Personnel have been appointed including an Independent Non-Executive Director. Further, Mr. P.C. Guhashanka was not re-appointed as a Non-Executive Director as he did not seek re-election, and hence ceased to be a Director with effect from 28th July 2021.</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 Board carried out a self-evaluation on the effectiveness of governance practices and the feedback was tabled at a Board meeting.</p>
j) Ensuring that the Finance Company has an appropriate succession plan for Key Management Personnel.	Complied	A Board-approved Succession Plan is in place for all Key Management positions and training programmes are being continuously reviewed, formulated, and conducted to ensure that there is adequate succession capacity at all levels.
k) Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	Apart from Board Meetings, Directors communicate with fellow members on an ongoing basis on key strategic matters while the Executive Directors meet with Line Managers and Corporate Managers frequently to assess performance and take decisions on strategic and operational key matters. In addition, KMPs makes presentations to the Board as a whole or to individual Directors on matters of interest.
l) Understanding the regulatory environment.	Complied	<p>The Compliance Officer and Company Secretary update Board Members on changes to the regulatory environment. Regular discussions, training, and seminars are arranged for Directors and Key Management Personnel to facilitate understanding of the regulatory environment.</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>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
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 & Young, Chartered Accountants, were re-appointed by the Audit Committee as the External Auditors of the Company for the FY 2021/22, 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 will 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 Board is led by the Independent Non-Executive Chairman ensuring the Board discharges its responsibilities effectively.</p> <p>Independent Non-Executive Director Mr. P.D.D. Perera and Executive Director Mr. Gerard Ondaatjie continued to discharge their duties as the Acting Chairman and MD respectively.</p>
2.2 Availability of a procedure determined by the Board to enable Directors to seek independent professional advice at the Company's expense.	Complied	<p>The Company has a procedure for Directors to seek independent professional advice, in furtherance of their duties, at the Company's expense. This procedure is coordinated through the Company Secretary, as and when it is requested.</p> <p>The same procedure has been in place since 2013 and was updated and approved on 30th March 2020.</p>
2.3 Avoidance of conflicts of interest	Complied 	<p>The Board has taken steps to ensure that when conflicts of interest 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 Company compiles information related to the related transactions and submits 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	<p>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, ensure critical matters and general performance updates are taken up in keeping with the Board's expectations.</p> <p>A formal process has been developed by the Board in order to effectively discharge Board Functions. A formal schedule of matters has been approved to ensure the direction and control of the Company is firmly under the Board's control and authority.</p>

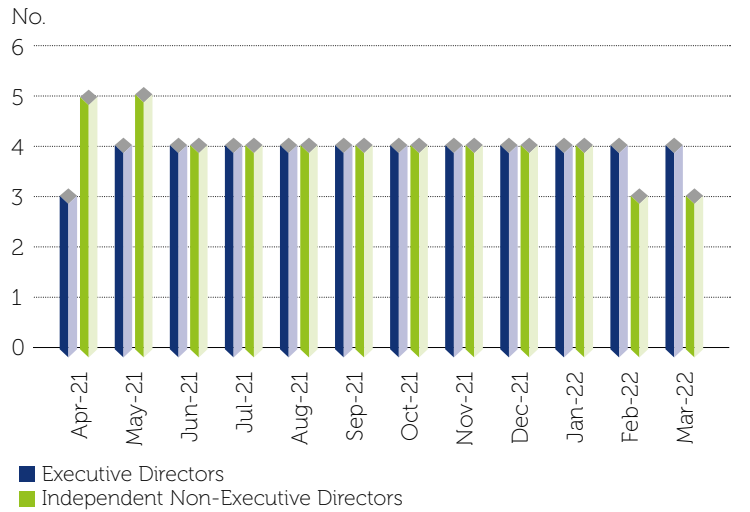
Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
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, and accordingly there was no necessity to keep the regulator informed of any insolvency concerns.</p> <p>The liquidity position of the Company was well above statutory limits throughout the year (refer page 285) 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 102 to 160 in this Annual Report 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 2021/22.
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 2021/22. Evaluation criteria were further enhanced to ensure the evaluation process provides more comprehensive findings. The summary of findings together with areas for further improvement was tabled for the deliberation of the Board.
3) Meetings of the Board 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.	Complied	<p>Twelve Board meetings were held for the financial period 2021/22. Please refer section A.1.1 of the CA Sri Lanka code given on page 118 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 are obtained via circulation by the Company Secretary.</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.	Complied	The agenda prepared by the Company Secretary under the guidance of the Chairman incorporates all proposals submitted by Directors. All Directors are provided an equal opportunity to submit proposals with regard to all key areas of business and to table proposals pertaining to new business developments and risk management.
3.3 Notice of at least seven days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Complied	<p>For regular Board meetings, at least seven days' notice is given to all Directors providing them with adequate time to review circulated Board papers and to take up concerns and raise other matters of importance.</p> <p>The Company Secretary ensures reasonable notice is given for any other meetings held by the Board other than regular Board meetings.</p>
3.4 A Director who has not attended at least two-thirds of the meetings within the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held shall cease to be a Director. Participation at the Directors' meetings through an Alternate Director shall, however, be acceptable as attendance.	Complied	<p>All Directors have participated over the minimum participation requirement of attending at least two-thirds of the meetings held for the financial year 2021/22.</p> <p>No Directors was absent from three consecutive Board meetings during the financial year 2021/22.</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 118.</p>

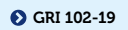
Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption																
3.5 The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	The Company Secretary’s responsibilities and services extended by her to the Board is given on page 122, Section A.1.4 of the CA Sri Lanka Code.																
3.6 If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such functions.	Complied	<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 2021/22 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	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.																
3.9 Minutes of Board meetings shall be recorded in sufficient detail.	Complied	Minutes of all Board meetings are recorded in a timely manner, in sufficient detail and retained by the Company Secretary under the supervision of the Chairman.																
4) Composition of the Board 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 thirteen (13).	Complied GRI 102-22	<p>The Board comprised of eight (8) Directors in keeping with the provisions of this section.</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>19/20</td> <td>5</td> <td>1</td> <td>2</td> </tr> <tr> <td>20/21</td> <td>4</td> <td>0</td> <td>4</td> </tr> <tr> <td>21/22</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	19/20	5	1	2	20/21	4	0	4	21/22	4	0	4
Year	Executive Directors	Non-Independent Non-Executive Directors	Independent Non-Executive Directors															
19/20	5	1	2															
20/21	4	0	4															
21/22	4	0	4															

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption																		
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.	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 31st March 2022</th> </tr> </thead> <tbody> <tr> <td>Mr. P. C. Guhashanka</td> <td>Independent Non-Executive Director</td> <td>8 years completed (Resigned on 28 July 2021)</td> </tr> <tr> <td>Mr. P. D. D. Perera</td> <td>Independent Non-Executive Director</td> <td>2 Years and 1 month completed.</td> </tr> <tr> <td>Mr. A.L.N. Dias</td> <td>Independent Non-Executive Director</td> <td>1 year completed.</td> </tr> <tr> <td>Ms. E. D. Wickramasuriya</td> <td>Independent Non-Executive Director</td> <td>1 year completed.</td> </tr> <tr> <td>Mr. M. K. S. Pieris</td> <td>Independent Non-Executive Director</td> <td>11 months completed.</td> </tr> </tbody> </table>	Name of Director	Directorship Status	Number of years in position as at 31st March 2022	Mr. P. C. Guhashanka	Independent Non-Executive Director	8 years completed (Resigned on 28 July 2021)	Mr. P. D. D. Perera	Independent Non-Executive Director	2 Years and 1 month completed.	Mr. A.L.N. Dias	Independent Non-Executive Director	1 year completed.	Ms. E. D. Wickramasuriya	Independent Non-Executive Director	1 year completed.	Mr. M. K. S. Pieris	Independent Non-Executive Director	11 months completed.
Name of Director	Directorship Status	Number of years in position as at 31st March 2022																		
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Mr. M. K. S. Pieris	Independent Non-Executive Director	11 months completed.																		
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.	Complied	<p>There were no new Director appointments during 2021/22 from employees.</p> <p>The Executive Directors of the Company have not exceeded one-half of the number of Directors of the Board.</p> <p>Executive Vs. Non-Executive Directors</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Executive Directors</td> <td>4</td> </tr> <tr> <td>Non-Executive Directors</td> <td>4</td> </tr> </tbody> </table>	Category	Count	Executive Directors	4	Non-Executive Directors	4												
Category	Count																			
Executive Directors	4																			
Non-Executive Directors	4																			
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.	Complied	<p>The Board consists of four (4) Independent Non-Executive Directors as against a total of eight (8) 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>																		
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	<p>There were no instances of appointing Alternate Directors for Independent Non-Executive Directors during the year.</p>																		

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption																																																				
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 90 to 95 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>As per the attendance of the Board Meetings during the financial year 2021/22, the required quorum has been maintained at all Board Meetings.</p> <p>Monthly Quorum Status of the Board Meetings</p>  <table border="1" data-bbox="708 784 1461 1294"> <caption>Monthly Quorum Status of the Board Meetings</caption> <thead> <tr> <th>Month</th> <th>Executive Directors</th> <th>Independent Non-Executive Directors</th> <th>Total</th> </tr> </thead> <tbody> <tr><td>Apr-21</td><td>3</td><td>2</td><td>5</td></tr> <tr><td>May-21</td><td>4</td><td>1</td><td>5</td></tr> <tr><td>Jun-21</td><td>4</td><td>1</td><td>5</td></tr> <tr><td>Jul-21</td><td>4</td><td>1</td><td>5</td></tr> <tr><td>Aug-21</td><td>4</td><td>1</td><td>5</td></tr> <tr><td>Sep-21</td><td>4</td><td>1</td><td>5</td></tr> <tr><td>Oct-21</td><td>4</td><td>1</td><td>5</td></tr> <tr><td>Nov-21</td><td>4</td><td>1</td><td>5</td></tr> <tr><td>Dec-21</td><td>4</td><td>1</td><td>5</td></tr> <tr><td>Jan-22</td><td>4</td><td>1</td><td>5</td></tr> <tr><td>Feb-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Mar-22</td><td>3</td><td>0</td><td>3</td></tr> </tbody> </table> <p>Legend: ■ Executive Directors ■ Independent Non-Executive Directors</p>	Month	Executive Directors	Independent Non-Executive Directors	Total	Apr-21	3	2	5	May-21	4	1	5	Jun-21	4	1	5	Jul-21	4	1	5	Aug-21	4	1	5	Sep-21	4	1	5	Oct-21	4	1	5	Nov-21	4	1	5	Dec-21	4	1	5	Jan-22	4	1	5	Feb-22	3	1	4	Mar-22	3	0	3
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4.8 The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Finance Company. The Finance Company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual Corporate Governance Report which shall be an integral part of its Annual Report.	Complied	<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 124 and the Directors' brief given on pages 90 to 95.</p> <p>Names of the four Independent Non-Executive Directors are mentioned on page 125 of the Corporate Governance section.</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.	Complied	<p>All new appointments and re-elections to the Board have to be recommended by the Nomination Committee. Refer page 125. 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. In addition, there is a formal procedure in place for orderly succession of appointments to the Board from financial year under review.</p> <p>The Board Nomination Committee Report is given on page 180.</p>																																																				

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
4.10 All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first Annual General Meeting after their appointment.	N/A	Mr. M. K. S. Pieris, who was appointed as an Independent Non-Executive Director on 5th April 2021 retired and was re-appointed at the last years AGM held in July 2021.
4.11 If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	Complied	Independent Non-Executive Director, Mr. P C Guhashanka's resignation took place during the financial year 2021/22. This was duly reported to the Department of Supervision of Non-Bank Financial Institutions and to the Colombo Stock Exchange (CSE) by the Company Secretary in compliance with this section and related provisions as per the CSE rules.
5) Criteria to assess the fitness and propriety of Directors 5.1 Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a Finance Company. Amendment to the Corporate Governance Direction No. 05 of 2020.	Complied	There were no Board members who exceeded the age of 70 years. Pages 90 to 95 provides the age profile of the Board of Directors.
5.2 A Director of a Finance Company shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/ corporate bodies, including associate companies and subsidiaries of the Finance Company.	Complied	As given in the Board profiles on pages 90 to 95 detailing Directorships held by each Director on the Board of Mercantile Investments in other companies as at 31 March 2022, no Director of the Board holds office in over 20 companies contravening the provisions of this section.
6) Delegation of functions 6.1 The Board shall not delegate any matters to a Board committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied 	The Board has delegated some of its duties to the Board sub-committees and Corporate Management, but maintains close overall oversight over Company affairs to ensure its ability to govern and discharge duties. The Board evaluates the delegated authority limits, assessing particularly the credit authority limits and other limits applicable to the Board sub-committees periodically. 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.
6.2 The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.	Complied	The Board reviews 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
7) The Chairman and the Chief Executive Officer 7.1 The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the one and the same person after three years commencing from 1 January 2009.	Complied	In keeping to this section an Independent Non-Executive Director acts as the Acting Chairman. Separately, there is a Managing Director (MD) continuing in an Executive Director capacity, thus the two roles are segregated. Additional details pertaining to this is given on page 123 of section A.2 and A.3 of CA Sri Lanka's Governance Code.

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
72 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. P.D.D. Perera who is an Independent Non-Executive Director is the Acting Chairman of the Company.
73 The Board shall disclose in its Governance Report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship (including financial, business, family or other material/relevant relationship(s)), if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	No material relationship including financial, business or family exists between the Acting Chairman Mr. P.D.D. Perera and the Managing Director/Chief Executive Officer Mr. Gerard Ondaatjie. A declaration has been obtained to this effect from the Acting Chairman and Directors. However, Executive Directors Mr. Gerard Ondaatjie, Ms. Angeline M. Ondaatjie and Mr. Travice J. Ondaatjie are members of the same family.
74 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	The Acting Chairman of the Company provided leadership to the Board in addressing all significant matters and obtained the best cooperation from fellow Directors. The Acting 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. Refer page 123 of Section A.2 and A.3 of the CA Sri Lanka Code for further details on the Chairman's role.
75 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	The Acting 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. Refer page 122 for key areas focused on in Board meetings during 2021/22.
76 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.
77 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 Acting Chairman leads from the front, encouraging active participation of all Directors in governing the affairs of the Company and acting in the best interests of the Company.

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption														
78 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 Acting 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>														
79 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 Acting 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 any executive duties whatsoever.</p>														
710 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 facilitate two-way interactions. Shareholders are also able to meet with the members of the Board on a one-to-one basis, upon 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 Acting Chairman of the Board depending on its relevance and materiality.</p>														
711 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	<p>Managing Director Mr. Gerard Ondaatjie functions as the apex executive in charge of managing routine operations of the Company (in place of a Chief Executive Officer). He works closely with other Executive Directors and Corporate Management with regard to the daily operations of the Company. The role and responsibilities of the Managing Director/Chief Executive Officer are clearly defined and approved by the Board.</p>														
8) Board-appointed Committees 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.	Complied	<p>The 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:</p> <table border="1"> <thead> <tr> <th>Sub-committee</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>112</td> </tr> </tbody> </table>	Sub-committee	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	112
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Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
8.2 Audit Committee The following shall apply in relation to the 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.	Complied	Chairman of Audit Committee, Mr. P.D.D. Perera, is an Independent Non-Executive Director. He is a Fellow Member of Chartered Accountants, Sri Lanka (FCA), Associate Member of Chartered Institute of Management Accountants, United Kingdom (ACMA-UK), Fellow Member of the Institute of Certified Management Accountants of Sri Lanka, and Masters in Business Administration from Postgraduate Institute of Management, University of Sri Jayewardenepura (MBA). 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 of three Independent Non-Executive Directors. The Committee operates in an independent and objective manner to ensure impartiality of the Committee. Refer page 134 of Section D.3 of the CA Sri Lanka Code for details on this subject.
8.2 c) The Committee shall make recommendations on matters in connection with; i.) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; ii.) The implementation of the Central Bank guidelines issued to Auditors from time to time; iii.) The application of the relevant accounting standards; and iv.) The service period, audit fee, and any resignation or dismissal of the auditor, provided that the engagement of an Audit Partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied	The Audit Committee made the following recommendations in relation to this Section; i) The Committee made recommendations for the re-appointment of External Auditors Ernst & Young, Chartered Accountants, for the FY 2021/22. The Committee made this recommendation on the basis that this is the fifth undertaking for the External Auditors within the given five-year regulation. II) Central Bank guidelines issued for Auditors are implemented, as and when they are issued, on an ongoing basis. III) In reviewing the application of the accounting standards in preparing the draft Financial Statements, the Committee ensured that there is sufficient disclosure, both qualitative and quantitative. IV) The Audit Committee approved the audit fee at the audit committee meeting held on 11th February 2022 for the financial year 2021/22 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.
8.2 d) The Committee shall review and monitor the External Auditors independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	The External 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. In keeping with this section, the External Auditors, Ernst & Young, Chartered Accountants submitted their annual declaration of Independence in the audit process to the Audit Committee on 11th February 2022 for the FY 2021/22.
8.2 e) The Committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements, and guidelines.	Complied	The Audit Committee has developed a policy approved by the Board on the engagement of External Auditors to handle specific non-audit services permitted by regulation. For FY 2021/22 following non-audit services were obtained from firms; ⦿ Tax advisory services
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 & Young, Chartered Accountants 3 times during the financial year 2021/22. 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.

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption						
8.2 g) The Committee shall review the financial information of the Finance Company in order to monitor the integrity of the Financial Statements of the Finance Company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgements contained therein.	Complied	The Committee reviewed the Company's interim and annual Financial Statements prior to submission to the Board. The Committee reviewed the internal controls on the financial reporting system to ensure the reliability and integrity of information provided. The review included the extent of compliance with LKAS/SLFRS and applicable laws and regulations, review of critical accounting policies and practices and any changes thereto, going concern assumptions, major judgemental areas and material audit judgements.						
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 two 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 2020/21 Management Letter issued by the External Auditors together with Management responses to ascertain existing material concerns 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 the annual audit programme by the Internal Audit Division of the Company for the financial year 2022/23, which was affirmed by the committee on 24th March 2022.</p> <p>The Company is in the process of the reviewing the adequacy of the resources of the internal Audit department relating to newly introduced CBSL corporate Governance Direction and Direction on Technology Risk & Resilience.</p> <p>The Committee met 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>						
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;	Complied	<p>The Audit Committee reviewed the findings of the Internal Audit team for the financial year 2021/22 which included the evaluations made by the Internal Audit Department on the adequacy of the Company's internal controls and compliances.</p> <p>The Audit Committee met 6 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, audit programme was submitted by the Internal Audit Division of the Company for the financial year 2021/22, which was 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 2021/22:</p> <table border="1"> <thead> <tr> <th>Type of Audit</th> <th>Coverage %</th> </tr> </thead> <tbody> <tr> <td>Full Audits</td> <td>72</td> </tr> <tr> <td>Special Audits</td> <td>1 Audit</td> </tr> </tbody> </table>			Type of Audit	Coverage %	Full Audits	72	Special Audits	1 Audit
Type of Audit	Coverage %							
Full Audits	72							
Special Audits	1 Audit							


Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
iii.) Review any appraisal or assessment of the performance of the Head and senior staff members of the Internal Audit Department;	Complied	<p>The Audit Committee conducted the annual performance appraisal 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 approved the required changes to the internal audit plan in order to ease the work impact caused by pandemic and concluded that the quality of reports generated was satisfactory.</p>
iv.) Recommend any appointment or termination of the Head, senior staff members and outsourced service providers to the Internal Audit function;	Complied	<p>The increasing of the level of scope of the Company's own Internal Audit Department due to the introduction of the revised Central Bank Governance Direction with effect from 1st July 2022 and opening of new branches necessitated the need to further strengthen the number of staff to support the Internal Audit Division. Additionally, the Committee also considered providing more internal and external technical training for the Company's Internal Audit staff to improve quality of the Internal Audit function.</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;	Complied	<p>No senior staff members of the Internal Audit Department handling the Company's Internal Audit function resigned during the year.</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.	Complied	<p>The Company's Internal Audit Function is positioned independently, not conflicting with the activities it audits. To strengthen the independence 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 that any matters need to be brought to the attention of the Board.</p>
8.2 k) The Committee shall consider the major findings of internal investigations and Management's responses thereto.	Complied	<p>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 2021/22.</p>
8.2 l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied	<p>The Finance Director and Chief Financial Officer attended Audit Committee meetings on invitation, while the Head of Internal Audit attended majority of meetings held for the financial year. The Committee also met with the External Auditors 3 times this year without the presence of the Executive Directors in keeping to this section.</p>
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 The Board-approved Terms of Reference (TOR) of the Audit Committee, which was updated on 30.11.2021 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>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
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 11 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 of the Audit Committee given on pages 181 to 182 provides details on how the 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 112 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 2021/22 is given on pages 181 to 182.</p>
8.2 p) The Secretary to the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.	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 Resource 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 ensuring that they will not subject to any discriminatory action.</p> <p>During the financial year 2021/22, 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; 8.3 a) The Committee shall consist of at least one Non-Executive Director, CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	<p>The Integrated Risk Management Committee (IRMC) comprises of 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.</p> <p>The Committee's main duties are supervising broad risks pertaining to the Finance Company's business which primary revolves around credit, market, liquidity, operational and strategic risks.</p> <p>Refer the Board Committee overview on page 112. 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>

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.</p> <p>Refer the Board Committee overview on page 112 and Risk Management Report on pages 161 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 bimonthly corporate review meeting forums and also reviewed the effectiveness of the Assets and Liabilities Management Committee and the Credit Committee. 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 2021/22.</p> <p>The Assets and Liabilities Committee (ALCO) of the Company reviewed and monitored 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>
8.3 (d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in 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 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 of the Board. Board expectations including tolerance limits were communicated 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 161 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 IRMC met four times at quarterly intervals during FY 2021/22.</p> <p>Page 112 provides information on meetings held along with attendance records of the Directors.</p>
8.3 f) The Committee shall take appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective action 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.	Complied	<p>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, or failures to take appropriate measures to avoid material risks during the financial year under review.</p>

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
8.3 g) The Committee shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.	Complied	As per the Risk Policy of the Company an 'activity report' is submitted by the IRMC to the Board within seven days after having an IRMC meeting, detailing a summary of key risks identified for the period 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 2021/22 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 IRMC on the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and internal controls. A compliance status report is prepared and tabled monthly through the IRMC for the Board's information purposes. A total of twelve (12) status reports were submitted during the financial year 2021/22 under review.
9) Related Party Transactions 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 	The Related Party Transactions Review Committee (RPTC) was formed during the FY 2014/15 and is under the acting Chairmanship of Mr. P.D.D. Perera. 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).
9.2 The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Finance Company with any person, and particularly with those who shall be considered as 'related parties' for the purposes of this Direction.	Complied	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. 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, automation of Related Party Transaction capturing was completed. 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.
9.3 The transactions with a related party that are covered in this Direction shall be the following: (a) Granting accommodation, (b) Creating liabilities to the Finance Company in the form of deposits, borrowings and investments, (c) Providing financial or non-financial services to the Finance Company or obtaining those services from the Finance Company, (d) Creating or maintaining reporting lines and information flows between the Finance Company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	Complied	Particulars relating to Related Party Transactions have been disclosed in the Notes to the Financial Statements. Further, pages 263 to 267 disclose information relating to Directors' Interests in Contracts. 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.

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
9. 4 The Board shall ensure that the Finance Company does not engage in transactions with a related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the Finance Company.	Complied	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. Please refer section 9.3 above that refers to 'Related Party Transactions' and 'Directors' Interests in Contracts' disclosures.
10) Disclosures 10. 1 The Board shall ensure that; a) Annual Audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that, b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied	The Company complied with applicable accounting standards including the 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 the Colombo Stock Exchange. Quarterly publications of interim results were published in all three languages and conform to the regulatory interim publication format and the applicable accounting standards.
10. 2 The Board shall ensure that at least the following disclosures are made in the Annual Report; 10.2 a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	The Statement on 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.
10.2 b) A report by the Board on the Finance Company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied	The 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 in compliance with this section.
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	The External Auditor's certification on the effectiveness of the internal control mechanism over financial reporting was obtained for the financial period 2021/22. No significant matters needing attention was highlighted as per the Report. The External Auditors' Assurance Report on the effectiveness of the internal controls over financial reporting has been disclosed on page 200 in the Annual Report.
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 90 to 95 while their transaction details are disclosed under the Directors' Interest in Contracts on pages 195 to 196 and in Related Party Disclosures in the Notes to the Financial Statements on pages 263 to 267.

Corporate Governance Report

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption												
10.2 e) Fees/remuneration paid by the Finance Company to the Directors in aggregate, in the Annual Reports published after 1 January 2010.	Complied	Details of Director remuneration in aggregate are disclosed on page 225 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>40,962</td> <td>0.43</td> </tr> <tr> <td>Associated Companies</td> <td>-</td> <td>-</td> </tr> <tr> <td>Other</td> <td>74,552</td> <td>0.78</td> </tr> </tbody> </table> <p>There were no related party transactions exceeding 10% of the equity during the financial year 2021/22.</p>	Category of Related Party	Amount (Rs. 000)	% Against Company Capital Funds	Key Management Personnel	40,962	0.43	Associated Companies	-	-	Other	74,552	0.78
Category of Related Party	Amount (Rs. 000)	% Against Company Capital Funds												
Key Management Personnel	40,962	0.43												
Associated Companies	-	-												
Other	74,552	0.78												
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 2021/22 are discussed below:</p> <table border="1"> <thead> <tr> <th>Transaction type</th> <th>KMP's including Executive Directors (Rs. 000)</th> </tr> </thead> <tbody> <tr> <td>Accommodations</td> <td>30,624</td> </tr> <tr> <td>Deposits</td> <td>1,109,629</td> </tr> <tr> <td>Remuneration</td> <td>271,189</td> </tr> </tbody> </table>	Transaction type	KMP's including Executive Directors (Rs. 000)	Accommodations	30,624	Deposits	1,109,629	Remuneration	271,189				
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Accommodations	30,624													
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Remuneration	271,189													
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	No public disclosures instructed by the regulator in relation to regulatory lapses or supervisory concerns.												
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 & 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 2021/22.												

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
76 (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
76 (ii)	Principal activities of the Entity during the year and any changes therein	Significant Accounting Policies	Complied	210 to 219
76 (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	295
76 (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	Not Complied	295
76 (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
76 (vi)	Information pertaining to material foreseeable risk factor	Risk Management	Complied	161 to 176
76 (vii)	Details of material issues pertaining to employees and industrial relations	Human Strength	Complied	65 to 67
76 (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	242 to 253
76 (ix)	Number of shares representing the Entity's stated capital	Notes to the Financial Statements Investor Relations	Complied	260 294 to 295
76 (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	294
76 (xi)	Equity ratios Market Value	Investor Relations Investor Relations	Complied	294 to 297 294 to 297
76 (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	210 to 253
76 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	Investor Relations	Complied	294 to 297
76 (xiv)	Information in respect of Employee Share Option Plan and Employee Share Ownership Plan	Notes to the Financial Statements	Complied	191
76 (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	102 to 160
76 (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	297

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 2021/22 update)
7.10	Overall compliance position in relation to SEC 7.10 (Corporate Governance)	Complied	<p>a) MI is in compliance with corporate governance rules specified by CSE for all listed companies</p> <p>b) Complied with Section 7.10 requirements specified under this section</p> <p>c) MI has duly adhered to CBSL-issued Corporate Governance Directions. Compliance status is given on pages 138 to 156.</p>
7.10.1	Non-Executive Directors of a Listed Company	Complied	The Board of Directors of the Company comprised four (4) Non-Executive Directors out of eight (8) Directors. The Company maintained a 50% composition of Non-Executive Directors on the Board.
7.10.2	Independent Directors		
	(a) Two or one third of the Non-Executive Directors of the Board whichever is higher should be independent	Complied	All four (4) Non-Executive Directors at MI as at 31st March 2022 were Independent Non-Executive Directors
	(b) Submission of a declaration of independence by Independent Non- Executive Directors as per prescribed format	Complied	All Non-Executive Directors have submitted declarations to the Company as per the format provided in the CSE Code on corporate governance for the 2021/22 financial year
7.10.3	Disclosures Related to Directors		
	(a) Disclosure of the names of Independent Non- Executive Directors	Complied	As per Section 7.10.4, names of all four Independent Non- Executive Directors are mentioned on page 125 of the Corporate Governance Section A5.5 of the CA and CBSL Code
	(b) In the event a Director does not qualify as 'independent' against any of the criteria set out by section 7.10.4 of the Rule but if the Board, taking account all the circumstances, is of the opinion that the Director is nevertheless 'Independent,' the Board shall specify the criteria not met and the basis for its determination in the Annual Report	Complied	No such circumstance has occurred during financial year 2021/22
	(c) Disclosure of a brief resume of Directors in Annual Report	Complied	Refer: Corporate Governance, pages 90 to 95 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
7.10.5	Remuneration Committee A listed entity should have a Remuneration Committee.		Details of the Remuneration Committee are provided on page 179.
	(a) Composition of the Remuneration Committee	Complied	All three (3) members in the Remuneration Committee are Independent Non-Executive Directors. The Chairman of the Remuneration Committee is an Independent Non-Executive Director.

CSE Rule No.	Requirement	Compliance Status	Extent of adoption (FY 2021/22 update)
	(b) The Remuneration Committee shall recommend the remuneration of the Managing Director of the Company	Complied	Page 128 Section B.2.1 of the CA Sri Lanka Code provides the necessary information
	(c) Disclosure of the Remuneration Committee in the Annual Report	Complied	
	⦿ Name of the Directors serving on the Committee		Names of Directors in the Remuneration Committee are provided on page 179.
	⦿ Statement of Remuneration Policy		Refer page 179 for the Remuneration Committee Report
	⦿ Aggregate remuneration paid to Executive Directors and Non-Executive Directors		Aggregate remuneration paid to Executive and Non-Executive Directors is provided on page 225.
710.6	Audit Committee A listed entity should have an Audit Committee		Particulars relating to MI's Audit Committee are provided on pages 181 to 182.
	(a) Composition of the Audit Committee	Complied	
	⦿ Audit Committee shall comprise Non-Executive Directors, a majority of whom shall be independent		The Audit Committee comprised three Non-Executive Directors, all of whom are independent
	⦿ One Non-Executive Director shall be appointed as Chairman of the Committee		The Chairman of the Audit Committee is Mr. P. D. D. Perera, who is an independent Non-Executive Director
	⦿ The Chief Executive Officer and the Chief Financial Officer of the listed Company shall attend Audit Committee meetings		During the financial year 2021/22, the Finance Director and CFO attended Audit Committee meetings by invitation. Calling the Managing Director was not necessitated during this period.
	⦿ The Chairman or one member of the Committee should be a member of a recognised professional accounting body		The Chairman of the Audit Committee is a chartered accountant, with years of experience in the financial and auditing field
	(b) Functions of the Audit Committee	Complied	Functions of the Audit Committee are disclosed on page 134 in section D.3.3 of the CA Sri Lanka Code details
	(c) Disclosures in Annual Report	Complied	
	⦿ The names of Directors of the Audit Committee		Composition of the Audit Committee is provided on page 181.
	⦿ The Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination		Refer page 134 section D.3.2 of the CA Sri Lanka Code for disclosure in this regard
	⦿ The Annual Report shall contain a report by the Audit Committee, setting out the manner of compliance by the Entity in relation to Section 7.10 of the CSE Listing Rules		The Audit Committee report is disclosed on pages 181 to 182 in the Annual Report

Corporate Governance Report

MI's Compliance Status with CBSL Rules, Directions, Determinations, Notices, and Guidelines

The Company's compliance with laws and regulations with specific focus on 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

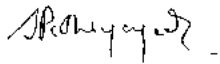
All required Central Bank of Sri Lanka web returns were submitted by the Company on or before the due dates for submission. The information table is uploaded on the website of the Company under the Corporate Governance section.

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 External Auditors Messrs Ernst & Young affirmed 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 30th May 2022.



S. Pethiyagoda
Company Secretary



Ramidu Costa
Head of Risk & Compliance



P.D.D. Perera
Acting Chairman

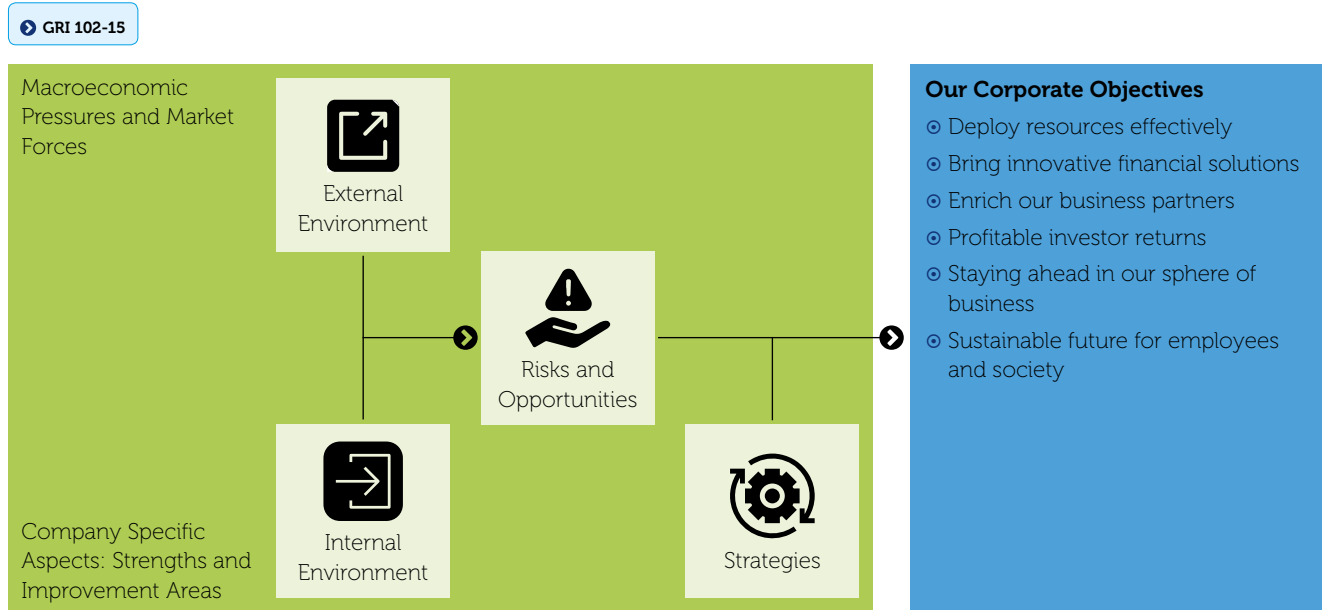
Colombo
30th May 2022



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

Risk Management Report

THE CONTEXT WE OPERATED



The financial sector was recovering at the beginning of 2021, but the sudden escalation of COVID-19 infections again in mid 2021 along with emerging socio-economic turbulence presented financial institutions with yet another year with a challenging operating environment. However, the pandemic readiness of the financial institutions has improved remarkably this year and therefore business continuity was comparatively better.

Operating Context Highlights FY 2021/22

- ◉ Financial institutions preferred asset-backed and short-tenured lending, thereby having a high concentration in safer assets in their portfolios. As such there was an uptick in exposure to the housing and construction sector among banks and gold loan financing among finance companies.
- ◉ Asset quality deterioration was more acute among NBFIs and relatively higher than banks due to inherent vulnerabilities of its clientele and regulator-related concessions for borrowers.
- ◉ Following the fuel crisis, power cuts, exchange rate fluctuations, essential supply shocks and fertiliser issues, inflation made the biggest jump since the beginning of the pandemic.
- ◉ Contracted policy rates in the first half of FY 2021/22 witnessed wider Net Interest Income and thereby earnings of NBFIs.
- ◉ Mid-year lockdowns resulted in subdued collections.
- ◉ A gradual rise in market rates was observed in the second half of FY 2021/22 with tightened monetary policy and resulted in emerging re-pricing risks.
- ◉ Vehicle import restrictions continued to affect core sector lending.
- ◉ Steep declining foreign reserves, essential supply shocks and the sky high cost of living resulted in an unstable economic and political atmosphere in the latter part of the year.
- ◉ Due to risk-averse investors' conservative approach, the ASPI continued to drop drastically in the latter part of the financial year.

Risk Management Report

Our Statement on Risk Management

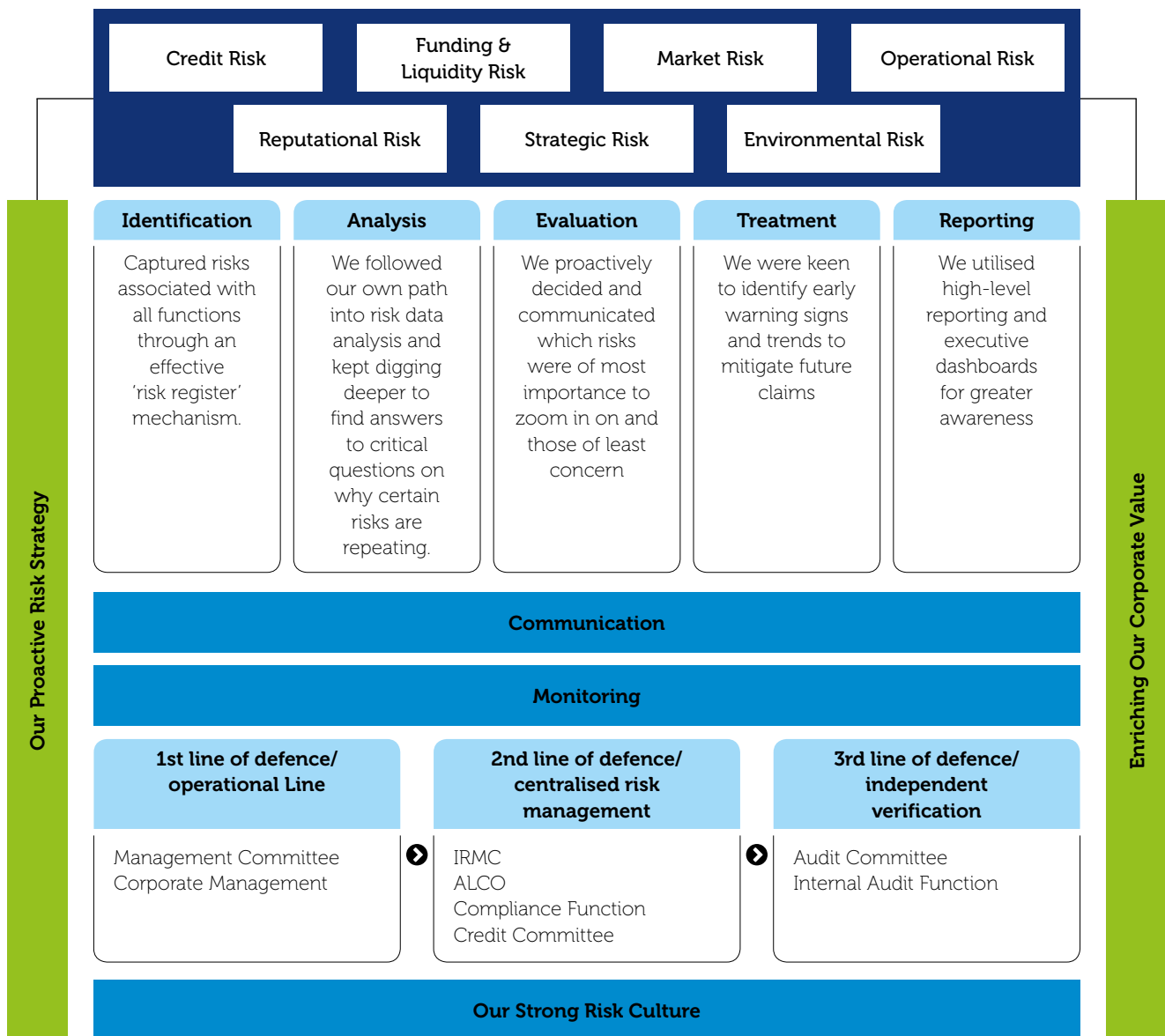
Our various risk mitigation techniques allowed us to navigate the tumultuous period of the pandemic and deliver commendable results in comparison to our peers in the industry. We also consolidated on our own strengths as well as areas of improvement, alongside strategies we had in place to effectively tackle key risks and constraints.

Risk Management Highlights FY 2021/22

- ◉ The Risk Management Policy was upgraded, especially by incorporating Operational Risk Appetites and Stress Testing Scenarios.
- ◉ Investments Policy, Outsourcing Policy, Information Classification Policy, Compliance Policy, New Product Development Policy and Post-COVID Revival Rehabilitation Policy were established to better manage evolving risk.
- ◉ Achieved full vaccination of a majority of MI staff against the pandemic.
- ◉ Internet Payment Gateways and partnering with collection networks aided to maintain social distancing whilst boosting collection during the pandemic period.
- ◉ New branch openings and relocations helped to achieve MI's strategic priorities and minimise concentration risk.

Our Integrated Risk Management Framework

◉ GRI 102-15, 102-29, 102-30, 102-31



Our Risk Strategy

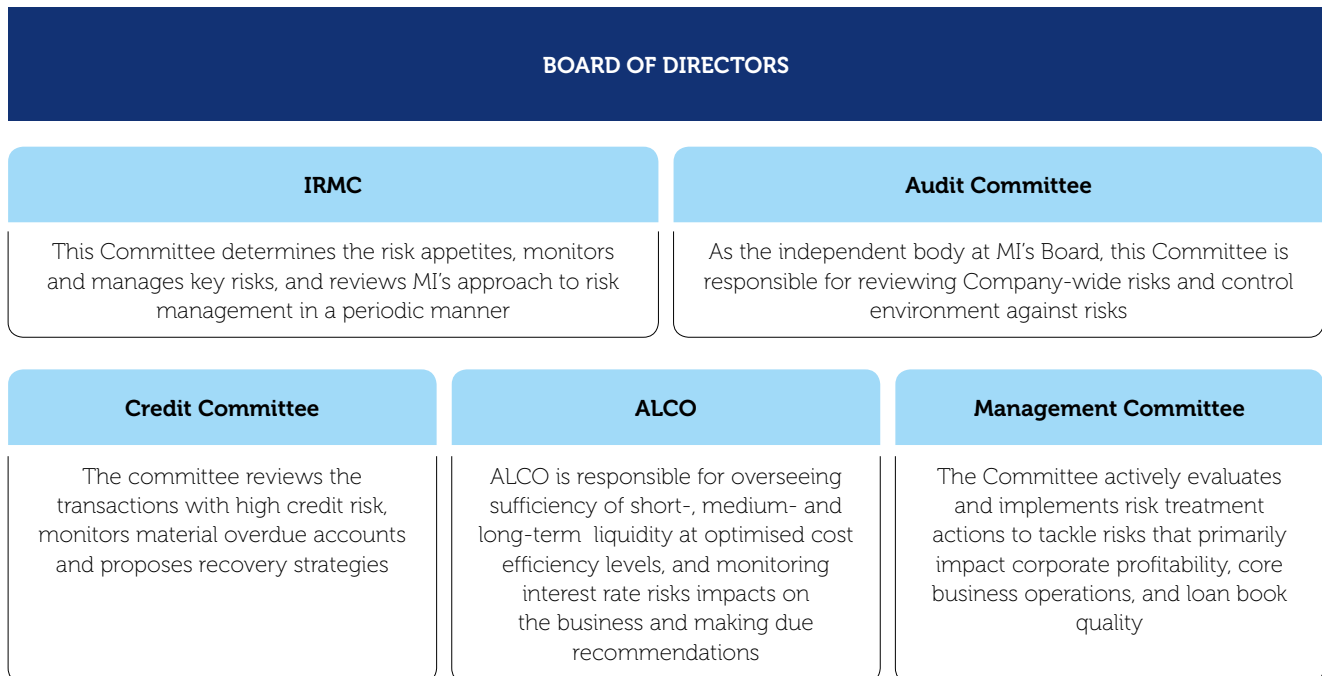
We considered the inputs and feedbacks received from all business units when building our proactive Risk Strategy. This enabled us to design the most appropriate Risk Strategy and maintain a healthy balance between risks and returns without hindering any business opportunities. In order to aid the Risk 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

We ensured that all our staff members 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, corruption, etc. initiated throughout the year.

Our Approach for Governing Risk

The Integrated Risk Management Committee (IRMC) as a Board-appointed subcommittee performed leading supervisory role in reviewing all risk areas, whilst continuing to provide invaluable advice and recommendation on risk management, which was then executed through management committees and heads of divisions.



Risk Management Report

Our Risk Profile

According to the table below, risks of which the likelihood and impact were high (Red and Orange circles) were analysed for continuous management and monitoring. Similarly, if impact and likelihood of risks were at lower level (Green and Yellow circles), the strategy of accepting and managing was executed.

Risk Category	Risk Type	Risk Severity based on Impact and Likelihood	Trend	Possessed Action
Credit Risk	Default Risk		↑	Continuous monitoring
	Credit Concentration Risk		↔	Accept and manage
	Recovery Risk		↔	Continuous monitoring
Funding and Liquidity Risk			↔	Accept and manage
Market Risk	Interest Rate Risk		↑	Continuous monitoring
	Equity Price Risk		↑	Accept and manage
	Commodity Price Risk		↑	Accept
Operational Risk	People Risk and Workplace Safety		↔	Accept and manage
	Business Disruptions, System Failures and Information Security Risk		↔	Accept and manage
	Legal and Compliance Risk		↑	Accept and manage
Reputational Risk			↔	Accept and manage
Strategic Risk			↑	Accept and manage
Environmental Risk			↔	Accept and manage

Low
 Moderate
 High
 Extreme
 ↑ Increasing
 ↓ Decreasing
 ↔ No change

SALIENT FEATURES OF TACKLING KEY RISKS

CREDIT RISK



Credit Risk unfolds 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 Management Highlights FY 2021/22

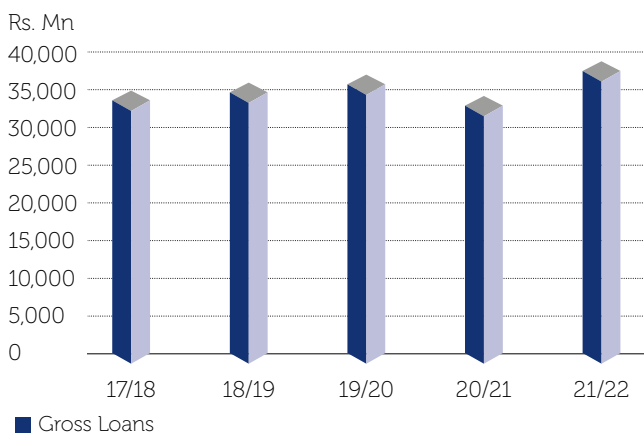
- Internet Payment Gateways(IPG), M-cash and cash collections through supermarket chains aided to boost collections in challenging times
- Legal and Recovery team’s collective efforts aided to reverse several high ticket size non-performing facilities
- Regular collections at MI were boosted through quality assurance team and call centre operations
- The Credit Risk team was further strengthened with new recruitments
- Focused on short-term smaller ticket size lending product growth
- New branch openings supported to bring down credit concentration risk
- Special review of moratorium clients to prudential provisioning methodology

Statement on Credit Risk Appetites

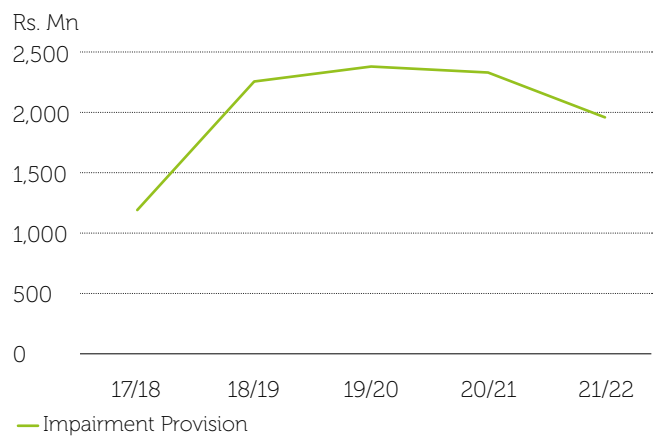
Key Risk Indicators	Approved Appetites	Regulatory limit	Actual Figure FY 2021/22	Actual Figure FY 2020/21
Gross Non-Performing Advances Ratio (180-day)	<8%	NA	8.54%	14.09%
Net Non-Performing Advances Ratio	<4%	NA	1.37%	2.96%
Cumulative Collection Ratio	>80%	NA	73%	71%
Provision Coverage Ratio	>50%	NA	64%	62%
Single Borrower Limit	< 15% of Capital Funds	< 15% of Capital Funds	9.35%	9.83%

Trend of Credit Risk Metrics

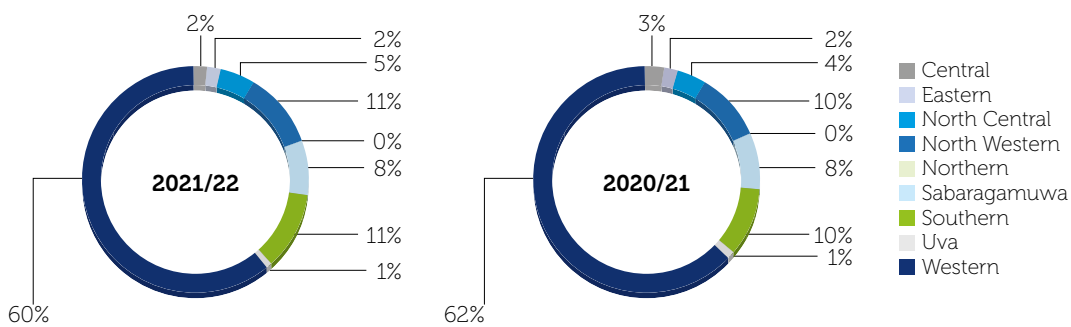
Gross Loans



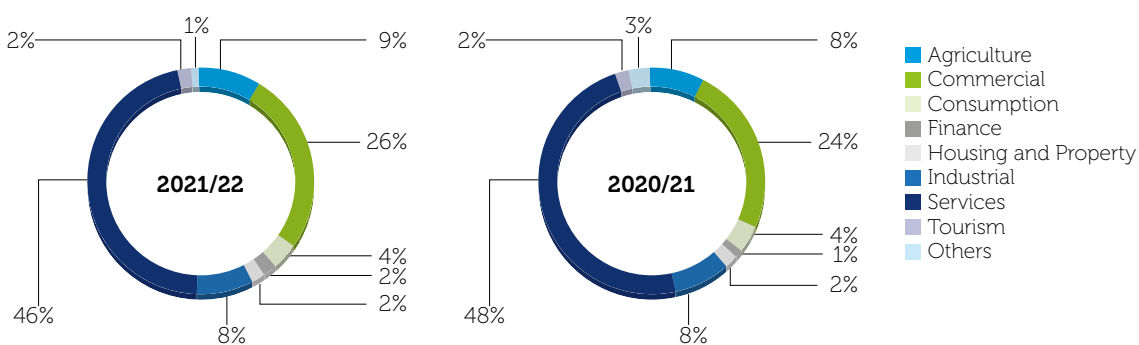
Impairment Provision



Geographical Concentration of Lending

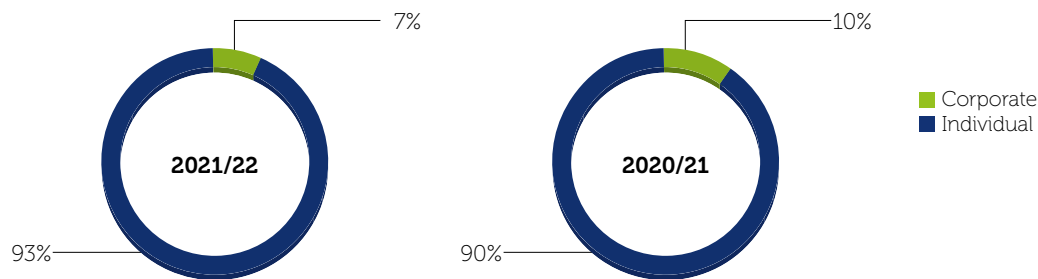


Sector Wise Concentration of Credit

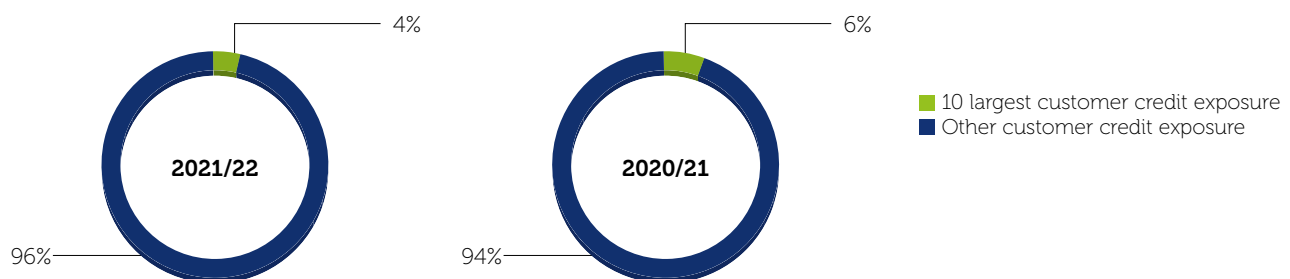


Risk Management Report

Credit Exposure by Counterparty



Exposure of 10 Largest Customers



How we Tackled Credit Risk

Risk	Risk Description	Risk Severity	Situational Analysis FY 2021/22	Our Responses
Default Risk	Risk of failure of certain customers to settle their debt obligations	High	<p>The COVID third wave and the emergence of the Omicron variant in the latter part of the year continued to hit the economy, coupled with other market-related challenges including global turmoil from the upsurge in oil prices due to the Russia/Ukraine conflict. Thereby, debt repayment capacity of businesses and consumers was affected in a serious way.</p> <p>As a result, LFC sector 180-day gross NPLs continued to be on the higher side. However, MI was able to manage the 180-day ratio at 8.54% compared to the previous year's figure of 14.09% while 90-day basis was regularly brought down to 9.83% from 16.29% (YOY basis).</p>	<ul style="list-style-type: none"> ○ New debt moratoria were granted as per the Central Bank stipulated guidelines and were monitored with high emphasis. ○ Stringent recovery measures initiated by the Recovery and Legal team aided the reversal of several long outstanding large facilities. ○ Fully-fledged Call Centre and Quality Assurance team were empowered with digital and physical facilities for arrears with bucket-specific recovery measures. ○ BIRMC assessed the credit portfolio performance against approved policy limits to maintain the credit risk indicators within the tolerable limits.
Credit Concentration Risk	Risk of unbalanced distribution of MI's advances among business sectors, geographical regions and counterparties	Moderate	<p>Stagnant economic conditions in the country led the Company to follow a conservative approach in expanding credit disbursements, especially to the micro sector.</p> <p>However, new branch openings in Elpitiya, Kesbewa and Giriulla along with relocations led MI to expand lower ticket size retail facilities along with gold loans. The business expansion strategy somewhat facilitated MI to diversify the geographical concentration of credit outside the Western Province.</p>	<ul style="list-style-type: none"> ○ MI was cautious and applied strict guidelines when granting credit to high risk sectors and placed faith in the Company's core competencies. ○ Considering vehicle import restrictions in the country, we strived to focus on the registered vehicle segment, gold loans and micro auto loan facilities. ○ Product caps, sectorial caps and regulator limits were effectively monitored and reviewed by the Credit Risk team and respective Management committees.

Risk	Risk Description	Risk Severity	Situational Analysis FY 2021/22	Our Responses
Recovery Risk	Risk of MI's loan advances requiring a longer period to recover	● High	<p>Country-wide lockdowns imposed in the middle part of the year along with debt moratoria reliefs hindered the collections of the entire finance business sector.</p> <p>However, stringent measures exercised by the Recovery team aided to boost the collection ratio to 73% compared to 71% in previous year.</p>	<ul style="list-style-type: none"> ○ Collections were boosted through newly-implemented online payment platforms ○ The Call Centre was empowered to control the impairment stages. ○ Attractive incentive schemes of three months and above arrears contracts. ○ Continuously monitored NPL percentage, provision coverage, NPL portfolio and focused on arrears recovery targeting the 90-day bucket to keep impairment charges minimal. ○ Negotiations and legal strategy to fast-track long overdue arrears.

Stress Testing on Credit Risk

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%	8.97
2	10%	9.40
3	15%	9.82
Commentary: Although MI's asset quality monitoring has improved drastically during the year under review, Continuous monitoring of asset quality is recommended by considering the ongoing economic turbulent.		

Stress Testing on Provision for Impairment and Capital Buffers		
Stress Scenario: Impact on MI's Total CAR when increasing the impairment provision by given stress scenarios		
Scenario	Magnitude of Shock	Stressed CAR (%)
1	5%	16.64
2	10%	16.44
3	15%	16.23
Commentary: Under the given stress case even, MI's Total Risk Weighted Capital Adequacy ratio is well above the prudential capital adequacy requirement of 11%.		



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

Risk Management Report

FUNDING AND LIQUIDITY RISK



Funding and 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.

Funding and Liquidity Risk Management Highlights FY 2021/22

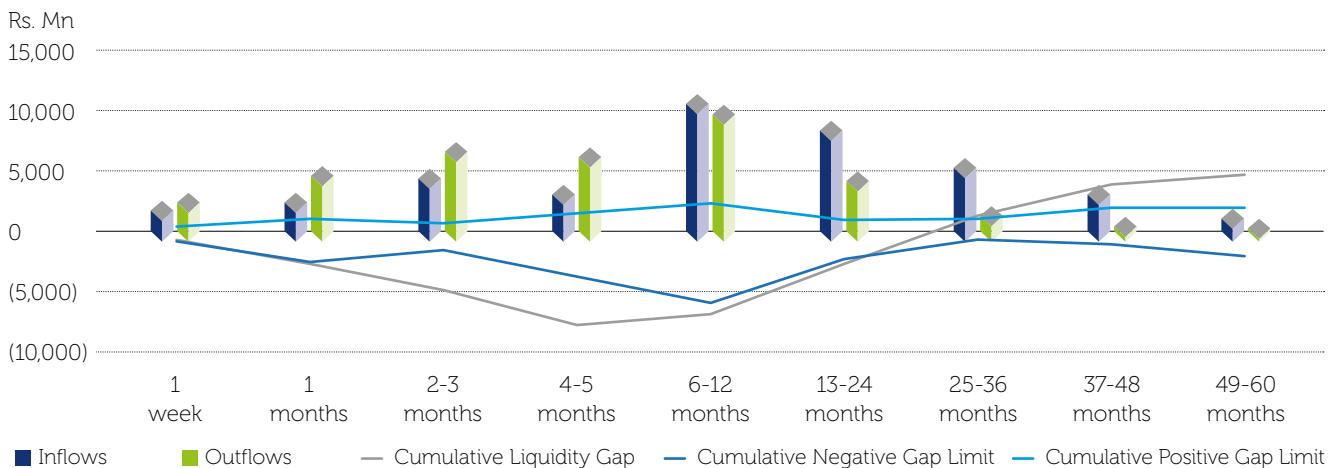
- Well-maintained contingency funding lines remained as a solid buffer to fund core business lines whilst possessing solid liquidity to withstand volatile market liquidity conditions
- MI's Treasury was able to secure bank and financial institutional funding on a regular basis whilst maintaining proper balancing of short-term and long-term funding needs
- New branch openings enabled to grow the retail deposits customer base
- Strengthened deposit marketing arm and Treasury function with expertise

Statement on Funding & Liquidity Risk Appetites


Key Risk Indicators	Approved Appetites	Regulatory limit	Actual Figure FY 2021/22	Actual Figure FY 2020/21
Statutory Liquid Assets Ratio (%)	>12% of Deposit Liabilities	10% of Deposit Liabilities	13.57%	17.07%
Deposits Renewal Ratio (%)	>85%	NA	84%	77%
Maximum single Depositor Exposure (%)	<10%	NA	4%	3%
Net Advances to Deposit (%)	<140%	NA	132%	129%
Cumulative 1 year Maturity Mismatch (Rs. Mn)	<6,000 Mn	NA	-6,890 Mn	-3,836 Mn

Trend of Funding & Liquidity Risk Metrics

Liquidity Gap Analysis



How we Tackled Funding & Liquidity Risk

Risk	Risk Severity	Situational Analysis FY 2021/22	Our Responses
Funding and Liquidity Risk	 Moderate	<p>This year too, adequate liquid assets were maintained as a buffer to fulfil ongoing funding needs and to meet the regulatory requirements (Statutory Liquid Assets Maintenance). The Company was prepared to meet unforeseen funding requirements in the backdrop of volatile economic conditions and impacts on the daily lives of public. Deposit retention stood at a commendable level despite the market volatility and opening up of other investment avenues.</p> <p>On the other hand, the increase in collections after lockdown along with the hike in shorter tenor lending products and mobilisation of longer tenor borrowings helped to manage the one-year cumulative maturity gap at Rs. 6,890 Mn level on par with the approved policy limit of 6,000 Mn. This enabled a reduction of the medium-term liquidity risk of the Company substantially.</p> <p>A gradual upward trend in deposit rates aided to retain shorter tenure deposit funding for longer tenure behaviourally.</p>	<ul style="list-style-type: none"> ⦿ Comprehensive cash flow forecasts were prepared by considering various stressed scenarios and presented the same to ALCO and relevant Board sub-committees. ⦿ Stringent action plans were initiated for the early warning signals found through cash flow analysis. ⦿ With the hike in policy interest rates in the 2nd half of FY 2021/22, the Head Office Deposit Marketing teams got involved to boost the deposit base of the Company and penetrate the untapped client base in the Western Province. ⦿ Initiatives were taken to grow the more sustainable smaller ticket size retail customer base through branch openings, especially outside Colombo.

Stress Testing on Funding & Liquidity Risk

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%	12.90	
2	10%	12.22	
3	15%	11.54	
Commentary: Under the given stress cases, MI's Statutory Liquid Assets ratio remains well above the statutory requirement limit of 10%.			

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, in the backdrop of numerous economic shocks and volatility, our equity investment portfolio and gold loans are also exposed to changes in equity prices and gold prices respectively.

Market Risk Management Highlights FY 2021/22

- ⦿ Investment Policy was enhanced by incorporating especially the sector limits, related party limits and new authority levels
- ⦿ Healthy spreads were maintained in the first half of financial year by using lower policy rates environment and management of product mix
- ⦿ Negotiated with funding organisations to obtain fixed-rate, long-term borrowing facilities at optimal pricing
- ⦿ The substantial hike in gold prices along with the branch openings were utilised to expand the gold loan portfolio
- ⦿ Kept a close watch on share market movements and traded optimally

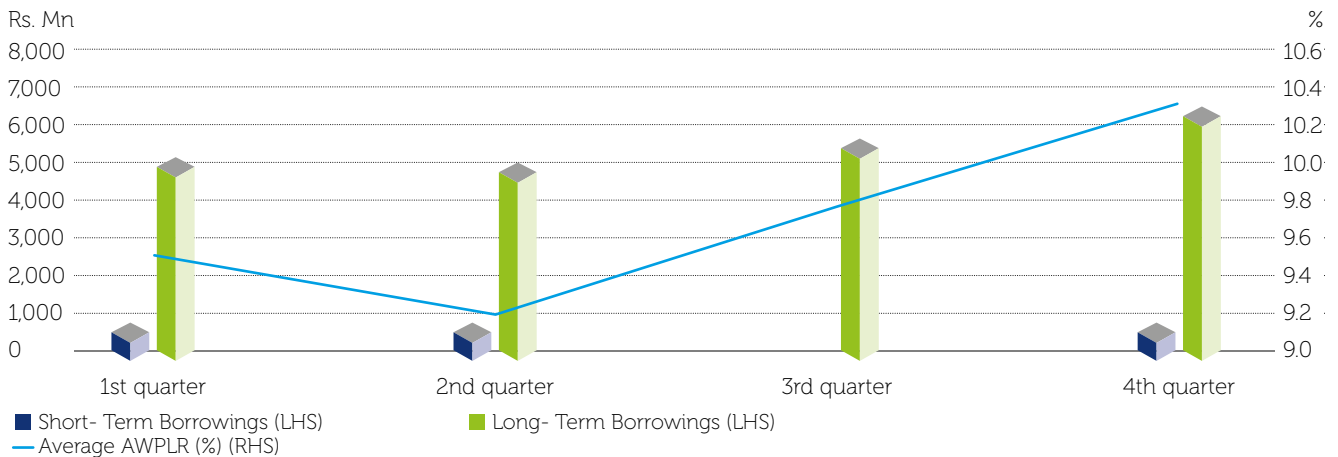
Risk Management Report

Statement on Market Risk Appetites

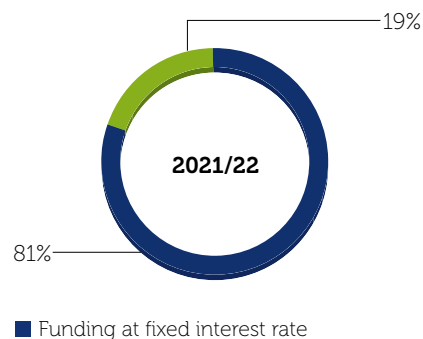
Key Risk Indicators	Approved Appetites	Regulatory limit	Actual Figure FY 2021/22	Actual Figure FY 2020/21
Interest rate 1% change Impact on NII	< 50 Mn	NA	41.8 Mn	30.5 Mn
Net Interest Margin (NIM)	>8%	NA	10.86%	8.16%

Trend of Market Risk Metrics

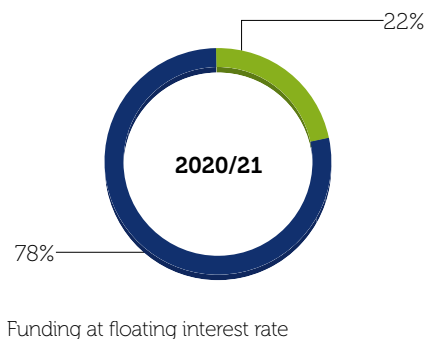
Short, long term borrowings and AWPLR



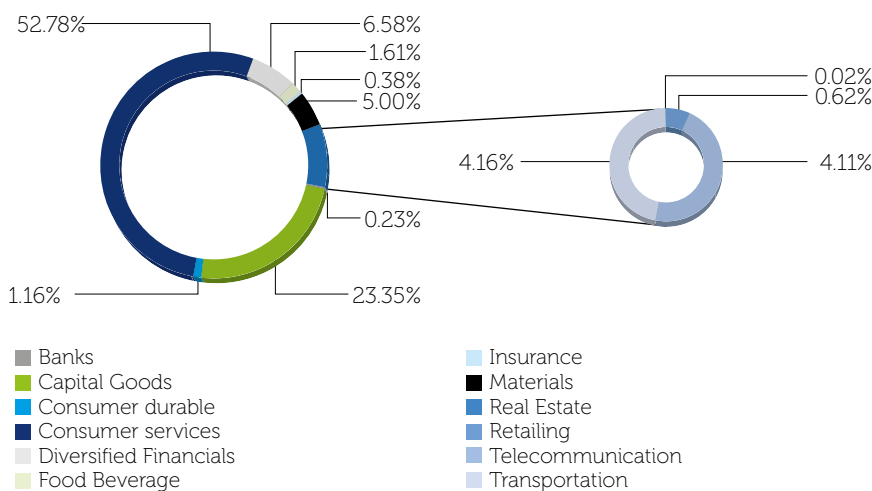
Floating and Fixed Interest rate funding



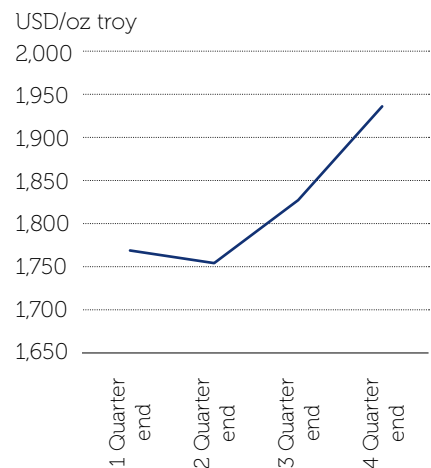
Floating and Fixed Interest rate funding






MI's Equity Portfolio



International gold price movement



How we tackled Market Risk

Risk	Risk Description	Risk Severity	Situational Analysis FY 2021/22	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>The tightened monetary policy along with rising demand for private sector credit led the Central Bank to increase policy interest rates in the latter part of the financial year under review. However, the low policy environment that prevailed around the first half of the financial year resulted in better margins and growth in NII and overall earnings.</p> <p>On the other hand, the same pattern was noted as far as the Treasury bill and bond rates were concerned during the year. Since MI's deposit mobilisation was at a satisfactory level throughout the year, MI was able to continuously inject low-cost funding to the core lending business along with the support of the fully-fledged Treasury team. The hike in policy rates in latter part of the year was managed by mobilising longer duration funding and resorting to lending in shorter cycles wherever possible.</p>	<ul style="list-style-type: none"> ⊙ Lending portfolio growth was targeted by focusing more on shorter tenure lending products like gold loans and micro auto loans. ⊙ 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. ⊙ ALCO reviewed interest rate risks on a broader perspective and appropriate action plans were initiated in consultation of the Board of Directors. ⊙ Stress testing was presented to ALCO meeting on a monthly basis and through short-, medium- and long-term strategy bridged gaps to a reasonable level. ⊙ Less rate sensitive savings product growth was targeted with the implementation of ATM, and proposed debit cards and mobile banking systems.
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>By December 2021, improved earnings in Transportation sector, Construction and Building Material sector and Diversified Financials sector, along with negative real interest rates, encouraged the ASPI index to boom in shorter tenure. However, the risk-averse conservative investors who were unwilling to take economic shock continued to seek safer avenues and thereby dragged share prices to low levels by the end of financial year under review.</p> <p>With the improved investment policy in this financial year, we were able to obtain proactive investment decisions by retaining the correct balance between respective risk and returns carrying out trading at optimum times.</p>	<ul style="list-style-type: none"> ⊙ We strived to focus on investing excess funds in approved investment products in a manner that maximises the returns on investment at any given time and followed the instructions provided in the Investment Policy. ⊙ In order to manage equity risk effectively, we placed great emphasis on analysing the fluctuations in counterparty exposures and sector-wise exposures of investments. ⊙ Our Treasury Management team continuously monitored the share price movements of the investment portfolio and provided insights on trading to Directors.
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>Sluggishness of the world economy due to COVID, the Ukraine and Russia war and trade war between USA and China continued to hit global gold price hike from the beginning of the last financial year.</p> <p>Amidst these challenges, the exchange rate crisis and mounting inflation, led to stabilise the gold price in Sri Lanka on the higher side.</p>	<ul style="list-style-type: none"> ⊙ Since commencing the gold operation from 2021, we continued to adjust our loan to value ratio (LTV) by carefully observing global gold price fluctuations. ⊙ New branch openings aided to absorb demand for gold loan avenues outside Colombo. ⊙ The Policy for Gold Loans was updated and implemented during the year. ⊙ This year too, short tenure gold loan tickets were encouraged as it accelerated the recovery process.

Risk Management Report

Stress testing on Market Risk

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%	16.68
2	10%	16.51
3	15%	16.34

Commentary:

Under the given stress cases, MI's Total Risk Weighted Capital Adequacy ratio is well above the prudential capital adequacy requirement of 11%.

OPERATIONAL RISK



Operational Risk is the risk of losses resulting from failed internal processes, people, systems and external events, which arise 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 Management Highlights FY 2021/22

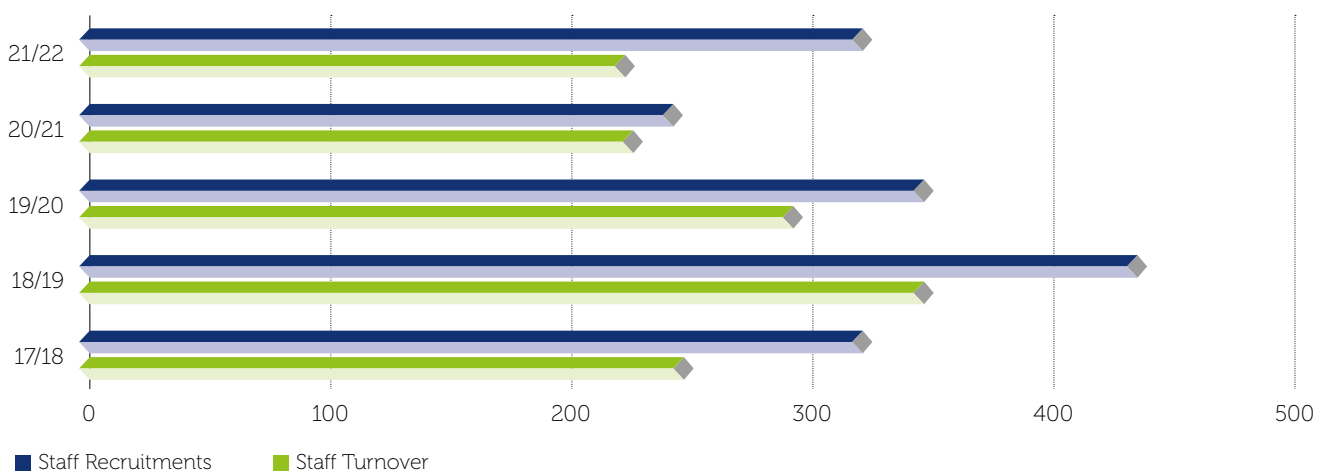
- ⦿ A Board-approved Operational Risk Management Policy was developed this financial year and incorporated with MI's comprehensive Risk Management Policy
- ⦿ Comprehensive trainings on Anti Money Laundering (AML) were carried out to relevant staff.
- ⦿ Developed and implemented a Board-approved Compliance Policy and an Information Classification Policy, in keeping with regulator guidance
- ⦿ Continued to maintain staff health and safety protocols even after the full vaccination of the majority of staff against the pandemic
- ⦿ Process Re-engineering and Internal Audit teams were strengthened with new recruitments

Statement on Operational Risk Appetites

Key Risk Indicators	Approved Appetites	Regulatory limit	Actual Figure FY 2021/22	Actual Figure FY 2020/21
Internal fraud	< 3 Incidents	NA	0	0
External fraud	< 2 Incidents	NA	0	0
Physical assets damages	< 2 Incidents	NA	0	0
Business disruption due to system failures	< 2 Incidents	NA	1	1
Failure/risk on new products and practices	< 1 Incidents	NA	0	0
Human resources related risk	< 2 Incidents	NA	0	0

Trend of Operational Risk Metrics


Staff turnover vs. Staff recruitments



How we tackled Operational Risk

Risk	Risk Description	Risk Severity	Situational Analysis FY 2021/22	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>The pandemic caused to increase the vulnerability to health and safety risks of all private and Government sector organisations in the country. On the other hand, control lapses human errors and non-adherence to laid-down procedures due to minimum staff operating were also observed.</p> <p>However, MI was able to navigate through such risks using well-established staff health and safety protocols along with tightened internal control procedures in place.</p>	<ul style="list-style-type: none"> Staff health and safety related concerns due to the pandemic was continuously taken up during Management Committee meetings. Virtual communication platforms were proactively used by the Company in conducting staff meetings. Clearly-demarcated responsibilities, dual controls, and segregation of duties and procedure manuals were effectively deployed in the Company and inspected in a timely manner through in-house audit teams. Regular staff trainings were conducted, especially relating to technical and operational matters.
Business Disruptions, System Failures and Information Security 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>As the pandemic continued to affect the normalcy of business operations, NBFI sector readiness in terms of systems and information technology continued to be in place which ensured that the sector core operations continued with minimal interruptions.</p> <p>Also, finance businesses kept close eye on cyber risk management in the backdrop of heightening threats of cyberattacks which were continuously escalating in scale and sophistication.</p> <p>In light of above challenges, MI's Business Continuity Planning mechanism aided to ensure the Company's ability to serve its stakeholders with minimum disruptions in the occurrence of an unforeseen event to the business operation and eventually achieve operational resilience.</p>	<ul style="list-style-type: none"> Our dedicated internal audit team along with the external ICT system auditors performed comprehensive system audits for core system modules. Newly-developed Information Classification Policy illustrated the mechanism for storing and disposing of confidential information at MI. Regular awareness measures especially through emails regarding information security risk. We continued to invest in secure and efficient remote access solutions to improve business resilience in challenging times. System downtimes and error reports were continuously monitored.

Risk Management Report

Risk	Risk Description	Risk Severity	Situational Analysis FY 2021/22	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.	 Moderate	<p>The challenging operating environment and the inherent vulnerabilities prevailing in the finance business sector caused the regulator to impose more stringent rules, regulations and governance practices. On the other hand, the regulator was continuously involved in inspecting the NBFIs with on-site and off-site audits and imposed penalties on non-compliant institutions.</p> <p>Amidst the said challenges, MI's dedicated Compliance and Internal Audit teams were mobilised effectively to assess the Company-wide legal and compliance risk and initiated respective risk mitigation actions in a timely manner.</p>	<ul style="list-style-type: none"> ⦿ Duly completed monthly compliance status reports were presented to the Board on a monthly basis by the Compliance unit. ⦿ Periodic internal audit reviews were carried out to assess the extent of compliance at branch and departmental level. ⦿ A comprehensive Compliance Policy was developed and implemented during the year under review. ⦿ Several third party vendors were assessed in order to acquire a fully-fledged transaction monitoring and risk profiling system to mitigate AML risk. ⦿ Officers of the Compliance unit regularly attended trainings conducted by the regulator and passed down wealth of knowledge to operating depths.

REPUTATIONAL RISK



Reputational Risk arises when stakeholders lose favorable perception of a company. This risk is highly dynamic, as stakeholders' expectations are not constant and hence the Company is required to be continuously vigilant about the factors causing Reputational Risk.

Reputational Risk Management Highlights FY 2021/22

- ⦿ Well-maintained health and safety precautionary measures in challenging times aided to boost customer confidence, employee motivation and trust
- ⦿ Customer care hotlines were effectively monitored to provide uninterrupted service to customers
- ⦿ MI's Sustainability Committee initiatives bolstered MI's social standing
- ⦿ Early warning signals raised through media content, social media platforms and frontline staff were promptly
- ⦿ Trainings were organised to educate the staff on maintaining workplace professionalism, organisation culture and ethics

How we tackled Reputational Risk

Risk	Risk Severity	Situational Analysis FY 2021/22	Our Responses
Reputational Risk	 Moderate	<p>Generally, company's credit rating and reputation has a greater positive correlation. According to MI's September 2021 Fitch Rating review, a BBB- (lka) Negative Outlook rating was reaffirmed. This rating was somewhat below par as far as the Company's reputed history and prevailed capital stability are concerned.</p> <p>Our unblemished reputation as a trusted finance company and the support extended to our clients during challenging times further solidified MI's reputation.</p> <p>Greater collaborative emphasis was placed in improving organisation-wide KPIs to bolster MI's financial standing amongst peers and a future rating upgrade.</p>	<ul style="list-style-type: none"> ⦿ Handled borrower requests on moratoria carefully. ⦿ MI's business model continued to maintain smooth running of business operations while placing a greater emphasis on customer value addition (e.g. technology-oriented brand new payment platforms). ⦿ Enhanced communication and Whistle-Blowing Policy encouraged MI's employees to report any malpractices which might lead to incurring of reputational damage. ⦿ Evaluated and prioritised customer complaints based on risk severity and mitigation plans were initiated accordingly.

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 management highlights FY 2021/22

- ⦿ A fresh Strategic Plan covering the period from FY 2022/23 to FY 2024/25 was under development phase as at 31st March 2022 and same will address the prevailing challenging operating context
- ⦿ Behaviour of sector peers was regularly analysed
- ⦿ Comprehensive feasibility studies were carried out before opening new branches in strategic locations

How we tackled Strategic Risk

Risk	Risk Severity	Situational Analysis FY 2021/22	Our Responses
Strategic Risk	Moderate	Prevailing socio-economic instability, vehicle import restrictions, country lockdowns, policy interest rate volatility, moratorium implications, and stagnant loan book, increasing NPLs and mounting inflation were some of burning concerns in formulating MI's strategic direction.	<ul style="list-style-type: none"> ⦿ Monthly variance analysis, analytical reviews and budgetary reviews were presented and evaluated at Management meetings on a regular basis. ⦿ Quarterly competitor analysis were conducted and presented to the Board for its input. ⦿ Stress testing was performed and presented to BIRMC at regular intervals, covering capital buffers, moratoria, asset quality and liquidity parameters.

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 Management highlights FY 2021/22

- ⦿ Deployed a technology-driven working environment to be enhanced, further leading to reduce paper consumption
- ⦿ Natural beach cleanup and wildlife protection projects were initiated through the Sustainability Governance Committee
- ⦿ Concept branch initiatives were launched for selected locations as a means of drastically reducing utility consumption

How we tackled Environmental Risk

Risk	Risk Severity	Situational Analysis FY 2021/22	Our Responses
Environmental Risk	Moderate	In Sri Lanka, an increasing pattern of Environmental Risk continued to unfold during this year as well, resulting in rapid climate changes, carbon emission, high energy consumption, sea water pollution, destroyal of wildlife, etc.	<ul style="list-style-type: none"> ⦿ We continued to educate staff to reduce use of plastic products and unnecessary printing. ⦿ Low usage of electricity and water consumption mechanisms were initiated with the support of the Company's Maintenance and Process Reengineering teams. ⦿ Our long-term Sustainability Governance Strategy aided in transforming from a high carbon intensive mechanism to a low carbon intensive mechanism.

Risk Management Report

Our Future Focus on Risk management

Prevailing Macroeconomic Context	Our Assessment on Future	Impact on MI	Planned Responses
Inflation is on the rise	Moving up beyond 30% level	Immediate material hike in overhead including fuel, stationery, utilities and other routine costs. In addition, traditional loan book growth cannot be expected in light of demand contraction of the public due to rising cost of living.	<ul style="list-style-type: none"> Expenditure budgets and allocated volume targets will be revisited
Increasing Policy Interest Rates	Further increase and settle on par with the inflation	Immediate repricing of Deposit base as opposed to partially fixed loan book will challenge short term core margins. Moreover, challenge in driving loan book amidst high yield pricing and asset quality concerns on growing installments.	<ul style="list-style-type: none"> Promoting shorter tenure lending product portfolio Focusing on more sustainable long term fixed rate funding
Hindering foreign currency reserves due to lack of political stability and leadership	It is expected to gradually building up of currency reserves in light of the new economic reforms introduced by newly appointed political regime	Continued vehicle importation stoppage and non-essential import bans will materially hinder the finance business.	<ul style="list-style-type: none"> Expanding of non-vehicle based business avenues Continue on used vehicle segment
Mounting community unrest	With the involvement of International Monetary Fund (IMF) along with the aids from international community will gradually resolve the shortage of essential importations like fuel, medicines and gas	Apart from the disruptions to daily operations with fuel shortages, there will be an impact to certain segments of the loan book including three wheeler market repayments.	<ul style="list-style-type: none"> Virtual business operations will be strengthened with fully fledged IT systems Post disbursements monitoring and portfolio reviews will be further strengthened Arrears bucket specific recovery measures will be continued to adopt

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	Chairman	Independent Non-Executive Director
Mr. Gerard G. Ondaatjie	Member	Executive Director
Mr. S.H. Jayasuriya	Member	Executive Director
Mr. Dhanushka Fonseka	Member	Chief Operating Officer - Director (Non-Board)
Mr. Deva Anthony	Member	Chief Financial Officer - Director (Non-Board)
Mr. Thusitha Indunil Jayawardana	Member	Assistant General Manager-Credit Risk
Mr. Ramidu Costa	Member/Secretary	Head of Risk Management & Compliance

Integrated Risk Management Committee (IRMC)

The IRMC was established and operated in accordance with the sections 8.1 and 8.3 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Monetary Board under the Finance Business Act No. 42 of 2011.

The Committee held four meetings for the year under review. The Committee met its key objectives and carried out its responsibilities effectively. Details of Committee membership and meeting attendance information are given on Page 112.

Duties and Responsibilities of the Committee

According to the Board approved 'Terms and Reference' (TOR) and 'Risk Management Policy' of the Company, following remains the key responsibilities of IRMC.

- 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, periodically, through assessing appropriate risk indicators and ensuring suitable risk mitigation strategies are in place for current and emerging risks which exceed the risk tolerance levels.
- Determine 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 forth 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 IRMC Actions initiated during financial year 2021/22

The Committee considered wide range of risks faced by the Company, especially from the pandemic and the emergence of the economic crisis that led to socio-economic turbulence early in 2022, taking vigilant and proactive actions in fulfilling its responsibilities effectively.

- ⦿ The Committee reviewed credit interest rates, Operational and other core risks, submitting 'Activity Reports' on a quarterly basis and updated the Board on key risks and recommended respective risk mitigation actions.
- ⦿ A newly developed compliance policy and enhanced investment , information classification and operational risk management policies were tabled for the Board's approval
- ⦿ Standardized Risk Dashboards including variance from risk appetite levels were presented at the quarterly committee meetings.
- ⦿ Reviewed and approved risk parameters and risk appetite limits for various key risk categories, especially for operational risks.
- ⦿ Stress Testing exercises were further strengthened by considering prevailing socio-economic turbulence in the country arising from the pandemic and the economic crisis
- ⦿ Reviewed the quarterly progress of relatively higher Non-Performing Asset (NPAs) ratios for consistent improvement in asset quality

Board Integrated Risk Management Committee Report

During the FY 2021/22, the Committee continued to utilize established Corporate Management Committees to provide additional focus on credit and recovery risk, liquidity risk, IT resilience including cyber Security, operational risk concerns, business continuity planning, and Environmental and sustainability risks. The key actions of these Committees and positive outcomes derived are summarized below;

Action	Resulting positive outcomes
<p>Assets and Liabilities Management Committee (ALCO)</p> <ul style="list-style-type: none"> With the increasing trend of policy rates, ALCO monitored interest rate trends and advised the Treasury division on repricing risk. Reviewed liquidity risk and interest rate sensitivity to performance of the Company and made recommendations on maintaining liquidity levels within risk appetite limits. 	<ul style="list-style-type: none"> Better monitoring of interest cost resulted in better margins Enhanced treasury management function with stronger risk controls helped sustain sound liquidity levels throughout challenging times and also helped to improve the maturity profile of the Company's Assets and Liabilities thus lowering liquidity risk.
<p>IT Steering Committee</p> <ul style="list-style-type: none"> Made recommendations to Board on future IT strategy and migration to a fully-fledged external IT vendor The committee regularly reviewed the IT systems and controls and ensured there were no material adverse impacts on business operations or customers caused by failure of systems. 	<ul style="list-style-type: none"> Ensured MI's core functions were operated uninterrupted at optimal capacity. Oversight of ongoing external system evaluations and associated risk.
<p>Management committee</p> <ul style="list-style-type: none"> Reviewed ongoing performance to provide early warning signals and a platform for decision-making. Strategic and operational decisions were taken based on Company performance and evolving industry and process changes. 	<ul style="list-style-type: none"> Aided smooth flow of operations by overseeing the risks attached to operations and the workforce. Monitored core business progress amidst evolving risks and mitigation of gaps
<p>Sustainability Governance Committee</p> <ul style="list-style-type: none"> Initiated a number of sustainability projects, related training and reviewed MI's adherence to sustainable business practices. 	<ul style="list-style-type: none"> Ensured that the Company's obligations towards society and the environment are fulfilled and the associated risks were managed including company's reputation risk.



A.L.N. Dias
 Chairman
 Integrated Risk Management Committee

30th May 2022

Board Remuneration Committee Report

Committee Composition

Name	Membership Status	Directorship Status/ Position held in the company
Mr. A. L. N. Dias	Chairman	Independent Non-Executive Director
Mr. P. D. D. Perera	Member	Acting Chairman/Independent Non-Executive Director
Mr. M. K. S. Pieris	Member	Independent Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

Terms of Reference

The terms governing the Committee are;

- ◉ Recommending and approving total remuneration package and incentivization packages of the Executive Directors including the Managing Director.
- ◉ Considering and recommending to the Board, the broad policy for remuneration and incentive packages.
- ◉ 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 advise the Committee.

Committee's Role

The Committee as part of its responsibilities reviewed the established corporate remuneration policy and made recommendations to the Board on the following matters:

- ◉ Implementing a competitive and fair remuneration package payable to the Executive Directors including the Managing Director of the Company, this is satisfactory to both the interests of the shareholders and the Director concerned.

- ◉ Implementing 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.
- ◉ Evaluating prevailing market remuneration levels and with due consideration of the Covid crisis on economy and business, when making remuneration policy amendments.
- ◉ Recommending/ deciding 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 staff, necessary to achieve the objectives of the company in a competitive environment.
- ◉ Remuneration to be in a way that it satisfies both shareholder and employee interests.
- ◉ Periodic committee meetings to identify performance and recommend suitable remuneration changes.
- ◉ Employee benefits reassessed post COVID and economic crisis to adjust to the exceptional business environment.

- ◉ Set goals and targets for the CEO and Key Management Personnel and evaluate their performance against set targets and goals periodically and determine the basis for revised remuneration, benefits and other incentives.

Key Activities during FY 2021/22

- ◉ Amidst prevailing COVID and emerging economic crisis, the Committee provided Guidance on annual remuneration and advised on changes to ensure balance between staff retention and costs.
- ◉ Implemented the changes required by the revised Human Resource Remuneration Policies.
- ◉ The Committee reviewed and obtained Board approval for the revised Board Remuneration Policy with due reference to industry best practices, during the financial year.



A. L. N. Dias
Chairman
Remuneration Committee

30th May 2022

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/ Position held in the company
Mrs. E. D. Wickramasuriya	Chairperson	Independent Non-Executive Director
Mr. Gerard G. Ondaatjie	Member	Managing Director
Mr. P. D. D. Perera	Member	Independent Non-Executive Director
Mr. A.L. N. Dias	Member	Independent Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

Objectives of the Committee

The Nomination Committee was established by the Mercantile Investments' Board of Directors in order to strengthen the Director Appointment process, specifically focusing on:

- Identifying individuals qualified to serve as Board members, consistent with criteria approved by the Board.
- Recommending to the Board, the Director nominees for election or appointment after ascertaining the necessity of additional Directors.
- Conducting a rigorous and transparent process when making or renewing appointments of Directors to the Board.
- Advising the Board on issues of Director's 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 in order to ensure the expected levels of responsibilities are delivered by the committee
- 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 in achieving the objectives of the committee.

Key Activities/Actions during the Financial Year 2021/22

- 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.
- Board approved appointments of two General Managers and one Assistant General Manager during the year to the Corporate Management Team.
- The Committee obtained declarations from all the Directors through a prescribed format confirming their status of independence.
- Future Board Composition in the light of the new Corporate Governance Direction was reviewed to ensure further compliance

Meeting information

Two 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

30th May 2022

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	Chairman	Independent Non-Executive Director
Mrs. E D Wickramasuriya	Member	Independent Non-Executive Director
Mr. A L N Dias	Member	Independent Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

During the period, the Finance Director, Chief Financial Officer, Other member from the management team 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 statutes, 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 Board 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 2021/22 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.

Annual Internal Audit program was structured to ensure there is adequate audit coverage 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.

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

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.

Board Audit Committee Report

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 will recommend 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 2023, 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 will be 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 2021/22 financial year and approved by the Board.

Key Activities/Actions of the committee during FY 2021/22

- ⦿ The committee revised and obtained Board approval for the revised Terms of Reference (TOR) of the 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.
- ⦿ The Committee monitored the progress on implementation of the recommendations made in the Statutory Examination Reports of the Central Bank of Sri Lanka (CBSL) through regular follow-up reports tabled during the year under review.
- ⦿ 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.
- ⦿ Review of proposed Corporate Governance Direction applicable from 1st July 2022, and making recommendations on Audit & Compliance related upcoming requirements.



P. D. D. Perera
Chairman
Audit Committee

30th May 2022

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	Chairman	Independent Non-Executive Director
Mrs. E D Wickramasuriya	Member	Independent Non-Executive Director
Mr. S. H. Jayasuriya	Member	Executive Director
Mr. A L N Dias	Member	Independent Non-Executive Director
Ms. 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 2021/22

- ⦿ Seven 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 for the members review and oversight. Attendance of the members of the Committee is provided on page 112. 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 and Terms of Reference on related party transactions and it's monitoring which comprehensively covers both organizational 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.



P. D. D. Perera
Chairman
Related Party Transactions Review Committee

30th May 2022



**A tribute to dedication
and passion, this year
was made possible by our
team that beat the odds to
achieve record growth...**

Colosseum

The Colosseum is an amphitheatre built in Rome under the Flavian emperors of the Roman Empire. It is also called the Flavian Amphitheatre. It is an elliptical structure made of stone, concrete, and tuff, and it stands four stories tall at its highest point.

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Financial Calendar

	2021/22	2022/23 (Proposed)
First Interim dividend	10th August 2021	August 2022
Second Interim dividend	03rd March 2022	February 2023
Annual Report and Accounts for the year signed/to be signed	26th May 2022	19th May 2023
Annual General Meeting to be held	30th June 2022	30th June 2023
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	2021/22 Submitted on	2022/23 to be submitted on or before
For the 3 months ended 30th June (unaudited)	13th August 2021	15th August 2022
For the 3 and 6 months ended 30th September (unaudited)	15th November 2021	15th November 2022
For the 3 and 9 months ended 31st December (unaudited)	15th February 2022	15th February 2023
For the 3 months and year ended 31st March (unaudited)	30th May 2022	31st May 2023
Publication of Financial Statements as per Finance Business Act No 42 of 2011	2021/22 Published on	2022/23 to be published on or before
Six month Financial Statements	19th November 2021	30th November 2022
Annual Financial Statements	30th June 2022	30th June 2023

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, 2022 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 15th June 1964 under the Companies Ordinance No 51 of 1938 and re registered under the Companies Act No 07 of 2007 and a licensed Finance Company under the, Finance Business Act No 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 26, 2022.

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 31st March 2022).

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 pages 201 to 204
IV) Any changes made to the Accounting policies during the year under review.	Section 168 (1) (d)	Refer pages 210 to 219
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 225
VII) Total amount of donations made by the Company during the period.	Section 168 (1) (g)	Refer page 189
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 225
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

Annual Report of the Board of Directors

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 Three new delivery points added, the total number of delivery points in country was 42 at the end of 2022 (39 at the end of 2021)

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 28 to 87 of this Annual Report.

Segment wise contribution to revenue, results, assets and liabilities is disclosed in Note 52 to the Financial Statements on page 267 to 269.

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, Gold Loans and mobilisation of deposits.

2.2.2 Associate Company

Company has a 26.12% (2021 – 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 241 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 page 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 210 to 291 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 195.

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 31st March 2022 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 31st March 2022, 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 219 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. 41,000(2021-Rs. 417,000). There are no donations made to the Government approved charities from above (2021 –Nil). The information given above on donations forms integral part of the Report of the Board of Directors as required by section 168(1) (g) of the companies Act No 07 of 2007.

2.10 Future Developments

Future developments activities of the company is discussed under the Managing Director’s report on page 28 to 33 of this Annual Report.

3. Gross Incomes

The income of the company for the year ended 31st March 2022 was Rs. 7,128 Mn (year ended 31st March 2021- Rs. 6,496 Mn). An analysis of income is given in Notes 6 & 7 to the Financial Statements on page 220 to 221 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 2022 was Rs. 1,469 Mn (Rs. 827 Mn in 2021) and the profit after tax for the year ended 2022 was Rs. 1,011 Mn (Rs. 614 Mn in 2021).

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

As at 31st March	2022	2021
Profit before Tax	1,468,920	827,501
Taxation	457,370	213,358
Profit after Tax	1,011,550	614,143
Other Comprehensive Income	41,047	(23,804)
Balance brought forward	2,723,183	2,016,150
Available for Appropriation	3,775,780	2,606,489
Transfer to Statutory Reserve	(55,000)	(35,000)
Transfer to Retain Profit FV through OCI reserve	264,456	151,694
Impact of Adoption of SLFRS 16	-	-
Deferred tax Impact of Adoption of SLFRS 16	-	-
Interim Dividend Paid	(345,690)	-
Balance carried forward	3,639,546	2,723,183

4.2 Dividend on Ordinary Shares

Details of information on dividends are given in Note 17 to the Financial Statements on page 227.

4.3 Provision for Taxation

Income tax for 2022 has been provided at the rate of 24% (24% - 2021) 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% for 1st 09 Months and 18% for last 3 months (15% -2021),

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 225 & 256 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

	2022	2021
Statutory Reserve Fund	851,400	796,400
Revaluation Reserve	2,221,290	1,997,538
Associate Company- reserve	690,061	592,326
General Reserve	4,086,430	4,086,430
Available for sale Reserve	(550,391)	77,693
Retain Earnings	3,639,546	2,723,183

The company’s total Reserves as at 31st March 2022 amounted to Rs. 10,974 Mn (2021–Rs. 10,309 Mn). 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	2022	2021
Property, Plant & Equipment	519 Mn	107 Mn
Leasehold Property	Nil	Nil
Intangible Assets	10 Mn	21 Mn

Details of which are given in Note 31on page 244 in the Financial Statements. Capital expenditure approved and contracted for is given in Note 46 to the Financial Statements on page 263 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 31st March 2022, 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 247.

7. Stated Capital and Debentures

The stated capital of the company as at 31st March 2022 was Rs. 36 Mn comprising 3,006,000 ordinary shares. (2021- Rs.36 Mn).The details of the stated capital are given in Note 40 to the Financial Statements on page 260 of this Annual Report.

The Company did not issue any debentures during the financial year ended 31st March 2022.

Annual Report of the Board of Directors

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 18 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 pages 294 to 297.

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 295.

8.3 Issue of shares

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

Class of Shares	Voting Ordinary shares	
	2022	2021
Number of shares issued	Nil	Nil

9. Substantial Shareholdings

The list of 20 Largest Shareholders as at 31st March 2022 are as follows.

Nilaveli Beach Hotels(Pvt) Ltd	629,580
Mr. G. G. Ondaatjie (Managing Director)	566,725
Ms. A. M. Ondaatjie	525,670
Mr. T. J. Ondaatjie	484,614
Mercantile Fortunes (Pvt) Ltd	415,162
Tangerine Tours (Pvt) Ltd.	203,809
Mrs. C. A. Ondaatjie	84,114
Mr. A. S.G.H. Jafferjee	41,055
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. A. M. Dominic & J S Dominic	151
Mr. R. Vaseeharan	10

Float adjusted market capitalization as at 31 March 2022 Rs. 468,936,000/-

The Company is not Compliant with the minimum public holding requirement as of 31st March 2022.

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 294 .

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 31st March 2022 comprised of Eight Directors (Eight Directors as at 31st March 2021) with extensive financial & commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors – Profile' on pages 90 to 95 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 2022,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
Mrs. 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. M.K.S. Pieris (Appointed on 05/04/2021)	Non Executive	Independent
Mr. P. C. Guhashanka (Retired on 28/07/2021)	Non Executive	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.

New Appointments

Mr. M. K. S. Pieris was appointed as a Non-Executive Independent Director on 05/04/2021.

Resignation/Cessations

Mr. P. C. Guhashanka resigned from the post of Non-Executive Independent Director (w.e.f. 28/07/2021).

10.1.3 Recommendation for Re-election

In terms of Article 23(7) of the articles of association, Mrs. A .M. Ondaatjie and Mr. P. D. D. Perera retire by rotation, and being eligible to offer themselves for re-election.

10.1.4 Directors' Meetings

Details of the meetings of the Board of Directors are presented on page 109.

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, 2022 is given in Note 13.1 to the Financial Statements on page 225 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

	2022	%	2021	%
Mr. G. G Ondaatjie (Managing Director/ CEO)	566,725	18.85	477,213	15.87
Mrs. A. M. Ondaatjie	525,670	17.49	477,213	15.87
Mr. T. J. Ondaatjie	484,614	16.12	477,213	15.87
Mr. S. H. Jayasuriya	-	-	-	-
Mr. M. K. S. Pieris	-	-	-	-
Mr. P. D. D. Perera	-	-	-	-
Mrs. E. D. Wickramasuriya	-	-	-	-
Mr. A. L. N. Dias	-	-	-	-

11.1.1 Mr. Gerard G. Ondaatjie is 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, 2022 was 180,440 shares (2021- 315,790) which amounted to 6.00% (2021- 10.84%) 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, 2022. 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 'Related Party Disclosures'. Refer note 49 to the Financial Statements on pages 263 to 265 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 267 of this Annual Report.

17. Going Concern

The Board of Directors had reviewed the company's business plans and is satisfied that the company has adequate resources to continue its operation in the foreseeable future. Accordingly, the Financial Statements of the Company are prepared based on the going concern concept.

Annual Report of the Board of Directors

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 3,810,000/- is payable by the company to the Auditors for the year under review comprising Rs. 1,790,000/- as Audit fees, and expenses Rs. 2,020,000/- for non-audit services.

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

Auditors too have provided a declaration confirming that they are not aware of any relationship with or interest in the company or, in their professional judgment, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Conduct and Ethics of The Institute of Chartered Accountants of Sri Lanka applicable as at the date of their declaration.

20. Risk Management & System of Internal Controls

20.1 Risk Management

Specific steps that have been taken by the company in place to identify, evaluate and manage both business risk & financial risk are detailed on pages 271 to 291 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.

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 31st March 2022.

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 160 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 76 to 160.

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 64 to 67 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 are Evaluating the implications on new Sri Lanka Accounting Standard issued and which are not effective as of 31st March 2022.

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 263.

26. Contingent Liabilities

Except as disclosed in Note 47 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 308 of this Annual Report.

28. Acknowledgement of the contents of the Report

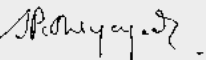
As required by section 168(1)(k) of the Companies Act No 07 of 2007, the Board of Directors hereby acknowledge the contents of this report.



Gerard G. Ondaatje
Managing Director



Angeline M. Ondaatje
Director



Ms. Sonali Pethiyagoda
Company Secretary

Colombo

26th May 2022

Directors' Interests in Contracts with the Company

Company	Relationship	Accommodation granted / deposits/receivable for services rendered/payable for services obtained	As at	As at
			31.03.2022	31.03.2021
			Rs. '000	Rs. '000
(a) Mr. G. G. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Chairman	Motor vehicle hire, repairs and others	3,177	1,872
Tangerine Beach Hotels PLC	Director	Deposits	346,384	394,818
		Motor vehicle hire, repairs and others	35	223
Royal Palms Beach Hotels PLC	Director	Deposits	286,337	401,142
		Motor vehicle hire, repairs and others	318	310
The Nuwara Eliya Hotels Company PLC	Deputy Chairman	Deposits	955,247	772,286
		Motor vehicle hire, repairs and others	522	328
Tangerine Tours (Pvt) Limited	Director	Deposits	157,563	150,818
		Motor vehicle hire, repairs and others	727	411
Nilaveli Beach Hotels (Pvt) Limited	Chairman	Deposits	192,516	167,522
		Motor vehicle hire, repairs and others	-	5
Security Ceylon (Pvt) Limited	Chairman	Deposits	14,694	14,726
		Motor vehicle hire, repairs and others	20	-
		Security expenses	2,558	2,493
Mercantile Orient (Pvt) Limited	Chairman	Deposits	6,485	6,458
Global Films Limited	Chairman	Deposits	1,681	1,615
Fair View Hotel (Pvt) Limited	Chairman	Deposits	153,156	140,010
Mercantile Fortunes Insurance brokers (Pvt) Limited	Chairman	Deposits	31,735	20,401
		Motor vehicle hire, repairs and others	2,826	2,146
		Insurance commission receivable	66,929	74,922
		Insurance premium payable	172,218	191,494
Tangerine Vacations (Pvt) Limited	Director	Deposits	20,145	18,332
(b) Ms. A. M. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	3,177	1,872
Tangerine Beach Hotels PLC	Chairperson & Managing Director	Deposits	346,384	394,818
		Motor vehicle hire, repairs and others	35	223
Royal Palms Beach Hotels PLC	Chairperson & Managing Director	Deposits	286,337	401,142
		Motor vehicle hire, repairs and others	318	310
The Nuwara Eliya Hotels Company PLC	Director	Deposits	955,247	772,286
		Motor vehicle hire, repairs and others	522	328
Tangerine Tours (Pvt) Limited	Chairperson & Managing Director	Deposits	157,563	150,818
		Motor vehicle hire, repairs and others	727	411
Nilaveli Beach Hotels (Pvt) Limited	Director	Deposits	192,516	167,522
		Motor vehicle hire, repairs and others	-	5
Security Ceylon (Pvt) Limited	Director	Deposits	14,694	14,726
		Motor vehicle hire, repairs and others	20	-
		Security expenses	2,558	2,493
Mercantile Orient (Pvt) Limited	Director	Deposits	6,485	6,458
Global Films Limited	Director	Deposits	1,681	1,615
Fair View Hotel (Pvt) Limited	Director	Deposits	153,156	140,010

Company	Relationship	Accommodation granted / deposits/receivable for services rendered/payable for services obtained	As at	As at
			31.03.2022	31.03.2021
			Rs. '000	Rs. '000
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	31,735	20,401
		Motor vehicle hire, repairs and others	2,826	2,146
		Insurance commission receivable	66,929	74,922
Tangerine Vacations (Pvt) Limited	Chairperson	Insurance premium payable	172,218	191,494
		Deposits	20,145	18,332
(c.) Mr. T. J. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	3,177	1,872
Tangerine Beach Hotels PLC	Director	Deposits	346,384	394,818
		Motor vehicle hire, repairs and others	35	223
Royal Palms Beach Hotels PLC	Director	Deposits	286,337	401,142
		Motor vehicle hire, repairs and others	318	310
The Nuwara Eliya Hotels Company PLC	Director	Deposits	955,247	772,286
		Motor vehicle hire, repairs and others	522	328
Tangerine Tours (Pvt) Limited	Director	Deposits	157,563	150,818
		Motor vehicle hire, repairs and others	727	411
Nilaveli Beach Hotels (Pvt) Limited	Managing Director	Deposits	192,516	167,522
		Motor vehicle hire, repairs and others	-	5
Security Ceylon (Pvt) Limited	Director	Deposits	14,694	14,726
		Motor vehicle hire, repairs and others	20	-
		Security expenses	2,558	2,493
Mercantile Orient (Pvt) Limited	Director	Deposits	6,485	6,458
Global Films Limited	Director	Deposits	1,681	1,615
Fair View Hotel (Pvt) Limited	Director	Deposits	153,156	140,010
Tangerine Vacations (Pvt) Ltd	Director	Deposits	20,145	18,332
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	31,735	20,401
		Insurance commission receivable	66,929	74,922
		Insurance premium payable	172,218	191,494
		Motor vehicle hire, repairs and others	2,826	2,146
(d) Mr. S. H. Jayasuriya				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	3,177	1,872
Security Ceylon (Pvt) Limited	Director	Deposits	14,694	14,726
		Motor vehicle hire, repairs and others	20	-
		Security expenses	2,558	2,493
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	31,735	20,401
		Insurance commission receivable	66,929	74,922
		Insurance premium payable	172,218	191,494
		Motor vehicle hire, repairs and others	2,826	2,146

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 properly guided 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 comprise of the Statement of Financial Position as at 31st March 2022, Statement Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto of the company 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.

Hence, the Board of Directors confirms that the Financial Statements of the company give a true and fair view of the financial position of the company as at 31st March 2022 and financial performance of the company for the financial year then ended.

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 approved 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, 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.

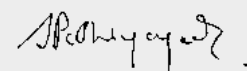
The Directors also confirm that as per the Section 166(1) and 167(1) of the Companies Act No. 07 of 2007, they have prepared the Annual Report on time and ensured that copies are sent to the shareholders within the specified period of time required by Rule No. 75 (a) & (b) of Listing Rules (The Colombo Stock Exchange). Furthermore, Directors have 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



Ms. Sonali Pethiyagoda
Company Secretary

30th May 2022

Managing Director's and Chief Financial Officer's Statement of Responsibility

The Financial Statements of Mercantile Investments and Finance PLC are prepared and presented in accordance with the following requirements:

- Sri Lankan Financial Reporting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka.
- The Companies Act No. 07 of 2007
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Directions, Circulars and guidelines issued to Finance Companies by the Central Bank of Sri Lanka (CBSL) under the Finance Business Act No. 42 of 2011.
- Listing Rules of the Colombo Stock Exchange; and
- The Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka.

The formats and Accounting Policies adopted in the preparation of the Financial Statements are appropriate and have been consistently applied during the financial year under review. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. Significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with External Auditors and the Board Audit Committee.

There were no changes to the Accounting Policies and methods of computation since the publication of the Annual Report for the year ended 31st March 2021.

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.

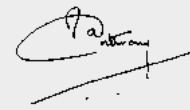
The Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further, the Board assessed the effectiveness of the Company's internal controls over financial reporting during the year ended 31 March 2022, 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 2022 have been paid or where relevant accrued



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



Gerard Ondaatjie
Managing Director

30th May 2022

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 which comes under the

purview of the Finance Director and the Chief Financial Officer 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.

- MI's Internal Audit Division has 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 2021/22.
- 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.
- Policies/Charters are developed covering all functional areas of the company and these are recommended by the relevant Heads of Divisions or appointed Committees and are approved by the Board. Such policies and Charters are reviewed and approved at least annually.

Confirmation by the Board

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

External Auditors Review of the Statement

The External Auditors have reviewed the above 'Report of the Board on Internal Control' for the year ended 31st March 2022 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 Ondaatjie

Managing Director

30th May 2022

Independent Assurance Report on the Directors' Statement on Internal Control



Ernst & Young
Chartered Accountants
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Fax (Gen): +94 11 269 7369
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Email: eysl@lk.ey.com
ey.com

BW/UM/TW

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

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Mercantile Investments and Finance PLC ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 March 2022.

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.

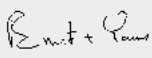
SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control 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.



30 May 2022
Colombo

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

Principals: G B Goudian ACA, Ms. P S Paranavitane ACA LLB (Colombo), T P M Ruberu FCMA FCCA

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Independent Auditor's Report



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Fax (Gen): +94 11 269 7369
Fax (Tax): +94 11 557 8180
Email: eysi@lk.ey.com
ey.com

BW/UM/TW

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 2022, 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 2022, 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: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), 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, C A Yalagala ACA ACMA

Principals: G B Goudian ACA, Ms. P S Paranavitne ACA LLB (Colombo), T P M Ruberu FCA FCCA

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Independent Auditor's Report



Key audit matters specific to Company

Key Audit Matter	How our audit addressed the matter
<p>Impairment allowances for Loan, Lease and Hire Purchase receivables</p> <p>As at 31 March 2022, Loan, Lease and Hire Purchase receivables net of impairment allowances amounted to LKR 34.7 Bn and is disclosed in notes 23 - 25. These collectively contributed 74% to the Company's total assets</p> <p>Impairment allowances for Loan, Lease and Hire Purchase receivables is a key audit matter due to:</p> <ul style="list-style-type: none"> - materiality of the reported allowance which involved complex calculations; and - significant judgements used in assumptions and estimates made by the management as reflected in note 3.2.9.1, which in the current year was influenced by the need to assess the change in current economic conditions on forward looking information and the continuing impact of COVID-19 debt moratorium relief measures 	<p>Our audit procedures included amongst others the following:</p> <ul style="list-style-type: none"> ⦿ We assessed the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management ⦿ We evaluated the design, implementation and operating effectiveness of internal controls over estimation of the impairment allowances, including testing of related system controls ⦿ We checked the completeness, accuracy and classification of the underlying data used in the computation of impairment allowances by agreeing details to relevant source documents and accounting records of the Company ⦿ For Loan, Lease and Hire Purchase receivables assessed on a collective basis for impairment: <ul style="list-style-type: none"> - We tested key calculations used in the impairment allowances. - We assessed whether significant judgements used in assumptions and estimate made by the management in the underlying methodology and management overlays were reasonable. We also evaluated the reasonableness of forward looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. Our procedures were based on the best available information up to the date of our report ⦿ For loans and advances assessed on an individual basis for impairment: <ul style="list-style-type: none"> - We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances - We checked the accuracy of the underlying individual impairment calculations - We evaluated the reasonableness of key inputs used in the provision for credit impairment made with the particular focus on current economic conditions. Such evaluations were carried out considering value and timing of cash flow forecasts particularly relating to elevated risk industries, status of recovery action and collateral values <p>We assessed the adequacy of the related financial statement disclosures set out in notes 10 & 23-25.</p>
<p>Financial reporting related IT based Internal controls</p> <p>A significant part of the Company's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets.</p> <p>Accordingly, financial reporting related IT based Internal controls is considered a key audit matter</p>	<p>Our audit procedures included the following :</p> <ul style="list-style-type: none"> ⦿ We obtained an understanding of the Internal control environment of the processes relating to financial reporting and related disclosures. ⦿ We identified and test checked relevant controls of key IT systems related to the Company's financial reporting process. ⦿ We evaluated the design and operating effectiveness of IT controls, including those related to user access and change management. ⦿ We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of general ledger reconciliations.



Other information included in the 2022 Annual Report

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- ⦿ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ⦿ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company.
- ⦿ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report



- ◉ 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.

30 May 2022
Colombo

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Statement of Comprehensive Income

Year ended 31 March	Note	2022 Rs. '000	2021 Rs. '000
Gross income	6	7,127,706	6,496,631
Interest income	71	6,759,925	6,273,624
Interest expenses	72	(2,586,220)	(3,219,671)
Net interest income		4,173,706	3,053,953
Fee and commission income	8	67,496	74,378
Net fee and commission income		67,496	74,378
Other operating income	9	300,285	148,630
Total operating income		4,541,486	3,276,960
Impairment (charge)/reversal for loans and receivables and other financial assets	10	147,674	(42,134)
Net operating income		4,689,160	3,234,826
Less: Operating expenses			
Personnel expenses	11	(1,346,538)	(988,823)
Depreciation of PPE and Right-of-use assets and amortization of intangible assets	12	(156,759)	(136,725)
Other operating expenses	13	(1,225,866)	(956,702)
Total operating expenses		(2,729,164)	(2,082,250)
Operating profit before VAT on financial services		1,959,996	1,152,576
Value Added Tax on financial services	15.2	(493,579)	(288,422)
Operating profit after VAT on financial services		1,466,417	864,155
Add: Share of associate company's profit / (Loss) net of tax	14	2,504	(36,654)
Profit before taxation from operations		1,468,920	827,501
Less: Income tax expenses	15	(457,370)	(213,358)
Profit for the year		1,011,550	614,143
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	(363,628)	556,625
Net change in revaluation surplus on Land & Buildings	41.1	302,589	213,337
Deferred tax effect on revaluations surplus on Land & building	37	(78,837)	39,850
Share of other comprehensive income of associates (net of tax)	29.1	97,735	11,092
Actuarial gain/(loss) on retirement benefit obligation	38.2	66,517	(39,609)
Deferred tax effect on actuarial gain	37	(25,470)	15,805
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		(1,094)	797,101
Other comprehensive income/(expenses) for the year (net of tax)		(1,094)	797,101
Total comprehensive income/(expenses) for the year (net of tax)		1,010,456	1,411,244
Earnings per share			
Basic earnings per share (Rs.)	16	336.51	204.31
Diluted earnings per share (Rs.)	16	336.51	204.31
Dividend per ordinary share (Rs.)	17	115	-

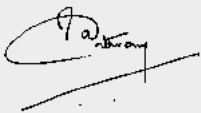
Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 210 to 291 form an integral part of these financial statements.

Statement of Financial Position

Year ended 31 March	Note	2022 Rs. '000	2021 Rs. '000
Assets			
Cash and cash equivalents	20	681,130	1,916,905
Placement with banks at Amortized cost	21	997,771	77,139
Financial investments - At FVOCI (quoted)	22.1	4,161,039	4,138,128
Financial investments - At FVPL	22.2	2,924	51,248
Loans and receivables at Amortized Cost	23	16,125,123	14,867,319
Finance leases receivables at Amortized Cost	24	18,334,913	14,221,461
Hire purchase receivables at Amortized Cost	25	242,430	649,860
Financial investments - at FVOCI (unquoted)	22	70,427	70,427
Other financial assets	26	423,726	423,949
Inventories	27	36,000	8,700
Other assets	28	166,727	225,526
Current tax refunds		-	79,130
Investment in associates	29	1,334,821	1,234,582
Investment property	30	220,717	237,381
Property, plant and equipment	31	3,952,290	3,279,866
Right-of-use assets	31.15	181,499	180,357
Leasehold property	32	39,802	40,270
Intangible assets	33	28,235	47,299
Total assets		46,999,575	41,749,548
Liabilities			
Bank overdraft		395,159	86,451
Deposits due to customers at Amortized Cost	34	26,349,272	23,060,274
Debt instruments issued and other borrowings at Amortized Cost	35	7,022,730	6,357,692
Other financial liabilities	36	658,957	552,252
Current tax liabilities		328,579	-
Deferred tax liabilities	37	639,064	742,672
Other liabilities		125,719	82,704
Retirement benefit obligations	38	272,003	322,501
Lease Liability	39	233,757	235,431
Total liabilities		36,025,239	31,439,978
Shareholders' funds			
Stated capital	40	36,000	36,000
Revaluation reserve	41.1 & 41.2	2,911,351	2,589,864
Statutory reserve fund	42	851,400	796,400
General reserves	43	4,086,430	4,086,430
Retained earnings	44	3,639,546	2,723,183
Fair Value through OCI reserve	45	(550,391)	77,693
Total shareholders' funds		10,974,336	10,309,570
Total liabilities and shareholders' funds		46,999,575	41,749,548
Net assets per share (Rs.)			
Capital commitments and contingencies	46 & 47	3,651	3,430

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



Deva Anthony

Chief Financial Officer/Director (Non-Board)

The Board of Directors are responsible for these Financial Statements.

The Financial Statements were authorized for issue by the Directors on 26 May 2022. 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 291 form an integral part of these financial statements.

26 May 2022

Colombo

Statement of Changes in Equity

	Note	Stated Capital	Revaluation Reserves Land and Buildings	Associate Company Reserve	Statutory Reserves	General Reserves	Fair Value through OCI Reserve	Retained Earnings	Total
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'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)	797,100
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
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-		1,011,550	1,011,550
Other comprehensive income/(expenses)		-	223,752	97,735	-	-	(363,628)	41,047	(1,094)
Total comprehensive income/(expenses)		-	213,653	97,735	-	-	(363,628)	1,052,597	1,010,456
Dividends paid to equity shareholders		-	-	-	-	-	-	(345,690)	(345,690)
Transfer to retained profit							(264,456)	264,456	-
Transfer to statutory reserve		-	-	-	55,000	-		(55,000)	-
As At 31st March, 2022		36,000	2,221,290	690,061	851,400	4,086,430	(550,391)	3,639,546	10,974,336

Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 210 to 291 form an integral part of these financial statements.

Statement of Cash Flow

Year ended 31 March	Note	2022 Rs. '000	2021 Rs. '000
Cash flow from operating activities			
Interest and commission receipts		6,827,421	6,348,002
Interest payments		(2,542,277)	(3,219,671)
Cash receipts from customers		566,747	114,508
Cash payments to employees, suppliers and tax authority		(3,291,293)	(2,247,364)
Operating profit before changes in operating assets and liabilities (Note A)		1,560,598	995,475
(Increase)/decrease in operating assets			
Deposits held for regulatory purposes		(1,046,349)	147,002
Funds advanced to customers		(4,739,120)	2,142,178
Other receivables		31,722	(400,004)
Increase/(decrease) in operating liabilities			
Other payables		(285,801)	(275,073)
Deposits from customers		3,288,997	245,351
		(1,189,951)	2,854,929
Income taxes paid		(315,635)	(144,602)
Net cash from operating activities		(1,505,586)	2,710,327
Cash flows from investing activities			
Dividends received	9	50,563	32,580
Net Purchase/Sale of equity securities		7,622	45,636
Proceeds from sale of Property, Plant and Equipment		93,589	5,630
Proceeds from sale of Investment Properties		18,500	7,200
Purchase of Property, Plant and Equipment	31	(518,909)	(107,823)
Acquisition of intangible assets	33	(9,610)	(20,873)
Net cash from investing activities		(358,245)	(37,650)
Cash flows from financing activities			
Borrowings obtained during the year		4,310,000	6,315,000
Borrowings repaid during the year		(3,644,962)	(8,884,642)
Dividends paid		(345,690)	-
Net Cash from financing activities		319,348	(2,569,642)
Net increase in cash and cash equivalents		(1,544,483)	103,035
Cash and cash equivalents at the beginning of the period		1,830,454	1,727,418
Cash and cash equivalents at the end of the period (Note B)		285,971	1,830,454
Reconciliation of profit before tax with cash inflow from operating activities (Note A)			
Profit before tax		1,468,920	827,501
Capital gain from sale of quoted shares and treasury bonds	9	(156,952)	(36,332)
Unrealized gain from investments of FVPL	9	11,089	(8,735)
Dividend from investing securities	9	(50,563)	(32,580)
Share of (profit)/Loss of associate investments	14	(2,504)	36,654
(Profit)/loss on sale of Property, Plant and Equipment	9	(29,844)	1,600
Depreciation of Property, Plant and Equipment	12	75,975	81,337
Depreciation of Investment Property	12	1,665	1,665
Depreciation of ROU assets	12	49,977	33,694
Amortization of leasehold property	12	468	468
Amortization of intangible assets	12	28,674	19,561
Provision for bad and doubtful debts	10	147,674	42,134
Retirement benefit provision	38.1	32,267	53,778
Retirement benefit paid	38.1	(16,249)	(25,270)
		1,560,598	995,475
Cash and cash equivalents at the end of the period (Note B)			
Cash in hand	20	207,967	173,337
Balances with bank	20	369,395	184,758
Money market balances	20	103,768	1,558,810
Bank Overdrafts		(395,159)	(86,451)
		285,971	1,830,454

Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 210 to 291 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 2022 was 1,210 (1,110 as at 31st March 2021).

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 2022 (including comparatives) were approved and authorized for issue by the Board of Directors on 26 May 2022.

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 291).

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 FVPL	Fair value	22
Financial investments at FVOCI	Fair value	22
Land and buildings	Stated under revaluation model	31
Defined benefit obligations	Liability for defined benefit obligations is recognized as the present value of the defined benefit obligation.	38
Lease liability	Lease liability is recognized as the present value of future operating lease rentals.	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.

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.

Notes to the Financial Statements

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 2022. The key assumptions used to determine the fair value of the land and buildings are provided in the Note 31.4 to the financial statements.

2.11.9 Provisions for liabilities, commitments and contingencies

The company receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due processes in respective legal jurisdictions.

3. Significant Accounting Policies – Recognition of Assets and Liabilities

Significant accounting policies

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

3.1 Financial instruments – Initial recognition, classification and subsequent measurement

3.1.1 Date of recognition

All financial assets and liabilities except "regular way trades" are initially recognized on the trade date, i.e., the date that the company becomes a party to the contractual provisions of the instrument. "Regular way trades", means purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Those trades are initially recognized on the settlement date.

3.1.2 Initial measurement of financial instruments

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

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

3.1.2.1 Day 1' Profit or Loss

When the transactions price differs from the fair value of other observable current market transactions in the same instruments or based on a valuation technique shows variables include only data from observable markets, the company immediately recognizes the difference between the transaction price and fair value (a 'Day1' profit or loss) in 'interest income and personnel

expenses'. In cases where fair value is determined using data, which is not observable, or when the instrument is recognized, The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortized using "Effective Interest Rates" (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.2 Financial Instruments

(i) Classification of Financial Instruments

The Company classifies its Financial Assets into the following measurement categories:

- ⦿ Measured at fair value (either through Other Comprehensive Income, or through Profit or Loss); and
- ⦿ Measured at amortized cost.

The classification depends on the Company's business model for managing Financial Assets and the contractual terms of the Financial Assets' cash flows.

The Company classifies its Financial Liabilities at amortized cost unless it has designated liabilities at fair value through Profit or Loss or is required to measure liabilities at fair value through Profit or Loss such as Derivative Liabilities.

(ii) Financial Assets measured at amortized cost

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

- ⦿ Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- ⦿ Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These instruments are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost. The measurement of credit impairment is based on the three-stage Expected Credit Loss model described below in Note (V) Impairment of Financial Assets.

(iii) Financial assets measured at fair value through Other Comprehensive Income

Equity Instruments

Investment in equity instruments that are neither Trading Financial Assets recognized through Profit or Loss, nor contingent consideration recognized by the Company in a business combination to which SLFRS 3 'Business Combination' applies, are measured at fair value through Other Comprehensive Income, where an irrevocable election has been made by management. For portfolios where management does not consider an irrevocable election of adopting fair value through other Comprehensive Income, by default such investments shall be measured at fair value through Profit and Loss. Amounts presented in other Comprehensive Income are not subsequently transferred to Profit or Loss. Dividends on such investments are recognized in Profit or Loss.

Debt Instruments

Investments in debts instruments including Government securities are measured at fair value through Other Comprehensive Income.

Amounts presented in Other Comprehensive Income are not subsequently transferred to Profit or Loss. Interest on such investments is recognized in Profit or Loss.

(iv) Fair Value through Profit or Loss

Fair Value through Profit or Loss comprise:

- ⦿ Financial Investments - For Trading.
- ⦿ Instruments with contractual terms that do not represent solely payments of principal and 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.

(v) Impairment of Financial Assets

The Company applies a three-stage approach to measuring Expected Credit Losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

- ⦿ Instruments measured at amortized cost and
- ⦿ Fair value through Other Comprehensive Income.

ECL is not recognized on equity instruments.

Financial Assets migrate through the following three stages based on the change in credit risk since initial recognition:

Notes to the Financial Statements

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized.

Company determines 12-month ECL from customers who are not significantly credit deteriorated (i.e., 0 to 30 days past due)

Stage 2: Lifetime ECL – not Credit Impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e., reflecting the remaining lifetime of the Financial Asset) is recognized.

In being consistent with the policies of the Company, significant deterioration is measured through the rebuttable presumption of more than 30 days and less than or equal to 90 days past due in line with the requirements of the standard.

Stage 3: Lifetime ECL – Credit Impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized, and Financing Income is calculated by applying the Effective Rate to the amortized cost (net of provision) rather than the gross carrying amount.

In being consistent with the policies of the Company, credit impaired stage is measured through the rebuttable presumption of more than 90 days past due in line with the requirements of the standard.

Determining the stage for Impairment

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without

undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment loss reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Company's policy criteria, or which are less than 30 days past due, are considered to have a low credit risk.

The provision for impairment loss for these Financial Assets is based on a 12-months ECL. When an asset is 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.

ECLs are recognized using a provision for impairment loss account in Statement of Profit and Loss.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

PD: The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of capital and financing income, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued financing income from missed payments.

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including the realization of any collateral.

(vi) Recognition of Financial Instruments

A Financial Asset or Financial Liability is recognized in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument, which is generally on trade date. Loans and Receivables are recognized when cash is advanced (or settled) to the borrowers.

Financial Assets are recognized initially at fair value plus directly attributable transaction costs.

(vii) Offsetting

Financial Assets and Liabilities are offset, and the net amount is presented in the Balance Sheet when the Company has a legal right to offset the amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously. Refer to Note on 54 Financial risk management - Offsetting of Financial Assets and Liabilities.

(viii) Designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net gain or loss on financial assets and liabilities designated at fair value through profit or losses. Interest earned is accrued in 'interest income', using the EIR, while dividend income is recorded in 'other operating income' when the right to receive the payment has been established.

The company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

3.2.1 Loans and receivables

Loans and receivables include, loans and receivables, finance leases receivables, hire purchase receivables and placements with the Banks.

Details of loans and receivables are given in following notes to the financial statements.

Items	Note No.
Loans and receivables	23
Finance leases receivables	24
Hire purchase receivables	25
Placement with Banks	21

3.2.2 Cash and cash equivalents

Details of cash and cash equivalents are given in the note 20 to the financial statements.

3.2.3 Classification and subsequent measurement of financial liabilities

At inception a financial liability is classified into one of the following categories.

- ⦿ At fair value through profit or loss
 - Held for trading; or
 - Designated at fair value through profit or loss.
- ⦿ At amortized cost

The subsequent measurement of financial liabilities depends on their classification.

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.

Notes to the Financial Statements

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the company's continuing involvement in the asset. In that case, the company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

3.2.7.2 Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the statement of comprehensive income.

3.2.8 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in the note 19 to the financial statements.

3.2.9 Identification and measurement of impairment of financial assets

The company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial

recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers are experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In addition, for an investment in an equity security a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment.

3.2.9.1 Impairment of financial assets carried at amortized cost

The company recognizes the changes in the impairment provisions for loans and receivables which are assessed as per the SLFRS 9 - "Financial Instruments". The methodology adopted by the company is explained below:

Individual assessment of impairment

For individual assessment of impairment for financial assets carried at amortized cost (such as loans and advances to customers, finance leases and hire purchase receivable), the company first assesses individually, whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognized in statement of comprehensive income. Interest income continues to be accrued and recorded in 'interest income' on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. The calculation of the present value of the estimated future cash flows of collateralized financial asset, reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated impairment provision are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the provision account. If a future write-off is later recovered, the recovery is credited to 'other income'.

Collective Assessment of Impairment

If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the company's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment, are estimated on the basis

of historical loss experience for assets with credit risk characteristics similar to those in the company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from year-to-year such as changes in;

- Growth in Gross Domestic Production (GDP)
- Interest rates
- Inflation rates
- Changes in unemployment rate
- Property prices
- Commodity prices
- Payment status
- Changes in laws and regulations
- Recent lending portfolio growth and product mix

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 recognized 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 note 11 to the financial statements.

4. Significant Accounting Policies – Recognition of Income and Expenses

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

4.1 Income tax expenses

Details of income tax expense are given in 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 2022.

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.

SLFRS 17 - Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace IFRS 4 Insurance Contracts (SLFRS 4). SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

SLFRS 17 is effective for annual reporting periods beginning on or after 01 January 2023.

The Company does not have a material impact from the above standard.

Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets : Onerous Contracts— Costs of Fulfilling a Contract

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets (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 1 January 2022. Earlier application is permitted.

Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark

Reform Phase 1 and 2 BOR reform Phase 1

In 15 January 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). However, the Company does not have a material impact from the above.

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

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 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.

SLFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 9 Financial Instruments (SLFRS 9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender,

including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

Amendments to SLFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021

On 4 December 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued Covid-19-Related Rent Concessions - amendment to SLFRS 16 Leases. 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 the 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 was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, in 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

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.

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Interest income (Note 7.1)	6,759,925	6,273,624
Fee and commission income (Note 8)	67,496	74,378
Other operating income (Note 9)	300,285	148,630
Total	7,127,706	6,496,631

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

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Income from finance lease	3,578,669	2,859,556
Income from hire purchase	87,915	211,916
Income from other loans and receivables	2,878,637	2,989,790
Income from treasury bills and bonds	106,856	106,510
Income from fixed deposits, unit trust and money market investments	107,848	105,852
Total	6,759,925	6,273,624

7.2 Interest expenses

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Interest on fixed deposits	1,994,943	2,255,449
Interest on savings deposits	7,490	7,961
Interest on commercial papers	-	8,649
Interest on bank overdraft	22,181	10,219
Interest on bank and securitized borrowings	525,810	909,297
Interest on lease liability	35,796	28,097
Total	2,586,220	3,219,672
Net interest income	4,173,706	3,053,953

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.

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Gross Commission Income	67,496	74,378
	67,496	74,378

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 gains or losses are accounted for through Other Comprehensive Income, in the period in which the sale occurs.

Recovery of bad and doubtful debts written off

Recovery of amounts written off as bad and doubtful debts is recognized on a cash basis.

Operating lease rental income

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

Notes to the Financial Statements

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Dividend from FVOCI - Financial Investments	50,563	32,580
Capital gain/(Loss) from FVPL - Financial Investments	156,952	36,332
Unrealized gain/(loss) from FVPL - Financial Investments	(11,089)	8,735
Rental income from Properties /Investment properties	15,895	11,331
Net gain/(loss) on disposal of Property, Plant and Equipment	29,844	(1,600)
Operating lease rental income	-	2,841
Other income	52,310	52,015
Bad debts recovered	5,809	6,396
Total	300,285	148,630

10. Impairment charges and other losses/(reversals)

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.

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Charges / (reversals) to the statement of comprehensive income on impairment		
- Loans and receivables (Note 23.4)	(192,199)	(52,652)
- Finance leases receivables (Note 24.4)	(29,942)	72,162
- Hire purchase receivables (Note 25.4)	10,593	(37,376)
- Other financial assets (Note 26.1)	63,873	60,000
Total	(147,674)	42,134

10.1 Analysis of Impairment Charges and Other Losses

	2022				2021			
	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	(6,507)	16,198	(201,890)	(192,199)	(16,613)	63,217	(99,256)	(52,652)
Finance leases receivables	29,741	82,240	(141,922)	(29,942)	(23,592)	163,907	(68,153)	72,162
Hire purchase receivables	(780)	(919)	12,292	10,593	(4,575)	(76)	(32,726)	(37,376)
Other financial assets	3,873	-	60,000	63,873	-	-	60,000	60,000
Total	26,327	97,519	(271,520)	(147,674)	(44,780)	227,048	(140,135)	42,134

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'.

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Salaries and bonus	1,164,402	808,529
Employer's contribution to EPF	98,674	86,462
Employer's contribution to ETF	24,089	20,747
Defined benefit plan (Note 38)	32,267	53,778
Other allowances and staff related expenses	27,106	19,306
Total	1,346,538	988,823

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

Notes to the Financial Statements

The depreciation rates are determined separately for each significant part of an item of Property, Plant and Equipment and commence to depreciate when it is available-for-use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is derecognized. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

All classes of Property, Plant & Equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in the note 31 to the financial statements.

Depreciation of investment property

Investment property includes land and buildings. Depreciation on building are recognized on a straight line basis over the estimated useful life of 40-75 years.

Amortization of intangible assets

Intangible assets are amortized using the straight line method to write down the cost over its estimated useful economic lives as given below:

Class of assets	Depreciation % per annum	Estimated useful life
Computer software	20 - 50	2 - 5 Years

The unamortized balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognized as expenses in the Statement of Comprehensive Income to the extent that they are no longer probable of being recovered from the expected future benefits.

The reconciliation of carrying amounts and accumulated amortization and impairment at the beginning and end of the year are given in the note 33 to the financial statements.

Amortization of leasehold property

Leasehold property includes a land on 99 years lease which is amortized over the lease period using the straight line method.

For the year ended 31st March	2022 Rs. '000	2021 Rs. '000
Depreciation of Property, Plant & Equipment (Note 31)	75,975	81,337
Depreciation of Investment Property (Note 30)	1,665	1,665
Depreciation of ROU Assets (Note 31.15)	49,977	33,694
Amortization of Leasehold Property (Note 32)	468	468
Amortization of Intangible Assets (Note 33)	28,674	19,561
Total	156,759	136,725

The company has reviewed the residual value and the useful lives of the assets as at 31st March, 2022 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.

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Directors' emoluments (Note 13.1)	79,304	79,935
Auditors' remuneration	1,790	1,694
Professional and legal expenses	10,246	7,293
Advertising and business promotion expenses	167,068	155,479
Insurance premium	48,481	47,482
Donations	41	417
Office and building maintenance	57,899	33,903
Computer equipment maintenance	41,004	20,096
Others	820,032	610,403
Total	1,225,866	956,702

13.1 Directors' emoluments

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

14. Share of associates company's profit/(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.

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Nuwara Eliya Hotels Co. PLC share of Profit/(Loss) after tax (Note 29.1)	2,504	(36,654)
Total	2,504	(36,654)

15. Income tax expenses and tax on financial service

GRI 207-01, 207-02, 207-03, 207-04

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.

Notes to the Financial Statements

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Income tax expenses on profit for the year (Note 15.1)	649,523	249,308
(Over)/ under provision in respect of previous year	15,763	(26,442)
Deferred tax (reversal)/ charged (Note 37)	(207,915)	13,947
Deferred tax impact due to the change of tax rate (reversal)/ charged (Note 37)	-	(23,454)
Total tax expense for the year	457,370	213,358

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.

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Accounting Profit before income tax	1,466,417	864,155
Income tax expense on statutory rates	351,940	207,397
Add: Tax effect on non-deductible expenses	229,091	349,860
Less: Tax effect on deductible expenses	61,412	(301,694)
Tax effect on exempt income/profit	-	(10,816)
Profit and Income tax @ 14%	7,079	4,561
	649,523	249,308
Effective tax rate (including deferred tax)	30.11%	30.46%
Accounting profit before tax on financial services	1,959,996	1,152,577
Effective tax rate (excluding tax on financial services)	23.34%	18.51%

Current year income tax expense has been recorded for on the taxable income at the rate of 24%. (2021 - 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 charged on financial services

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Value Added Tax on Financial Services	493,579	288,422

First nine months of the financial year 2021/22, VAT on Financial Services has been provided at 15% on value addition on financial services and last three months of the financial year 2021/22 has been provided at 18% on value addition on financial services.

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 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).

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Amount used as the numerator		
Net profit after tax attributable to equity holders of the company	1,011,550	614,143
Net profit after tax attributable to equity holders of the company for basic and diluted earnings	1,011,550	614,143

	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.)	336.51	204.31
Diluted earnings per share (Rs.)	336.51	204.31

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	2022			2021		
	Gross Dividend Rs.'000	Dividend Tax Rs.'000	Net Dividend Rs.'000	Gross Dividend Rs.'000	Dividend Tax Rs.'000	Net Dividend Rs.'000
Interim dividend						
Out of dividend received - free of tax	78,973	-	78,973	-	-	-
Out of normal profits	266,717	-	266,717	-	-	-
Total dividend	345,690	-	345,690	-	-	-
Dividend per ordinary share (Rs.)	115	-	115	-	-	-

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.

18.1 Analysis of financial instrument by measurement basis as at 31st March 2022

	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	681,130	-	-	681,130
Placement with banks at Amortized cost	997,771	-	-	997,771
Financial investments - at FVOCI (quoted)	-	-	4,231,466	4,231,466
Financial investments - at FVPL	-	2,924	-	2,924
Loans and receivables at Amortized Cost	16,125,123	-	-	16,125,123
Finance leases receivables at Amortized Cost	18,334,913	-	-	18,334,913
Hire purchase receivables at Amortized Cost	242,430	-	-	242,430
Other financial assets	423,726	-	-	423,726
Total financial assets	36,805,094	2,924	4,231,466	41,039,484

Notes to the Financial Statements

	At Amortized Cost Rs. '000	Total Rs. '000
Financial liabilities		
Bank overdraft	395,159	395,159
Deposits due to customers at Amortized Cost	26,349,272	26,349,272
Debt instruments issued and other borrowings at Amortized Cost	7,022,730	7,022,730
Other financial liabilities	658,957	658,957
Total financial liabilities	34,426,117	34,426,117

18.2 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 (quoted)	-	-	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

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	2022				2021			
	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)	-	-	3,535,501	3,535,501	-	-	2,941,934	2,941,934
	-	-	3,535,501	3,535,501	-	-	2,941,934	2,941,934
Financial assets								
Financial investments- (FVOCI)								
Quoted investments	1,631,989	638,168	-	2,270,157	1,770,973	601,989	-	2,372,962
Unquoted investments (note 19.3.2)	-	-	70,427	70,427	-	-	70,427	70,427
Government debt securities	-	1,890,882	-	1,890,882	-	1,765,165	-	1,765,165
Financial investments- (FVPL)								
Quoted investments	2,924	-	-	2,924	51,248	-	-	51,248
	1,634,913	2,529,050	70,427	4,234,390	1,822,221	2,367,154	70,427	4,259,802

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, 2022 & 31st March, 2021.

19.3.2 Value of unquoted shares as at 31st March, 2022 categorized under financial investments- (FVOCI) whose fair values cannot be reliably measured is stated at cost in the statement of financial position.

Notes to the Financial Statements

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 2021 and 2022.

19.4 Financial instruments not measured at fair value and fair value hierarchy

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows:

19.4.1 Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity it is assumed that carrying amount approximate their fair value. This assumption is also applied to savings accounts which doesn't have specific maturity..

19.4.2 Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rate of similar financial instruments as a significant unobservable input in measuring the fair value and accordingly none of the financial assets were categorized under Level 3 except for unquoted equity instruments.

19.4.3 Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments

A significant increase/(decrease) in the market interests rates would result in lower/(higher) fair value being disclosed.

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

As at 31st March	2022					2021				
	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	-	-	-	681,130	681,130	-	-	-	1,916,905	1,916,905
Placement with banks	-	-	-	997,771	997,771	-	-	-	77,139	77,139
Loans and receivables	-	-	16,249,476	16,249,476	16,125,123	-	-	15,721,376	15,721,376	14,867,319
Finance leases receivables	-	-	19,702,270	19,702,270	18,334,913	-	-	16,018,829	16,018,829	14,221,461
Hire purchase receivables	-	-	262,568	262,568	242,430	-	-	695,967	695,967	649,860
Other financial assets	-	-	423,726	423,726	423,726	-	-	423,949	423,949	423,949
Total financial assets	-	-	36,638,040	38,316,941	36,805,094	-	-	32,860,121	34,854,165	32,156,634
Financial liabilities										
Bank overdraft	-	-	-	395,159	395,159	-	-	-	86,451	86,451
Deposits due to customers	-	-	26,359,801	26,359,801	26,349,272	-	-	23,797,711	23,797,711	23,060,274
Debt instruments issued and other borrowings	-	-	7,376,456	7,376,456	7,022,730	-	-	6,492,234	6,492,234	6,357,692
Other financial liabilities	-	-	658,957	658,957	658,957	-	-	552,252	552,252	552,252
Total financial liabilities	-	-	34,395,214	34,790,373	34,426,117	-	-	30,842,197	30,928,648	30,056,669

19.5 Reclassification of financial assets

There have not been any reclassifications during the financial years 2020/21 and 2021/22.

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.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Cash in hand	207,967	173,337
Balances with the banks	369,395	184,758
Money market balances	103,768	1,558,810
	681,130	1,916,905

As at 31st March 2022, the company had available Rs.1,025 Million (2021-Rs.3,055 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.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Fixed deposits net of impairment provision	997,771	77,139
	997,771	77,139

22. Financial investments - at (FVOCI)

Accounting policy

Financial investments at FVOCI include equity and debt securities which include government securities and unit trust investments as at the balance sheet date. 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

As at 31st March	2022 Rs. '000	2021 Rs. '000
Government securities, quoted investments and Unit trust		
Government debt securities	1,890,882	1,765,165
Equities (Note 22.1.1)	1,631,989	1,770,973
Unit Trust Investment (Note 22.1.3)	638,168	601,989
	4,161,039	4,138,128
Unquoted investments		
Equities (Note 22.1.2)	70,427	70,427
	70,427	70,427
Total financial investments - (FVOCI)	4,231,466	4,808,555

22.1.1 Equities (quoted)

	2022			2021		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Banks						
Commercial Bank of Ceylon PLC	574	65	36	562	64	44
Sampath Bank PLC	112,104	9,916	5,134	112,104	9,916	6,031
		9,981	5,170		9,980	6,075
Capital Goods						
Aitken Spence PLC	15,000	343	1,106	15,000	343	833
John Keells Holdings PLC	1,514,307	277,644	219,575	1,514,307	277,644	224,875
Access Engineering PLC	13,121,925	293,469	196,829	15,171,925	321,643	335,300
Hayleys PLC	636,893	72,205	48,977	-	-	-
Hemas Holdings PLC	1,000,000	101,131	46,200	1,000,000	101,131	83,400
ACL Cables PLC	245,406	29,778	13,988	-	-	-
Vallibel One PLC	-	-	-	3,051,685	87,323	143,734
Royal Ceramics Lanka PLC	-	-	-	550,000	89,930	141,350
		774,569	526,674		878,014	929,491
Consumer Durables and Apparel						
Hayleys Fabric PLC	898,284	36,717	26,140	-	-	-
		36,717	26,140			
Consumer Services						
Royal Palms Beach Hotels PLC	8,576,700	124,582	139,800	8,576,700	124,582	122,647
Tangerine Beach Hotels PLC	3,899,644	26,343	171,974	3,899,644	26,343	157,546
Hayleys Leisure PLC	1,933,440	60,070	31,322	1,933,440	60,070	34,415
The Light House Hotel PLC	7,736,677	224,407	212,759	7,736,677	224,407	218,948
Hotel Sigiriya PLC	13,340	556	1,174	13,340	556	755
Palm Garden Hotels PLC	200,000	25,913	8,220	200,000	25,913	5,140
The Fortress Resorts PLC	100,000	2,844	1,250	100,000	2,844	1,120
Eden Hotel Lanka PLC	-	-	-	1,049,600	17,738	10,916
		464,713	566,499		482,451	551,487

	2022			2021		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Diversified Financials						
Singer Finance (Lanka) PLC	296,760	14,357	3,858	296,760	14,357	4,066
People's Leasing & Finance PLC	7,033,570	91,797	56,972	-	-	-
LOLC Holdings PLC	100,000	100,528	59,750	-	-	-
LOLC Finance PLC	2,000,000	56,829	28,400	-	-	-
		263,511	148,980		14,357	4,066
Food Beverage & Tobacco						
Three Acre Farms PLC	153,545	46,036	28,943	-	-	-
Renuka Foods PLC	200	4	3	-	-	-
Ceylon Grain Elevators PLC	103,669	13,740	6,324	-	-	-
		59,780	35,270			
Insurance						
HNB Assurance PLC	200,000	12,336	8,660	200,000	12,336	11,860
		12,336	8,660		12,336	11,860
Material						
Tokyo Cement Company (Lanka) PLC (Non Voting)	1,818,299	119,158	47,821	975,000	73,641	59,085
CIC Holdings PLC (Voting)	1,000,000	64,195	38,100	1,000,000	64,195	50,900
CIC Holdings PLC (Non-voting)	870,000	45,099	21,750	-	-	-
Swisstek (Ceylon) PLC	250,000	11,623	5,525	-	-	-
		240,076	113,196		137,836	109,985
Real Estate						
East West Properties PLC	50,000	2,471	365	50,000	2,471	495
		2,471	365		2,471	495
Retailing						
United Motors Lanka PLC	150,000	18,701	8,265	150,000	18,701	8,655
ODEL PLC	300,000	11,943	5,730	300,000	11,943	5,610
		30,644	13,995		30,644	14,265
Telecommunication services						
Dialog Axiata PLC	9,300,000	102,123	93,000	9,300,000	102,123	120,900
		102,123	93,000		102,123	120,900
Transportation						
ExpoLanka Holdings PLC	452,661	163,766	94,040	500,000	31,347	22,350
		163,766	94,040		31,347	22,350
Total		2,160,687	1,631,989		1,701,559	1,770,973

22.1.2 Equities (non-quoted)

As at 31st March	2022			2021		
	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

22.1.3 Unit Trust Investment

	2022		2021	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
NDB Wealth Management Ltd	600,000	638,168	600,000	601,989
	600,000	638,168	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.

	2022			2021		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Capital Goods						
Hayleys PLC	21,868	2,568	1,682	842,890	42,513	51,248
Transportation						
ExpoLanka Holdings PLC	228	50	47	-	-	-
Food Beverage & Tobacco						
Ceylon Grain Elevators PLC	19,597	2,660	1,195	-	-	-
		5,279	2,924		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.

As at 31st March	2022 Rs. '000	2021 Rs. '000
Gross loans and receivables	19,510,741	19,254,901
Prepaid rentals	(55)	(165)
Unearned interest	(2,301,124)	(2,906,998)
Allowance for impairment (Note 23.4)	(922,641)	(1,244,547)
Interest in suspense	(161,798)	(235,871)
Net loans and receivables	16,125,123	14,867,319

23.1 Loans and receivables-within one year

As at 31st March	2022 Rs. '000	2021 Rs. '000
Gross loans and receivables	12,989,022	11,542,643
Prepaid rentals	(43)	(78)
Unearned interest	(2,600,581)	(1,664,322)
Loans and receivables	10,388,397	9,878,243

23.2 Loans and receivables-from one to five years

As at 31st March	2022 Rs. '000	2021 Rs. '000
Gross loans and receivables	6,521,720	7,712,258
Prepaid rentals	(12)	(87)
Unearned interest	299,458	(1,242,676)
Loans and receivables	6,821,166	6,469,495

23.3 Loans and receivables-after five years

As at 31st March	2022 Rs. '000	2021 Rs. '000
Gross loans and receivables	-	-
Unearned interest	-	-
Loans and receivables	-	-

23.4 Movement in allowance for impairment

As at 31st March	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	1,244,547	1,303,055
Bad debts written off during the year	(129,707)	(5,855)
Charge/(reversal) to the statement of comprehensive income	(192,198)	(52,652)
Balance at the end of the year	922,641	1,244,547

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

23.4.1 Individual impairment

As at 31st March	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	766,662	753,436
Bad debt written off during the year	(129,707)	(5,855)
Charge/(reversal) to the statement of comprehensive income	(85,240)	19,081
Balance at the end of the year	551,715	766,662

Notes to the Financial Statements

23.4.2 Collective impairment

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	477,885	549,618
Bad debt written off during the year	-	-
Charge/(reversal) to the statement of comprehensive income	(106,959)	(71,733)
Balance at the end of the year	370,927	477,885

23.5 Sector wise analysis of loans and receivables

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Agriculture	1,189,568	1,026,030
Industrial	1,577,877	1,455,838
Tourism	798,541	549,080
Trading	4,852,157	4,357,653
Construction	879,512	528,092
Services	9,708,081	9,708,252
Others	505,005	1,629,956
	19,510,741	19,254,901

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.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Gross finance leases receivables	25,154,879	19,565,215
Prepaid rentals	(91)	(435)
Unearned interest	(5,952,478)	(4,472,099)
Allowance for impairment (note 24.4)	(810,733)	(853,538)
Interest in suspense	(56,664)	(17,682)
Net finance leases receivables	18,334,913	14,221,461

24.1 Finance leases receivable-within one year

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Gross finance leases receivables	9,754,265	7,190,664
Prepaid rentals	(15)	(130)
Unearned interest	(2,901,428)	(2,278,315)
Finance leases receivables	6,852,822	4,912,219

24.2 Finance leases receivable-from one to five years

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Gross finance leases receivables	15,400,614	12,374,551
Prepaid rentals	(76)	(304)
Unearned interest	(3,051,050)	(2,193,784)
Finance leases receivables	12,349,489	10,180,463

24.3 Finance leases receivable-after five years

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Gross finance leases receivables	-	-
Unearned interest	-	-
Finance leases receivables	-	-

24.4 Movement in allowance for impairment

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning the year	853,538	798,515
Bad debt written off during the year	(12,863)	(17,139)
Charge/(reversal) to the statement of comprehensive income	(29,942)	72,162
Balance at the end the year	810,733	853,538

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

24.4.1 Movement in individual impairment

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	251,459	223,704
Bad debt written off during the year	(12,863)	(17,139)
Charge/(reversal) to the statement of comprehensive income	20,209	44,894
Balance at the end of the year	258,804	251,459

24.4.2 Movement in collective impairment

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	602,079	574,811
Bad debt written off during the year	-	-
Charge/(reversal) to the statement of comprehensive income	(50,151)	27,268
Balance at the end of the year	551,928	602,079

24.5 Sector wise analysis of finance leases receivables

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Agriculture	2,725,917	1,982,858
Industrial	2,082,281	1,557,595
Tourism	336,303	347,037
Trading	7,041,944	4,985,058
Construction	469,183	342,728
Services	11,350,979	9,052,496
Others	1,148,271	1,297,444
	25,154,879	19,565,215

Notes to the Financial Statements

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".

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Gross hire purchases receivables	494,327	982,057
Prepaid rentals	-	-
Unearned interest	(4,409)	(74,319)
Allowance for impairment (note 25.4)	(228,245)	(222,399)
Interest in suspense	(19,243)	(35,479)
Net hire purchases receivables	242,430	649,860

25.1 Hire purchases receivable-within one year

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Gross hire purchases receivables	361,007	731,220
Prepaid rentals	-	-
Unearned interest	(2,575)	(64,647)
Hire purchases receivables	358,432	666,573

25.2 Hire purchases receivable-from one to five years

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Gross hire purchases receivables	133,320	250,837
Prepaid rentals	-	-
Unearned interest	(1,834)	(9,673)
Hire purchases receivables	131,486	241,165

25.3 Hire purchases receivable-after five years

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Gross hire purchases receivables	-	-
Unearned interest	-	-
Hire purchases receivables	-	-

25.4 Movement in allowance for impairment

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	222,399	269,607
Bad debt written off during the year	(4,747)	(9,833)
Charge/(reversal) to the statement of comprehensive income	10,593	(37,376)
Balance at the end the year	228,245	222,399

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

25.4.1 Movement in individual impairment

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	134,564	136,967
Bad debt written off during the year	(4,747)	(9,833)
Charge/(reversal) to the statement of comprehensive income	(6,353)	7,429
Balance at the end of the year	123,464	134,564

25.4.2 Movement in collective impairment

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	87,835	132,639
Bad debt written off during the year	-	-
Charge/(reversal) to the statement of comprehensive income	16,947	(44,804)
Balance at the end of the year	104,781	87,835

25.5 Sector wise analysis of hire purchases receivables

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Agriculture	22,262	48,152
Industrial	42,517	87,885
Tourism	2,931	22,795
Trading	182,060	279,897
Construction	4,172	11,721
Services	206,840	470,417
Others	33,544	61,190
	494,327	982,057

Notes to the Financial Statements

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.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Insurance receivables	217,123	159,072
Investments (Note 26.1)	129,307	189,307
Other receivables	77,296	75,571
	423,726	423,949

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. 508 Million as at 31st March 2022 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.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Spare parts	7,289	3,606
Lubricant and others	2,790	1,951
Stationary	3,696	3,143
Vehicle Stock	22,225	-
	36,000	8,700

28. Other assets

Accounting policy

Other assets mainly comprises deposits, prepayments other advance payments, VAT receivable and sundry receivables carried at historical cost.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Other receivables	34,419	22,467
Deposits and prepayments	132,308	203,059
	166,727	225,526

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 Nuwara Eliya Hotels Company PLC which is a quoted public company and involved in the business of hoteliering. 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 24% .

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Investment in associates - quoted (29.1)	1,334,821	1,234,582
Total	1,334,821	1,234,582

29.1 Investment in associates - quoted

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Nuwara Eliya Hotels Company PLC		
Carrying value at the beginning of the year	1,234,582	1,260,144
Increase/(Decrease) in Investment	-	-
Add: Share of associates Profit/(Loss) after tax (29.1.1)	2,504	(36,654)
Less : Dividend received from associates	-	-
Current year retained profit/(Loss) net of tax	2,504	(36,654)
Share of Other Comprehensive Income/(Loss)	97,735	11,092
Carrying value at the end of the year	1,334,821	1,234,582

Notes to the Financial Statements

Summary of associate's statement of financial position

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Current assets	1,566,962	1,429,170
Non-current assets	4,191,431	3,863,049
Current liabilities	(167,049)	(132,292)
Non-current liabilities	(481,004)	(433,346)
Net assets	5,110,339	4,726,580
Holding percentage of the company	26.12%	26.12%
Share of net assets of the company	1,334,821	1,234,582
Market value per share (Rs.)	1,100.00	1,025.00
Total market value of the investment (Rs. '000)	628,175	585,345

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

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Revenue	649,158	254,955
Profit/(Loss) after tax	9,585	(140,329)
Share of associate's Profit/(Loss) after tax	2,504	(36,654)

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.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Cost		
Balance at the beginning of the year	249,034	256,154
Additions during the year	-	-
Disposals during the year	(15,000)	(7,120)
Balance at the end of the year	234,034	249,034
Less : Accumulated Depreciation	-	-
Balance at the beginning of the year	11,653	9,988
Charge for the year	1,665	1,665
Disposals during the year	-	-
Balance at the end of the year	13,318	11,653
Carrying value	220,717	237,381

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:

<i>For the year ended 31st March</i>	2022 Rs. '000	2021 Rs. '000
Rental income derived from investment properties	6,595	2,031
Direct operating expenses incurred generating rental income	(993)	(957)
Profit arising from investment properties	5,602	1,075

The company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

30.1 Information on the investment property of the company

	Extent (Perches)	Building (Square Feet)	No of Buildings	2022		2021	
				Cost Rs. '000	Fair Value Rs. '000	Cost Rs. '000	Fair Value Rs. '000
As at 31st March							
Location							
Nilaweli							
Nilaweli Village, Pulmoddai Road, Trincomalee.	438		-	59,000	87,600	59,000	65,700
Kurunegala							
Sapirimini Jeewa Pohora, Thatthiripitiya, Welipennegahamulla.	80		-	2,500	4,000	2,500	3,000
Peliyagoda							
151/3A Negombo Road, Peliyagoda.	5		-	5,000	10,000	5,000	5,500
Kollupitiya							
No 75A-23/2, Kollupitiya Road, Colombo 03.	-	2,636	1	83,234	126,900	83,234	89,900
Gampaha							
No 735/1, Jonikkuwatte Road, Kohalwila.	19.7		-	12,300	31,200	12,300	12,300
Gampaha							
No 14/5 Athupathdeniya, Loluwegoda.	1,280		-	-	-	15,000	15,000
Godagama							
Lenagalawatta, Habarakada.	14.8		-	2,000	2,100	2,000	2,000
Nugegoda							
No 19, Sigiri Mawatha, Kohuwala, Nugegoda.	66		-	60,000	75,000	60,000	60,000
Kandana							
No 72, Theresa Mawatha, Kandana.	9.7		-	10,000	12,125	10,000	10,000
Total				234,034	348,925	249,034	263,400

The fair value of the investment properties as at 31st March, 2022 was based on market valuations carried out in the year 2021/2022 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 2022 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 all of freehold land and building as at 31st March, 2022.

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.

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.

31.1 Carrying value of Property, Plant and Equipment

	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	
2022- Current year										
Cost/valuation										
Balance as at 01.04.2021	2,082,266	859,667	379,737	43,918	179,563	92,756	88,081	9,500	-	3,735,489
Additions during the year	348,852	-	103,479	4,543	31,768	18,314	11,951	-	-	518,909
Disposals during the year	(26,820)	-	(67,599)	-	(2,898)	(935)	-	-	-	(98,252)
Derecognition	-	-	-	-	-	-	-	-	-	-
Surplus on revaluation of property	152,277	150,312	-	-	-	-	-	-	-	302,589
Transfers/ adjustments	-	(31,054)	-	-	-	-	-	-	-	(31,054)
Cost/ valuation as at 31.03.2022	2,556,576	978,925	415,617	48,461	208,433	110,135	100,033	9,500	-	4,427,681
Accumulated depreciation										
Balance as at 01.04.2021	-	13,861	144,572	35,135	152,703	47,792	53,511	8,050	-	455,624
Charge for the year	-	17,193	22,833	4,151	15,407	8,696	7,695	-	-	75,975
Disposals during the year	-	-	(21,700)	-	(2,806)	(647)	-	-	-	(25,153)
Derecognition	-	-	-	-	-	-	-	-	-	-
Transfers/ adjustments	-	(31,054)	-	-	-	-	-	-	-	(31,054)
Accumulated depreciation as at 31.03.2022	-	-	145,705	39,287	165,304	55,840	61,206	8,050	-	475,392
Net book value as at 31.03.2022	2,556,576	978,925	269,913	9,174	43,129	54,295	38,827	1,450	-	3,952,290

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	
2021 - previous 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 depreciation as 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

31.2 Revaluation of Property, Plant and Equipment

The land and buildings were revalued during the financial year 2021/2022 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, 2022. Such assets were valued on an open market value for an existing use basis. The surplus arising from the revaluation was transferred to the revaluation reserve.

31.3 Information on the Freehold Land and Building of the Company

As required by rule No. 76 (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 31.03.2022 Rs. '000	As a % of Total NBV As At 31.03.2022	Net Book Value As At 31.03.2021 Rs. '000	As a % of Total NBV As At 31.03.2021
Kollupitiya - No. 236, Galle Road, Colombo 03	32.56	46,777	1	467,770	781,440	1,249,210	35.33	1,162,750	39.71
Maharagama - No. 176, Lake Road, Maharagama	168.74	10,919	2	34,345	548,405	582,750	16.48	533,265	18.21
Maharagama - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama	104.00	17,359	3	49,200	249,600	298,800	8.45	273,900	9.35
Kohuwala - No. 28, Sunethra Devi Road, Kohuwala	88.00	27,543	2	103,791	404,463	508,253	14.38	473,200	16.16
Kohuwala - No. 30/8, Sunethra Devi Road, Kohuwala	17.80	1,700	1	7,650	47,150	54,800	1.55	51,300	1.75
Borella - No. 219, Dr. N.M. Perera Mw, Colombo 08	9.46	6,264	1	59,424	107,076	166,500	4.71	132,048	4.51
Negombo - No. 36, Colombo Road, Negombo	13.87	3,961	1	23,757	38,143	61,900	1.75	66,713	2.28
Kollupitiya - No. 75-17/4, Kollupitiya Road, Colombo 03	-	1,210	1	46,000	-	46,000	1.30	37,318	1.27
Kollupitiya - No. 89-28/4 & 89-28/5, Kollupitiya Road, Colombo 03	-	3,583	1	141,500	-	141,500	4.00	110,403	3.77
Negombo - 814/24 Colombo Road, Negombo.	17.20	4,832	1	45,488	17,200	62,688	1.77	68,645	2.34
Negombo - No. 36/1, Colombo Road, Negombo	16.22	-	-	-	24,300	24,300	0.69	18,532	0.63
Kollupitiya - 171 & 173, Kollupitiya Road, Colombo 03	16.94	-	-	-	338,800	338,800	9.58	-	0.00
Total	-	-	-	978,925	2,556,575	3,535,501	100	2,928,073	100

31.4 Revaluation

The Freehold land and building of the company were revalued by a professionally qualified independent valuer (Mr. P.P.T Mohideen) as at 31st March, 2022.

Notes to the Financial Statements

31.4.1 Effective Date of Valuation as at 31st March 2022

Location	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for unobservable inputs	NBV Before Revaluation As At 31 March, 2022		Revalued Amount of		Revaluation Gain/ (Loss) Recognized on	
			Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
Kollupitiya - No. 236, Galle Road, Colombo 03.	Open Market Basis		765,090	389,707	781,440	467,770	16,350	78,063
	Price per perch of land	24,000,000.00						
	Price per square foot for building	10,000.00						
Maharagama - No. 176, Lake Road, Maharagama.	Open Market Basis		506,220	26,504	548,405	34,345	42,185	7,841
	Price per perch of land	3,250,000.00						
	Price per square foot for building	3,145.43						
Maharagama - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama.	Open Market Basis		234,000	39,102	249,600	49,200	15,600	10,098
	Price per perch of land	2,400,000.00						
	Price per square foot for building	2,834.26						
Kohuwala - No. 28, Sunethra Devi Road, Kohuwala.	Open Market Basis		356,355	88,225	404,463	103,791	48,108	15,566
	Price per perch of land	4,750,000.00						
	Price per square foot for building	3,768.32						
Kohuwala - No. 30/8, Sunethra Devi Road, Kohuwala.	Open Market Basis		44,500	6,664	47,150	7,650	2,650	986
	Price per perch of land	2,650,000.00						
	Price per square foot for building	4,500.00						
Borella - No. 219, Dr. N.M. Perera Mw, Colombo 08	Open Market Basis		85,800	45,264	107,076	59,424	21,276	14,160
	Price per perch of land	12,500,000.00						
	Price per square foot for building	9,486.57						
Negombo - No. 36, Colombo Road, Negombo	Open Market Basis		31,200	34,773	38,143	23,757	6,943	(11,015)
	Price per perch of land	2,750,000.00						
	Price per square foot for building	5,997.78						
Kollupitiya - No. 75-17/4, Kollupitiya Road, Colombo 03	Investment Method		-	36,524	-	46,000	-	9,476
	Gross Annual Rentals	2,610,000.00						
	Years purchase (Present value of 1 unit per period)	23.5 Y.P						

Location	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for unobservable inputs	NBV Before Revaluation As At 31 March, 2022		Revalued Amount of		Revaluation Gain/ (Loss) Recognized on	
			Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
Kollupitiya - No. 89-28/4 & 89-28/5, Kollupitiya Road, Colombo 03	Investment Method		-	108,054	-	141,500	-	33,446
	Gross Annual Rentals	8,040,000.00						
	Years purchase (Present value of 1 unit per period)	23.5 Y.P						
Negombo - No. 36/1, Colombo Road, Negombo	Open Market Basis		18,532	-	24,300	-	5,768	-
	Price per perch of land	1,500,000.00						
	Price per square foot for building	-						
Negombo - 814/24, Colombo Road, Negombo	Open Market Basis		13,750	53,797	17,200	45,488	3,450	(8,309)
	Price per perch of land	1,000,000.00						
	Price per square foot for building	9,413.91						
Kollupitiya - 171 & 173, Kollupitiya Road, Colombo 03.	Open Market Basis		348,852	-	338,800	-	(10,052)	-
	Price per perch of land	20,000,000.00						
	Price per square foot for building	-						
Total			2,404,299	828,613	2,556,576	978,925	152,277	150,312

Notes to the Financial Statements

31.4.2 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	
			Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000
Kollupitiya - No. 236, Galle Road, Colombo 03.	Open Market Basis		709,500	357,642	765,090	397,660	55,590	40,018
	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		464,000	33,617	506,220	27,045	42,220	(6,572)
	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		208,000	35,868	234,000	39,900	26,000	4,032
	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		340,600	85,970	383,175	90,025	42,575	4,055
	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		40,000	5,880	44,500	6,800	4,500	920
	Price per perch of land	2,500,000.00						
	Price per square foot for building	4,000.00						
Total			1,762,100	518,978	1,932,985	561,430	170,885	42,452

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	2022			2021		
	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	104,810	150,945	255,755	99,717	156,038
	416,276	104,810	311,466	416,276	99,717	316,559

31.6 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value (excluding capital working progress) of Rs.518,908,847/- (2021 - Rs.107,823,113/-).

Cash payments amounting to Rs.518,908,847/- (2021 - Rs.107,823,113/-) 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 2022 was Rs. 1,450,086/- (2021 - Rs1,450,086/-), on which the accumulated depreciation as at 31st March 2022 was Rs. 8,049,914/- (2021 - Rs. 8,049,914/-).

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.339,246,335/- (2021- Rs.261,167,580/-).

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.

Notes to the Financial Statements

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, 2022.

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.

31.15.a Movement in right of use assets

	2022 Rs. '000	2021 Rs. '000
Cost		
Balance at the beginning of the year	345,231	359,871
Modifications	16,453	(19,625)
Additions/renewal of operating leases during the year	46,062	17,168
Disposals during the year	(22,192)	(12,183)
Balance at the end of the year	385,555	345,231
Accumulated amortization and impairment		
Balance at the beginning of the year	164,874	136,616
Amortization for the year	49,977	33,694
Disposals during the year	(10,795)	(5,436)
Impairment	-	-
Balance at the end of the year	204,056	164,874
Net book value as at 31st March	181,499	180,357

32. Leasehold property

	2022 Rs. '000	2021 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	6,084	5,615
Amortization for the year	468	468
Disposals	-	-
Impairment	-	-
At the end of the year	6,552	6,084
Net book value as at 31st March	39,802	40,270

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.

Notes to the Financial Statements

	2022 Rs. '000	2021 Rs. '000
Cost		
At the beginning of the year	136,269	115,396
Additions	9,610	20,873
Disposal	-	-
At the end of the year	145,879	136,269
Accumulated amortization and impairment		
At the beginning of the year	88,970	69,409
Amortisation for the year	28,674	19,561
Disposal	-	-
At the end of the year	117,644	88,970
Net book value as at 31st March	28,235	47,299

33.1 Net book value of Intangible assets reported as of 31st March 2022 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 amortized assets amounting to Rs. 39,553,509/- (2021- Rs.39,854,880/-)

34. Deposits due to customers

These include fixed deposits and savings deposits. Subsequent to initial recognition fixed 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

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Fixed deposits (note 34.1)	26,089,446	22,899,003
Savings deposits	259,826	161,271
	26,349,272	23,060,274

34.1 Analysis of fixed deposits by maturity date

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
1 to 90 days	11,087,980	6,002,876
91 to 365 days	12,461,636	12,243,897
More than 365 days	2,539,830	4,652,230
	26,089,446	22,899,003

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. 32,714,837 as the premium for the above insurance scheme during the year. (2021 - Rs 28,932,285).

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.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Short term borrowings (Note 35.1)	500,000	1,500,000
Long term borrowings (Note 35.2)	6,252,436	4,631,341
Interest payable	270,293	226,351
	7,022,730	6,357,692

35.1 Short Term Borrowings

<i>As at 31 March</i>	Terms of Repayment			2022 Rs. '000	2021 Rs. '000
	Interest Rate	Period	Payment terms		
Seylan Bank PLC	10.00%	1 Year	At maturity	500,000	-
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
				500,000	1,500,000

35.2 Long Term Borrowings

<i>As at 31st March</i>	Terms of Repayment			2022 Rs. '000	2021 Rs. '000
	Interest Rate	Period	Payment terms		
Seylan Bank PLC	AWPLR+1.9	4 yrs	Fixed monthly installment	260,406	385,410
Securitized Borrowings	8.30% - 13.35%	3 Yrs	Variable Installment	2,509,970	2,093,080
Sampath Bank PLC	9.00%	4 yrs	Fixed monthly installment	500,000	687,500
Peoples Bank	AWPLR+1.5%	3 yrs	Fixed monthly installment	361,111	694,444
Nations Trust Bank	10.80%	2yrs	Fixed monthly installment	437,500	-
National Development Bank PLC	10.80%	2yrs	Fixed monthly installment	437,500	-
National Development Bank PLC	AWPLR+1.8	3 yrs	Annual installment	1,000,000	-
National Development Bank PLC	9.00%	3 yrs	Fixed monthly installment	319,450	486,112
Hatton National Bank PLC	AWPLR+1.5	2 yrs	Fixed monthly installment	-	249,994
Hatton National Bank PLC	7.50%	4 yrs	Fixed monthly installment	426,500	-
Cargills Bank Limited	AWPLR+2.75%	2 Yrs	Fixed monthly installment	-	31,250
Cargills Bank Limited	AWPLR+1.65	5 Yrs	Fixed monthly installment	-	3,551
				6,252,436	4,631,341

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

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Vendor payable	243,583	228,508
Insurance payable	172,168	191,494
Other payable	243,206	132,249
	658,957	552,252

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.

As at 31st March	2022		2021	
	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	3,094,469	742,672	2,885,124	807,835
SLFRS Adjustments	-	-	-	-
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)	(866,314)	(207,915)	58,112	13,947
Deferred tax effect on revaluation surplus on PPE	328,486	78,837	213,337	51,201
Deferred tax effect on actuarial gain	106,126	25,470	(62,104)	(14,905)
Balance at the end of the year	2,662,767	639,064	3,094,469	742,672
Deferred tax asset				
Retirement benefit obligation	272,003	65,281	322,501	77,400
Unclaimed impairment provision	440,889	105,813	(59,143)	(14,194)
Lease Liability	53,532	12,848	55,074	13,218
	766,424	183,942	318,432	76,424
Deferred tax liability				
Accelerated depreciation for tax purpose - leased assets	(311,889)	(74,853)	(589,877)	(141,570)
Accelerated depreciation for tax purpose - owned assets	(299,211)	(71,811)	(333,418)	(80,020)
Deferred tax effect on revaluation surplus	(2,818,092)	(676,342)	(2,489,606)	(597,505)
	(3,429,191)	(823,006)	(3,412,901)	(819,096)
Net temporary difference and deferred assets/(tax liability)	(2,662,767)	(639,064)	(3,094,469)	(742,672)

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

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	322,501	254,385
Income / Expenses recognized during the year (note 38.2)	(34,250)	93,387
Payments made during the year	(16,249)	(25,270)
Balance at the end of the year	272,003	322,501

38.2 Expenses recognized in the statement of comprehensive income

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Interest cost - statement of comprehensive income	27,735	25,947
Current service cost - statement of comprehensive income	22,485	27,831
Past service cost	(17,953)	-
	32,267	53,778
Actuarial (gain) / loss - other comprehensive income	(66,517)	39,609
	(34,250)	93,387

Actuarial valuation of the gratuity liability was carried out as at 31st March, 2022 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 60 years, have been assumed to retire on their respective next birthdays. (2021- 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 15.7% has been used having given weightage to the anticipated long term rate of inflation. (Previous year 8.6%).

Salary increases

A 10% p.a salary increment rate has been used in respect of the active employees. (Previous year 10%).

38.4 Sensitivity analysis

In order to show the significance of the salary escalation rate and discount rate used in the actuarial valuation as at 31st March 2022, sensitivity analysis has been carried out as follows:

Discount Rate	Salary Escalation Rate	Present Value of Defined Benefit Obligation	
		2022 Rs. '000	2021 Rs. '000
1% Increase	As the Rate Above	263,644	311,586
1% Decrease	As the Rate Above	280,899	334,322
As the Rate Above	1% Increase	280,293	332,725
As the Rate Above	1% Decrease	264,093	312,872

38.5 Maturity profile of the Defined Benefit Obligation

As at 31st March	2022 Rs. '000	2021 Rs. '000
Within the next 12 Months	58,596	68,580
Between 1 - 2 years	75,003	103,231
Between 2 - 5 years	96,400	85,819
Beyond 5 years	42,004	64,871
	272,003	322,501

Weighted Average duration of Defined Benefit Obligation as at 31st March 2022 is 3.65 years.(3.78 years in 2021).

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 10%. (2021 - 9%).

As at 31st March	2022 Rs. '000	2021 Rs. '000
Lease Liability (Note 39.1.1)	233,757	235,431

39.1. 1 Movement in Operating lease liabilities

As at 31st March	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	235,431	269,986
Modifications to Lease Liability	3,853	(6,672)
Disposals during the year	(17,251)	(6,748)
Additions/renewal operating leases during the year	46,062	17,168
Accretion of the Interest	35,791	28,097
Payment to lease creditors	(70,129)	(66,400)
Balance at the end of the year	233,757	235,431

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 2022.

Increase/(Decrease) in Incremental Borrowing Rate	2022 Rs. '000		2021 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	(4,186)	1,327	(5,092)	4,495
1bp Down	4,305	(1,341)	5,261	(4,641)

39.1.3 Contractual Maturity Analysis of Lease Liability

As at 31 March 2022	With in One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Lease Liability	2,148	231,609	-	233,757
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

40. Stated capital

As at 31st March	2022 Rs. '000	2021 Rs. '000
Value		
Ordinary shares	36,000	36,000
	36,000	36,000
As at 31st March	2022 Nos. '000	2021 Nos. '000
Number of shares in issue		
Ordinary shares (no par value)	3,006	3,006
	3,006	3,006

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.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	2,589,864	2,325,585
Increase during the year through FVOCI	400,324	224,429
Deferred tax effect	(78,837)	39,850
Balance at the end of the year	2,911,351	2,589,864

41.1 Revaluation reserve - company

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	1,997,538	1,744,351
Increase during the year due to revaluation	302,589	213,337
Transfer out realized gain on disposed revalued building	-	-
Deferred tax effect	(78,837)	39,850
Balance at the end of the year	2,221,290	1,997,538

41.2 Associate company reserve

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	592,326	581,234
Increase during the year through FVOCI	97,735	11,092
Transfer out realized gain on disposed revalued building	-	-
Deferred tax effect	-	-
Balance at the end of the year	690,061	592,326

Revaluation reserve (Company & Associates) can be utilized for dividend distribution upon realization.

42. Statutory reserve fund

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	796,400	761,400
Transfers during the year	55,000	35,000
Balance at the end of the year	851,400	796,400

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

<i>As at 31st March</i>	2022 Rs. '000	2021 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

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	2,723,183	2,016,150
Total comprehensive income		
Profit for the year	1,011,550	614,143
Other comprehensive income - Actuarial gain / (Loss)	41,047	(23,804)
Transfer to general reserve	-	-
Transfer to statutory reserve	(55,000)	(35,000)
Transfer from OCI reserve	264,456	151,694
Dividend paid	(345,690)	-
Balance at the end of the year	3,639,546	2,723,183

45. Fair value through OCI reserve

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Balance at the beginning of the year	77,693	(327,238)
Transfer to retained earning	(264,456)	(151,694)
Net gain / (losses) on remeasuring of FVOCI (note 45.1)	(363,628)	556,625
Balance at the end of the year	(550,391)	77,693

45.1 Net gain / (losses) on remeasuring of FVOCI

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Government securities unrealised gain / (losses)	(29,972)	5,091
Equity investments gain / (Losses)	(333,655)	551,535
	(363,628)	556,625

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 2022.

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, 2022 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, 2022 is Rs. 272,002,753/-. If the company had provided for gratuity on the basis of Gratuities Act No.12 of 1983, the liability would have been Rs. 327,176,273/-. Hence, there is a 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 2022(2021 - Rs 2,000,000/-)

47.2 Contingent assets

There are no contingent assets as at the date of the 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.

Notes to the Financial Statements

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 Rs. 2.349 Million (FY 2021 - Rs. 2.349 Million).

<i>For the year ended</i>	2022 Rs. '000	2021 Rs. '000
Short - term employee benefits	100,804	95,947
Post employee benefits	59,183	72,653
	159,987	168,600

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.

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Statement of financial position		
Liabilities		
Deposits	899,979	839,023
	899,979	839,023
Statements of comprehensive income		
Interest expenses	84,576	108,327
Other Expenses *	660	-
Other transactions		
Dividend paid on shareholding	178,065	-

* Rs. 307,150 has been paid by the company for a KMP for the consultation services provided by him which is not a revenue expense to the company.

49.4 Transactions with entities which are controlled by Key Management Personnel (KMPs) and their close family members (CFMs).

49.4.1 Statement of financial position

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Assets		
Insurance Commission Receivable	66,929	74,923
Other receivables	7,623	5,293
Total	74,552	80,216
Accommodation as a % of capital funds	0.78%	0.88%
Liabilities		
Deposits	2,165,946	2,089,680
Insurance premium payable	172,218	191,494
Accrued expenses	2,558	2,493
	2,340,722	2,283,667

Statements of comprehensive income

<i>For the year ended</i>	2022 Rs. '000	2021 Rs. '000
Interest income on loans and advances	-	84
Interest expenses on fixed deposits	172,377	242,084
Rent income	9,300	9,300
Insurance Commission Income	67,496	83,009
Other income	5,215	3,555
Security expenses	31,138	29,593
Other expenses	2,595	2,592
Other Transactions		
Dividend Paid on shareholdings	143,583	-

49.4.2 Transactions with Associate
Statement of financial position

<i>As at 31st March</i>	2022 Rs. '000	2021 Rs. '000
Assets		
Other assets	522	328
Liabilities		
Deposits	955,247	772,287

Statements of comprehensive income

<i>For the year ended</i>	2022 Rs. '000	2021 Rs. '000
Interest expenses on fixed deposits	67,330	91,358
Rent income	1,560	1,560
Other income	1,189	1,145
Other Expenses	237	-
Other transactions		
Dividend income	-	-

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 31.03.2022 (Rs. 000)	Securities/mortgages
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	500 Million	426,500	Mortgaged over hire purchases, leases and vehicle loan receivables for 120%
NDB	Term Loan	500 Million	319,450	Mortgaged over leases and vehicle loan receivables for 1.5 times
	Term Loan	500 Million	437,500	Mortgaged over vehicle loan receivables for 130%
	Term Loan	1 Billion	1,000,000	Mortgaged over vehicle loan receivables for 130%
Sampath Bank	Overdraft	100 Million	2,140	Mortgaged over property at Vajiragnana Mawatha, Maharagama
	Term Loan	750 Million	500,000	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
	Term Loan	500 Million	260,406	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
	Long term loan	500 Million	437,500	Mortgaged over leases receivables for 1.3 times
People's Bank	Term Loan	1 Billion	361,111	Mortgaged over leases and vehicle loan receivables for 130%
Commercial Bank	Overdraft	125 Million	-	Mortgaged over investments in quoted shares by the company
Name of the bank	Nature of the facility	Facility amount (Rs.)	Outstanding as at 31.03.2022 (Rs. 000)	Securities/mortgages
Securitized borrowings	Trust Loan	784 Million	284,970	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
	Trust Loan	1 Billion	365,000	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
	Trust Loan	1 Billion	950,000	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
	Trust Loan	310 Million	310,000	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
	Trust Loan	600 Million	600,000	Mortgaged over vehicle loan receivables for 130%

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.

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 Gold Loans 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, 2022 and comparative figures for the year ended 31st March, 2021.

Notes to the Financial Statements

For the year ended 31st March	Finance Lease		Hire Purchase	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
External operating income				
Interest income	3,578,669	2,859,556	87,915	211,916
Interest expenses	1,298,486	1,417,170	31,899	105,024
Net interest income/(expenses)	2,280,184	1,442,386	56,016	106,893
Fee and commission income	-	-	-	-
Capital gains	-	-	-	-
Dividends	-	-	-	-
Others	-	-	-	-
Total operating income	2,280,184	1,442,386	56,016	106,893
Impairment charge/(reversal) for loans and receivables / Equity Investments	(29,942)	72,162	10,593	(37,376)
Net operating income	2,310,125	1,370,224	45,423	144,268
Personnel expenses	676,068	435,240	16,609	32,255
Commission	97,014	76,356	2,383	246
Depreciation and amortisation	78,706	60,181	1,934	4,460
Disallowed VAT on expenses	13,654	7,990	335	592
Other overheads	512,741	371,969	12,596	27,566
	1,378,183	951,735	33,857	65,118
Operating profit before value added tax on financial services	931,942	418,489	11,566	79,150
Value added tax and NBT on financial services	247,816	126,952	6,088	9,408
Operating profit after value added tax on financial services	684,126	291,537	5,478	69,742
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	18,334,913	14,221,461	242,430	649,860
Segment liabilities	14,056,466	10,709,635	185,859	489,385
Net assets	4,278,447	3,511,826	56,571	160,476

	Loans & Advances		Investments		Others		Total	
	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000	2022 Rs. '000	2021 Rs. '000
	2,878,637	2,989,790	214,704	212,362	-	-	6,759,925	6,273,624
	1,044,486	1,481,712	96,249	121,391	115,100	94,374	2,586,220	3,219,671
	1,834,151	1,508,077	118,455	90,971	(115,100)	(94,374)	4,173,706	3,053,953
	-	-	-	-	67,496	74,378	67,496	74,378
	-	-	-	-	-	-	-	-
	-	-	50,563	32,580	-	-	50,563	32,580
	-	-	-	-	249,722	116,050	249,722	116,050
	1,834,151	1,508,077	169,017	123,551	202,119	96,054	4,541,486	3,276,960
	(192,199)	(52,652)	-	-	63,873	60,000	(147,674)	42,134
	2,026,350	1,560,729	169,017	123,551	138,245	36,054	4,689,160	3,234,826
	543,821	455,062	50,113	37,281	59,928	28,984	1,346,538	988,823
	78,037	16,871	-	-	-	-	177,434	93,473
	63,310	62,922	5,834	5,155	6,977	4,008	156,759	136,725
	10,983	8,354	1,012	684	1,210	532	27,195	18,152
	412,443	388,909	38,007	31,862	45,450	24,771	1,021,237	845,076
	1,108,593	932,118	94,966	74,983	113,565	58,295	2,729,164	2,082,249
	917,757	628,611	74,051	48,568	24,681	(22,241)	1,959,996	1,152,577
	199,340	132,733	18,369	10,874	21,967	8,454	493,579	288,422
	718,417	495,878	55,682	37,694	2,714	(30,695)	1,466,417	864,155
							2,504	(36,654)
							1,468,920	827,501
							(457,370)	(213,358)
							1,011,550	614,143
	16,125,123	14,867,319	6,564,058	5,520,275	5,733,051	6,490,632	46,999,575	41,749,548
	12,362,331	11,196,006	5,032,337	4,157,107	4,388,247	4,887,846	36,025,239	31,439,979
	3,762,793	3,671,313	1,531,721	1,363,168	1,344,804	1,602,787	10,974,336	10,309,570

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	2022			2021		
	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	681,130	-	681,130	1,916,905	-	1,916,905
Placement with banks	996,372	1,399	997,771	75,764	1,375	77,139
Financial investments-at FV through OCI	3,720,755	510,711	4,231,466	3,729,427	479,129	4,208,555
Financial investments - At FVPL	2,924	-	2,924	51,248	-	51,248
Loans and receivables	10,239,923	5,885,201	16,125,123	7,393,769	7,473,550	14,867,319
Finance lease receivables	6,037,506	12,297,407	18,334,913	5,027,243	9,194,218	14,221,461
Hire purchase receivables	108,287	134,143	242,430	318,176	331,685	649,861
Other financial assets	294,419	129,307	423,726	234,642	189,307	423,949
Total financial assets	22,081,318	18,958,166	41,039,484	18,747,175	17,669,262	36,416,437
Non-financial assets						
Inventories	-	36,000	36,000	-	8,700	8,700
Current tax refunds	-	-	-	-	79,130	79,130
Investment in associates	-	1,334,821	1,334,821	-	1,234,582	1,234,582
Other assets	34,419	132,308	166,727	22,467	203,059	225,526
Property, plant and equipment	-	3,952,290	3,952,290	-	3,279,866	3,279,866
Leasehold property	-	39,802	39,802	-	40,270	40,270
Intangible assets	-	28,235	28,235	-	47,299	47,299
Investment property	-	220,717	220,717	-	237,381	237,381
Right-of-use assets	-	181,499	181,499	-	180,357	180,357
Total non-financial assets	34,419	5,925,672	5,960,090	22,467	5,310,645	5,333,112
Total assets	22,115,736	24,883,838	46,999,575	18,769,642	22,979,907	41,749,548
Liabilities						
Financial liabilities						
Bank overdraft	395,159	-	395,159	86,451	-	86,451
Deposits due to customers	23,823,709	2,525,562	26,349,272	18,407,998	4,652,277	23,060,275
Debt instruments issued and other borrowings	3,694,042	3,328,687	7,022,730	3,496,992	2,860,699	6,357,692
Other financial liabilities	638,715	20,242	658,957	531,526	20,725	552,251
Total financial liabilities	28,551,626	5,874,492	34,426,117	22,522,968	7,533,701	30,056,670
Non-financial liabilities						
Current tax liabilities	328,579	-	328,579	-	-	-
Deferred tax liability	-	639,064	639,064	-	742,672	742,672
Other liabilities	125,719	-	125,719	82,704	-	82,704
Retirement benefit obligation	-	272,003	272,003	-	322,501	322,501
Lease Liability	-	233,757	233,757	-	235,431	235,431
Total non-financial liabilities	454,298	1,144,824	1,599,522	82,704	1,300,605	1,383,309
Total liabilities	29,005,923	7,019,315	36,025,239	22,605,672	8,834,306	31,439,978
Net assets/ liabilities	(6,890,187)	17,864,523	10,974,336	(3,836,030)	14,145,600	10,309,570

54. Financial risk management

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54.2 Introduction

MI's risk management process was further strengthened in the light of the COVID impacted economic turbulent business environment to ensure that there is an appropriate balance between risk and rewards. By instilling various controls and strategies, management continuously strived to mitigate risks in the attempt of generating higher profits and minimizing unexpected losses despite significant 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 the company adopted.

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, Nomination Committee and Related Party Transaction Review 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.

In keeping to sound governance practices and finance industry standards, our risk management policies and procedures are properly aligned to our overall businesses strategy to safeguard and counter against material risks. 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.

Notes to the Financial Statements

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 against actual balance sheet date position is illustrated in the Statement of Risk Management of this 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 integrated 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 for the committee's oversight.

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.36 billion loans and advances portfolio, it could be 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.)

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 2021/22.

54.3.1. A Credit Quality by Class of Financial Assets - As at 31st March 2022 (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	681,130	-	-	-	681,130
Placements with banks	997,771	-	-	-	997,771
Financial Assets Measured at FVOCI (quoted)	4,161,039	-	-	-	4,161,039
Financial Assets Measured at FVPL	2,924	-	-	-	2,924
Loans & Receivables	-	11,953,156	3,449,385	1,807,022	17,209,563
Finance Lease Receivables	-	12,397,745	5,668,833	1,135,733	19,202,310
Hire Purchase Receivables	-	26,645	72,764	390,509	489,918
Financial Assets Measured at FVOCI (unquoted)	70,427	-	-	-	70,427
Other Financial Assets	423,726	-	-	-	423,726
	6,337,018	24,377,546	9,190,982	3,333,263	43,238,809

Commentary

Out of MI's total financial assets portfolio, 56% comprises of ECL stage 1 assigned loans and receivables (FY 2020/21 it was 48%). This upward movement of the asset quality of the portfolio from stages 2 and 3 to relatively higher quality stage 1 category mainly arose due to the robust collection mechanism and credit quality improvement measures placed during the year under review, to bring down arrears contracts.

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 2022 (as per SLFRS 9)

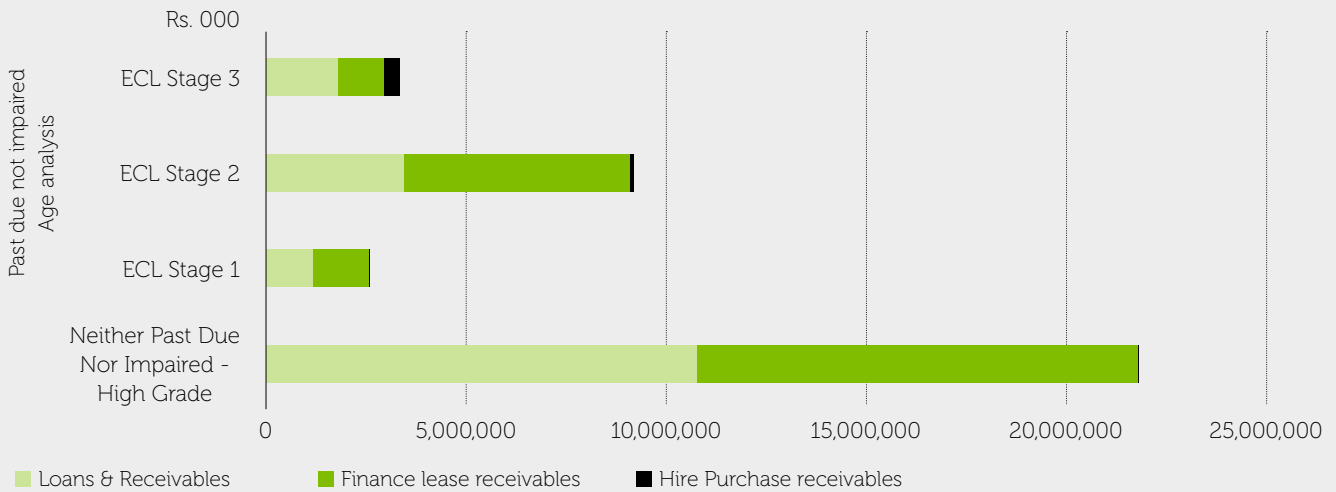
	Neither Past Due Nor Impaired - High Grade Rs. '000	Past due not impaired Age analysis		
		ECL Stage 1 Rs. '000	ECL Stage 2 Rs. '000	ECL Stage 3 Rs. '000
Loans & Receivables	10,774,148	1,179,008	3,449,385	1,807,022
Finance lease receivables	11,006,678	1,391,066	5,668,833	1,135,733
Hire Purchase receivables	23,575	3,069	72,764	390,509
	21,804,402	2,573,144	9,190,982	3,333,263

Commentary

Close to 60% of the customer base of MI remained in the high grade performing customer group with zero past due basis (Last year 50%). Shifting of arrears stages towards shorter duration was notably experienced during the financial year under review with newly initiated recovery measures especially the introduction of a fully fledged call center operation and Quality Assurance Teams.

Notes to the Financial Statements

Neither Past Due & Past Due not Impaired Age Analysis 2021/22



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 216 to 218 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.

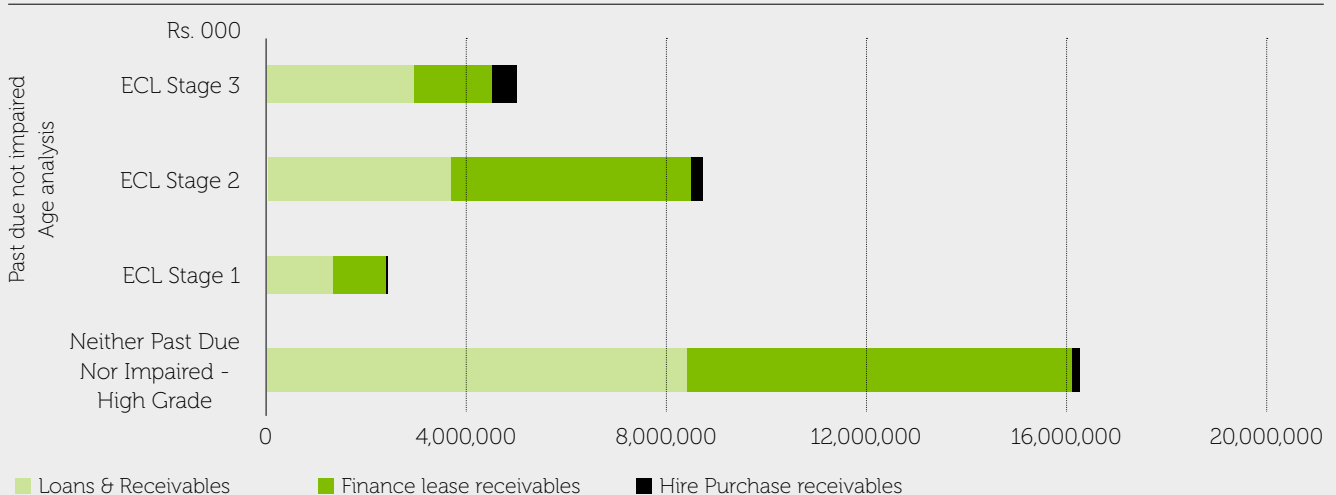
54.3.1.C Credit Quality by Class of Financial Assets - As at 31st March 2021 (as per SLFRS 9)

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	Rs. '000
Cash and Cash Equivalents	1,916,905	-	-	-	1,916,905
Placements with banks	77,139	-	-	-	77,139
Financial Assets Measured at FVOCI (quoted)	4,138,128	-	-	-	4,138,128
Financial Assets Measured at FVPL	51,248	-	-	-	51,248
Loans & Receivables	-	9,726,362	3,676,274	2,945,102	16,347,738
Finance Lease Receivables	-	8,730,390	4,788,592	1,574,134	15,093,116
Hire Purchase Receivables	-	201,095	228,929	477,713	907,737
Financial Assets Measured at FVOCI (unquoted)	70,427	-	-	-	70,427
Other Financial Assets	423,949	-	-	-	423,949
	6,677,796	18,657,847	8,693,795	4,996,949	39,026,387

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 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
Loans & Receivables	8,418,736	1,307,625	3,676,274	2,945,102
Finance lease receivables	7,671,739	1,058,651	4,788,592	1,574,134
Hire Purchase receivables	167,210	33,886	228,929	477,713
	16,257,685	2,400,162	8,693,795	4,996,949

Neither Past Due & Past Due not Impaired Age Analysis 2020/21



Notes to the Financial Statements

54.3.1.E Credit Exposure Movement - ECL Stage Wise (as per SLFRS 9)- As at 31st March 2022

The following tables display the reconciliations from the opening to closing balance of the gross carrying amounts by the 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, 2021	1,916,905	1,916,905	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognized or repaid (excluding write-offs)	(1,235,775)	(1,235,775)	-	-	-
As at March 31, 2022	681,130	681,130	-	-	-
Placements with banks					
Gross carrying amount as at April 1, 2021	77,139	77,139	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	920,632	920,632	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
As at March 31, 2022	997,771	997,771	-	-	-
Financial assets measured at FVOCI (quoted)					
Gross carrying amount as at April 1, 2021	4,138,128	4,138,128	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	22,911	22,911	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Write-offs	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2022	4,161,039	4,161,039	-	-	-
Financial assets measured at FVPL					
Gross carrying amount as at April 1, 2021	51,248	51,248	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(48,323)	(48,323)	-	-	-
Write-offs	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2022	2,924	2,924	-	-	-
Financial assets at amortised cost – Loans & Receivables					
Gross carrying amount as at April 1, 2021	16,347,738	-	9,726,362	3,676,274	2,945,102
Transfer to Stage	-	-	(942,823)	1,025,156	(82,333)
New assets originated or purchased	10,573,401	-	9,167,773	1,366,557	39,071
Financial assets derecognised or repaid (excluding write-offs)	(9,581,870)	-	(5,998,156)	(2,618,602)	(965,111)
Write-offs	(129,707)	-	-	-	(129,707)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2022	17,209,563	-	11,953,156	3,449,385	1,807,022

	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 – Finance lease receivables					
Gross carrying amount as at April 1, 2021	15,093,116	-	8,730,390	4,788,592	1,574,134
Transfer to Stage	-	-	(1,409,476)	1,277,283	132,193
New assets originated or purchased	11,514,253	-	8,918,171	2,516,461	79,621
Financial assets derecognised or repaid (excluding write-offs)	(7,392,195)	-	(3,841,340)	(2,913,503)	(637,352)
Write-offs	(12,863)	-	-	-	(12,863)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2022	19,202,310	-	12,397,745	5,668,833	1,135,733
Financial assets at amortised cost – Hire Purchase receivables					
Gross carrying amount as at April 1, 2021	907,738	-	201,095	228,929	477,713
Transfer to Stage	-	-	(26,328)	24,822	1,506
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(413,073)	-	(148,122)	(180,987)	(83,964)
Write-offs	(4,747)	-	-	-	(4,747)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2022	489,918	-	26,645	72,764	390,509
Financial assets measured at FVOCI (unquoted)					
Gross carrying amount as at April 1, 2021	70,427	70,427	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Write-offs	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2022	70,427	70,427	-	-	-
Other Financial Assets					
Gross carrying amount as at April 1, 2021	423,949	423,949	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(223)	(223)	-	-	-
Write-offs	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
As at March 31, 2022	423,726	423,726	-	-	-

Notes to the Financial Statements

54.3.1.F Provision for Impairment (ECL) Movement (as per SLFRS 9)- As at 31st March 2022

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 – Loans & Receivables						
Provision for impairment (ECL) as at April 1, 2021			85,243	123,376	1,035,928	1,244,547
Transfer to Stage			17,473	14,799	(32,272)	-
Net remeasurement of impairment			(39,814)	25,607	141,036	126,829
New assets originated or purchased			63,621	48,085	6,337	118,043
Financial assets derecognised or repaid (excluding write-offs)			(48,359)	(70,483)	(318,228)	(437,070)
Write offs and Recoveries			-	-	(129,707)	(129,707)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2022	23	235	78,164	141,384	703,093	922,641
Financial assets at amortised cost – Finance lease receivables						
Provision for impairment (ECL) as at April 1, 2021			85,802	235,787	531,948	853,538
Transfer to Stage			(4,037)	20,443	(16,406)	-
Net remeasurement of impairment			(23,099)	5,828	(4,747)	(22,018)
New assets originated or purchased			81,806	136,306	12,692	230,805
Financial assets derecognised or repaid (excluding write-offs)			(24,930)	(80,337)	(133,461)	(238,728)
Write offs and Recoveries			-	-	(12,863)	(12,863)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2022	24	237	115,543	318,027	377,163	810,733
Financial assets at amortised cost – Hire Purchase receivables						
Provision for impairment (ECL) as at April 1, 2021			1,141	6,234	215,023	222,399
Transfer to Stage			(174)	1,341	(1,168)	-
Net remeasurement of impairment			149	406	51,122	51,677
New assets originated or purchased			-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)			(755)	(2,666)	(37,662)	(41,084)
Write offs and Recoveries			-	-	(4,747)	(4,747)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition			-	-	-	-
As at March 31, 2022	25	239	362	5,315	222,568	228,245

54.3.2 Credit Impaired Financial Assets (as per SLFRS 9)

Reconciliation of changes in the gross carrying amount of life time ECL credit impaired (Stage 3) leases, hire purchases and other loans and advances are detailed below;

As at 31st March 2022	Loans & Receivables Rs. '000	Finance lease receivables Rs. '000	Hire Purchase receivables Rs. '000	Total Rs. '000
Stage 3 loans and advances of customers as at April 1,	2,945,102	1,574,134	477,713	4,996,949
Newly classified as impaired loans and advances during the year	(82,333)	132,193	1,506	51,366
Net change in already impaired loans and advances during the year	39,071	79,621	-	118,693
Net payment, write-off and recoveries and other movement during the year	(1,094,819)	(650,215)	(88,710)	(1,833,744)
Impaired loans and advances of customers as at March 31,	1,807,022	1,135,733	390,509	3,333,263
As at 31st March 2021				
As at 31st March 2021	Loans & Receivables Rs. '000	Finance lease receivables Rs. '000	Hire Purchase receivables 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

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 2022 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 2022 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	46,803	16,653	-	63,457	(63,457)
PD 1% decrease across all age buckets *	(46,803)	(16,653)	-	(63,457)	63,457
LGD 5% increase	64,629	177,818	87,110	329,558	(329,558)
LGD 5% decrease *	(64,629)	(177,818)	(87,110)	(329,558)	329,558
Probability weighted Economic Scenarios					
Base case 10% increase, worst case 5% decrease and best case 5% decrease	603	3,772	-	4,375	(4,375)
Base case 10% decrease, worst case 5% increase and best case 5% increase	(575)	(3,289)	-	(3,864)	3,864

* The PD/LGD decrease is capped to 0%, if applicable.

Notes to the Financial Statements

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. 63 Million and Rs. 330 Million respectively. However, the worse case scenario impact to the regulatory capital adequacy would be only 0.83%, keeping the Total Risk Weighted Capital Ratio at 16.02%, well above the minimum regulatory limit of 11%.

54.3.4 Types of Collateral Taken to Minimise Credit Exposure

54.3.4.A Collateral Held

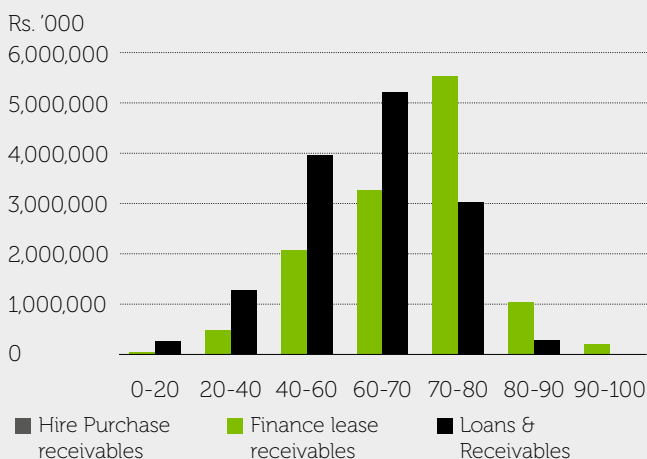
Type of Lending	Collateral generally obtained
Lease	Agricultural land and vehicles, Commercial property, Computer hardware and equipment, Dual purpose vehicles, Land vehicles, Motor bicycles, Motor cars, Motor coaches, Motor lorries, Motor Tricycles, Non- agricultural land vehicles, Other equipment, 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
Gold Loans	Gold articles

54.3.4.B Credit Portfolio Classification Based on Loan to Value Ratio (LTV)

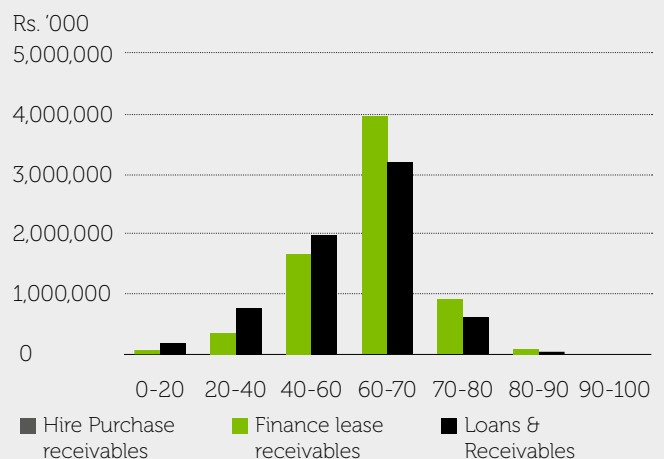
The table below specifies eligible credit exposures on the total lendings carried out for the FY 2021/22 by ranges of loan-to-value (LTV) ratios. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral.

LTV Ratio %	2021/22				2020/21			
	Loans & Receivables Rs. '000	Finance lease receivables Rs. '000	Hire Purchase receivables Rs. '000	Total Rs. '000	Loans & Receivables Rs. '000	Finance lease receivables Rs. '000	Hire Purchase receivables Rs. '000	Total Rs. '000
0-20	264,181	45,551	-	309,732	188,369	63,681	3,117	255,166
20-40	1,270,567	488,151	-	1,758,718	775,435	360,425	-	1,135,861
40-60	3,955,652	2,079,263	-	6,034,914	1,971,205	1,656,961	-	3,628,166
60-70	5,208,106	3,268,536	-	8,476,642	3,152,949	3,909,861	-	7,062,809
70-80	3,026,700	5,537,131	-	8,563,831	682,162	918,007	-	1,600,169
80-90	284,753	1,033,355	-	1,318,108	36,988	83,094	-	120,082
90-100	7,800	202,414	-	210,214	1,344	-	-	1,344
	14,017,759	12,654,400	-	26,672,159	6,808,451	6,992,029	3,117	13,803,597

LTV Ratio 2021/22



LTV Ratio 2020/21



Commentary

LTV remained below 80% for approximately 94% of new lending business carried out during the year, this indicates adequate collateral backing to cover against the remaining credit exposure.

54.3.4.C Maximum Net Exposure of the Financial Assets

The following table shows the company's net exposure to credit risk.

As at 31st March	2022		2021	
	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	681,130	681,130	1,916,905	1,916,905
Placements with Banks	997,771	997,771	77,139	77,139
Financial Assets Measured at FVOCI (quoted)	4,161,039	4,161,039	4,138,128	4,138,128
Financial Assets Measured at FVPL	2,924	2,924	51,248	51,248
Loans & Receivables	16,125,123	-	14,867,319	-
Finance Lease Receivables	18,334,913	-	14,221,461	-
Hire Purchase Receivable	242,430	-	649,860	-
Financial Assets Measured at FVOCI (unquoted)	70,427	70,427	70,427	70,427
Other Financial assets	423,726	423,726	423,949	423,949
	41,039,484		36,416,436	

As an additional safeguard, guarantors are required particularly for lease and hire purchase contracts. The company resorts to repossessing the assets kept as security when the borrowers default goes beyond the specified credit period. The sales proceeds resulting from the subsequent sale of such assets are then used to minimise credit risk exposure.

Measurement Assumptions

- ⦿ The value of collateral represents the market value of the collateral asset at the time of granting the credit facility.
- ⦿ Net exposure was arrived by deducting the total value of the collateral from the total carrying value.

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.

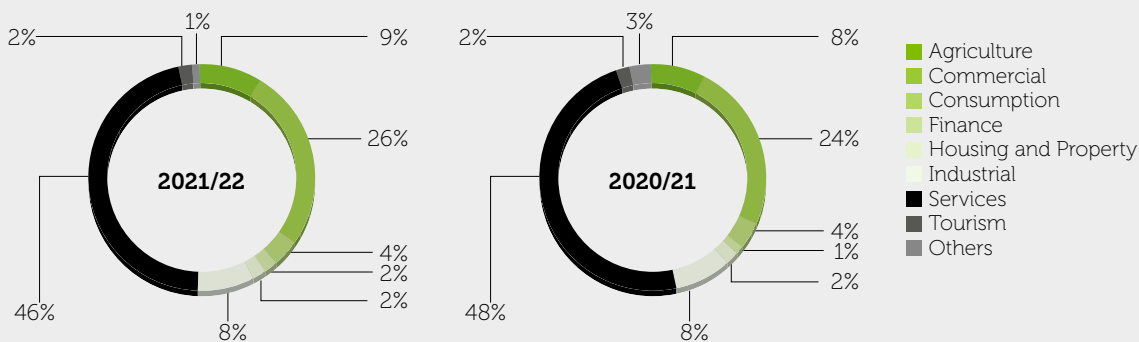
54.3.5.A Sector Wise Analysis

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	31.03.2022	%	31.03.2021	%
Agriculture	3,137,141	9	2,433,942	8
Commercial	9,766,770	26	7,859,424	24
Consumption	1,534,306	4	1,305,886	4
Finance	586,444	2	455,923	1
Housing and Property	834,004	2	737,591	2
Industrial	2,929,776	8	2,479,137	8
Services	17,008,794	46	15,429,816	48
Tourism	558,791	2	754,799	2
Others	545,765	1	892,073	3
Grand Total	36,901,791	100	32,348,591	100

Notes to the Financial Statements

Concentration of Credit – Sector Wise



Measurement Assumptions

○ Sector-wise credit concentration is measured using the information submitted by customers.

Commentary

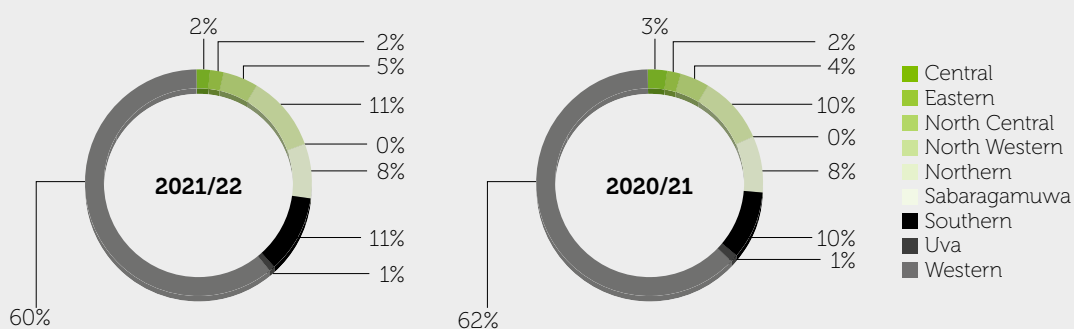
There is a high concentration of lending towards the Services sector which is close to 50% of total lending value. This is mainly attributable to the lending's carried out for transportation services, health care and professional services. The pandemic hit Tourism sector exposure stood at 2% with minimal exposure for MI. Other sector exposures were also closely monitored considering the on-going economic turbulence amidst the foreign exchange driven crisis.

54.3.5.B Province Wise Analysis

This table below discloses MI's geographic credit exposure;

Province	31.03.2022	%	31.03.2021	%
Central	916,816	2	888,432	3
Eastern	703,535	2	623,069	2
North Central	1,681,295	5	1,294,756	4
North Western	4,071,284	11	3,236,469	10
Northern	16,489	0	19,464	0
Sabaragamuwa	2,918,481	8	2,466,489	8
Southern	3,898,862	11	3,154,591	10
Uva	298,425	1	251,972	1
Western	22,396,604	60	20,413,349	62
Total	36,901,791	100	32,348,591	100

Geographical Concentration of Lending



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 60% towards MI's total lending, with a marginal decrease compared to last financial year contribution of 62%. In keeping to MI's expansion strategy beyond the Western Province, there is a gradual diversification to other regions as well, in particular the Southern, North Central and North Western Provinces. Exposures were closely monitored considering the persisted socio-economic volatility, particularly in the Colombo region.

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	2022	2021
Net Loans/Customer Deposits	132%	129%
Net Loans/Total Assets	74%	71%

Commentary

MI's net loans to deposits ratio remained at acceptable levels of 132%, marginally increasing compared to last year amid the challenging times disrupted by COVID pandemic and the ongoing socio-economic crisis in the country.

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 2022.

	On demand	Up to 3 Months	4-12 months	1 to 3 Years	3 to 5 Years	More than 5 Years	Unclassified	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets								
Cash & Cash Equivalents	681,130	-	-	-	-	-	-	681,130
Placement with Banks	-	1,007,397	-	-	-	-	-	1,007,397
Financial Investments FVOCI	638,168	1,954,790	1,127,798	-	-	-	510,711	4,231,466
Financial Investments FVPL	2,924	-	-	-	-	-	-	2,924
Loans and Receivables	1,184,879	2,379,242	8,398,375	6,135,098	1,400,825	12,323	-	19,510,741
Finance Lease Receivables	462,198	2,759,433	6,654,059	11,873,115	3,406,074	-	-	25,154,879
Hire Purchase Receivables	187,105	57,706	118,264	119,228	12,024	-	-	494,327
Other Financial Assets	-	294,419	-	-	-	-	129,307	423,726
Total Financial Assets	3,156,404	8,452,987	16,298,495	18,127,440	4,818,923	12,323	640,018	51,506,591

Notes to the Financial Statements

	On demand	Up to 3 Months	4-12 months	1 to 3 Years	3 to 5 Years	More than 5 Years	Unclassified	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Liabilities								
Bank Overdraft	395,159	-	-	-	-	-	-	395,159
Deposits Due to Customers	259,826	11,516,264	13,667,881	2,849,012	688,195	-	-	28,981,177
Debt Instruments Issued and Other Borrowings	-	778,356	3,410,297	3,333,407	49,360	-	-	7,571,420
Other Financial Liabilities	70,238	507,506	60,896	-	-	-	20,318	658,957
Total Financial Liabilities	725,222	12,802,125	17,139,074	6,182,419	737,555	-	20,318	37,606,713
Net Financial Assets/Liabilities	2,431,182	(4,349,138)	(840,578)	11,945,022	4,081,368	12,323	619,699	13,899,878

Measurement Assumptions

- Liquidity gap analysis is prepared based on the contractual maturity of assets and liabilities as at 31st March 2022.
- 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 2022 interest rate or the interest rate cap was used for calculation.

Commentary

With the upward rapid movement in interest rates, kept investors opting for shorter tenor placing of deposits, while towards the last quarter of the year's economic turmoil restricted longer tenor borrowings, keeping the one year and less assets and liability mismatches at Rs. 6.9 Billion compared to Rs. 3.8 Billion recorded last year (Refer page 168 of Risk Management Report). However, with the broadbasing of short term lending including Gold Loan portfolio along with the longer tenure borrowings obtained aided to maintain company's assets and liabilities's maturity profiles at a satisfactory level. MI's well maintained unutilized funding lines facilitated as a further buffer in mitigating liquidity risk throughout the year under review.

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.

- (a) 10% of the outstanding value of the time deposits and accrued interest payable at the close of the business on such day.
- (b) 15% of outstanding value of the saving deposit and accrued interest payable at the close of the business on such day.
- (c) 10% of the total outstanding borrowing and any payable.

Further, MI maintained assets in the form of Sri Lankan government treasury bills and government securities equivalent to 8.5% of the average of its month end total deposit liabilities and unsecured borrowings of the 12 months preceding financial year, above the required level of 7.5% by the CBSL.

54.4.4 Key Definitions Related to Liquidity Risk Management

Liquid Assets Assets that are held in cash or in a form that can be readily converted to cash (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 2022	Actual as at 31st March 2022	CBSL minimum requirement as at 31st March 2021	Actual as at 31st March 2021
Total liquid assets (Rs.000)	2,647,918	3,576,631	1,383,616	3,937,316
Statutory liquid assets ratio (%)	10	13.57	6	1707
Minimum approved securities (Rs.000)	1,670,896	1,890,882	1,055,003	1,765,165

Commentary

We kept required liquid asset levels well above the regulator requirement throughout the financial year under review, maintaining over 5% buffer above regulatory liquidity level during COVID peak periods. In the backdrop of a significant pick up in loan book in the later half of the financial year, we kept over 3% liquidity buffer above the regulatory level, together with unutilized funding lines to cater to ongoing liquidity needs.

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 42 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.

Notes to the Financial Statements

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 terms of interest payments.

54.5.1.A 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 2022. The financial assets and financial liabilities so disclosed are at their carrying amounts and categorised by the earlier of contractual repricing 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	996,372	-	-	-	1,399	-	997,771
Financial Investments -at FVOCI	763,084	1,127,798	-	-	-	-	1,890,882
Loans and Receivables	1,873,643	8,265,958	4,266,898	873,282	-	845,342	16,125,123
Finance Lease Receivables	1,942,154	4,138,709	8,963,102	3,094,022	-	196,926	18,334,913
Hire Purchase Receivables	36,949	47,403	3,455	(3,065)	-	157,688	242,430
Total Financial Assets	5,612,202	13,579,868	13,233,455	3,964,239	1,399	1,199,956	37,591,119
Liabilities							
Bank Overdraft	395,159	-	-	-	-	-	395,159
Deposits Due to Customers	11,369,222	12,454,488	2,084,590	440,972	-	-	26,349,272
Debt Instruments Issued and Other Borrowings	633,506	3,060,537	3,212,614	116,073	-	-	7,022,730
Total Financial Liabilities	12,397,887	15,515,025	5,297,204	557,045	-	-	33,767,161
Interest Sensitivity Gap	(6,785,685)	(1,935,157)	7,936,251	3,407,194	1,399	1,199,956	

Measurement Assumptions

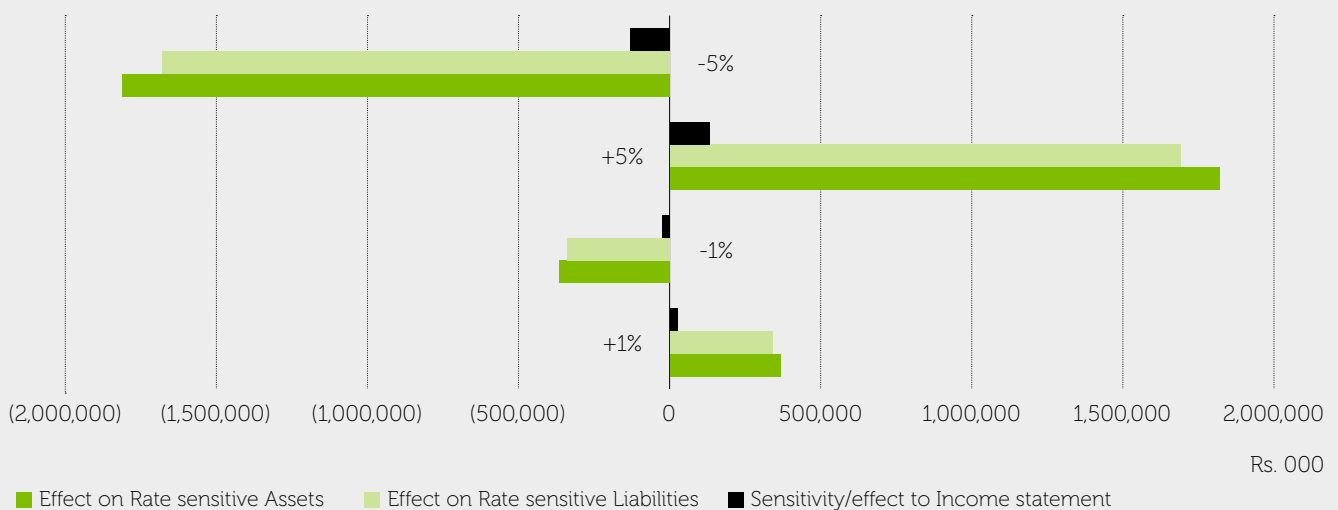
- ⦿ The interest rates movements have been applied on the basis that both assets & liabilities pricing rates are on a fixed basis. i.e. Assumed minimal impact from floating rates applicable.
- ⦿ The market rates are predicted with no material changes in the foreseeable future.
- ⦿ The lending and deposit volumes are assumed to remain unchanged.

54.5.1.B Interest Rate Sensitivity Analysis

Given below is a sensitivity analysis carried out as at 31st March 2022 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 1% effect to the Interest Income / (Expenses) Rs. '000	Market Rates drop by 1% effect to the Interest Income/ (Expenses) Rs. '000	Market Rates up by 5% effect to the Interest Income / (Expenses) Rs. '000	Market Rates drop by 5% effect to the Interest Income/ (Expenses) Rs. '000
Effect on Rate sensitive Assets	363,912	(363,912)	1,819,558	(1,819,558)
Effect on Rate sensitive Liabilities	337,672	(337,672)	1,688,358	(1,688,358)
Sensitivity/ effect to Income statement	26,240	(26,240)	131,200	(131,200)

Interest Rate Sensitivity Analysis



Commentary

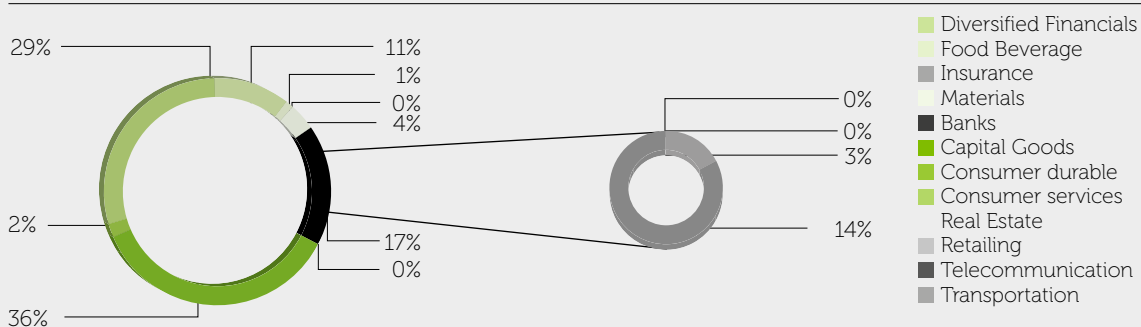
MI possesses interest rate sensitive assets of Rs.36.4 billion and rate sensitive liabilities of Rs. 33.8 billion. Based on the sensitivity analysis, an interest rate fluctuation of 5%+ or (5%) will result in Rs 131 Million impact to Net Interest Income. In the back drop of an increasing market interest rate trend, Net Interest Income would be impacted on account of the repricing effect on the deposit base. To counter the repricing effect in the short term, pricing and promotion of short term lending products and other approaches will be adopted to safeguard pressure on core margins, whilst sustaining satisfactory revenue levels.

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.2.3 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 to Other Comprehensive Statement of Income If Market Drops to the Recorded Lowest Market Price



Notes to the Financial Statements

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)	Effect to the Other Comprehensive Statement of Income if Market drops to the recorded lowest market price	Effect to the Other Comprehensive Statement of Income if Market drops to the recorded lowest market price
	Rs. '000	Rs. '000	%
Banks	5,129	41	0.01
Capital Goods	289,555	237,119	35.89
Consumer durable	12,666	13,474	2.04
Consumer services	375,017	191,482	28.98
Diversified Financials	79,265	69,715	10.55
Food Beverage	28,732	6,538	0.99
Insurance	8,440	220	0.03
Materials	86,824	26,372	3.99
Real Estate	250	115	0.02
Retailing	11,100	2,895	0.44
Telecommunication	73,470	19,530	2.96
Transportation	770	93,271	14.12

Commentary

With the emerging socio-economic crisis and rapid depletion in the share prices on low investor confidence and foreign investor participation by the end of financial year, 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 Other Comprehensive Income due to 10% change in equity market prices.

As at 31st March	2021/22 Financial investments - at Fair Value through OCI Rs. '000	2020/21 Financial investments - at Fair Value through OCI Rs. '000
Stress Level	Impact on OCI	Impact on OCI
Shock of 10% on equity price (upward)	163,199	177,097
Shock of 10% on equity price (downward)	(163,199)	(177,097)

Commentary

Based on the risk analysis carried out on MI's equity portfolio after considering a possible downward market sentiments resulting especially from political and economic crisis, the maximum amount of equity risk effect to the other comprehensive statement of income (OCI) stood at Rs. 163.2 million as at the end of 31 March 2022. Total impact to Total Risk Weighted Capital Adequacy Ratio (CAR) would be marginal at 0.34%, keeping yet MI's CAR at 16.51% well above the regulatory limit of 11%.

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 172 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.

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 60 to 63, Financial Statements Note 38 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;

- a) Maintenance of a strong capital buffer against unexpected losses and to possess sufficient capital to meet current and future business needs and stakeholder expectation
- b) To meet prudential minimum capital requirements set by the regulator

MI's Strong capital base stands as a strong buffer against unforeseen losses and contingencies in the current volatile market conditions. This level of capital provides the company with adequate flexibility to pursue its future business plans and capital Investments and to take risk more confidently without undermining stakeholder returns.

MI board as part of its capital management process regularly monitors MI's capital adequacy which includes minimum capital requirements and has set minimum thresholds in keeping to MI's risk appetite levels, well above even the prudential capital adequacy ratio requirements.

54.7.2 New Basel II Capital adequacy(CAR) 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 gradually in future.

Minimum Capital Adequacy requirements for LFC with Total Assets Less than Rs. 100 Billion.

Components of Capital	01.07.2021	01.07.2022
Tier 1 Capital	7	8.5
Total Capital	11	12.5

Salient Computational Features

Risk Weighted Assets Computation

Credit Risk

- a) Loan Portfolio separation between Performing and Non Performing.
- b) Asset Categorization based on counter parties risk profile
- c) Assessment of counter party ratings.
- d) Level of security underlining the claims.

The risk rates weights applied vary for a) to 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 2022 (with comparison) and the capital adequacy ratio position are given in Note 54.7.4

Notes to the Financial Statements

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>=14%
Adequately capitalized	12.5%<=CAR<14%
Undercapitalized	9.5%<=CAR<12.5%
Significantly undercapitalized	6.5%<=CAR<9.5%
Critically undercapitalized	CAR<6.5%

54.7.4 Total Capital Base Computation

Item	31st March 2022	31st March 2021
Tier 1 Capital	8,613,376	7,642,013
Stated Capital/assigned capital	36,000	36,000
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	851,400	796,400
Audited retained earnings/(Losses)	3,639,546	2,723,183
(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	1,239,509	1,242,500
Goodwill (net)	-	-
Other intangible assets (net)	28,235	47,299
Other Comprehensive losses	550,391	-
Deferred tax assets (net)	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	583,808	1,190,130
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	77,075	5,071
Shortfall of capital in Financial subsidiaries	-	-
Tier 1 Capital (after adjustments)	7,373,867	6,399,513
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	77,075	5,071
50% Investment in banking & financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	77,075	5,071
Eligible Tier 2 Capital after adjustments	665,090	737,095
Total Capital	8,038,957	7,136,607

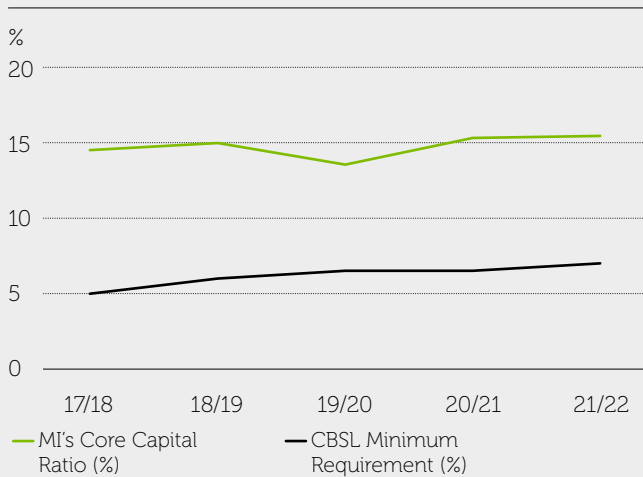
54.7.4.1 Capital Adequacy Ratios

As at 31st March		Strategic Plan (Projected 2022)	2022 %	2021 %
Core Capital Ratio =	Tier 1 Capital Risk Weighted Assets	> 13%	15.45	15.31
Total Risk Weighted capital Ratio =	Capital Base Risk Weighted Assets	> 15%	16.84	17.07

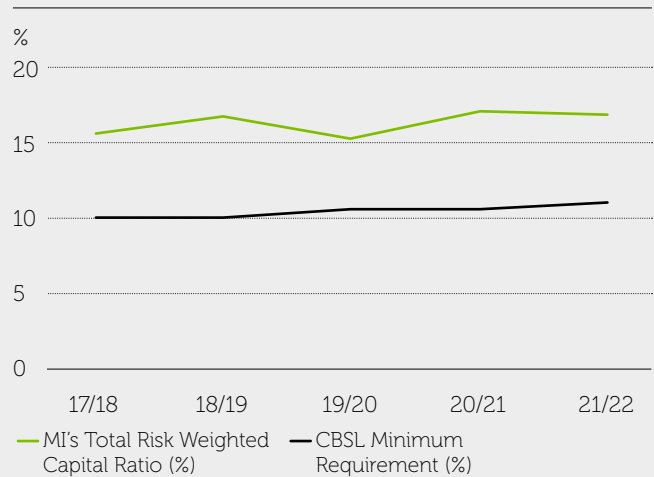
Commentary

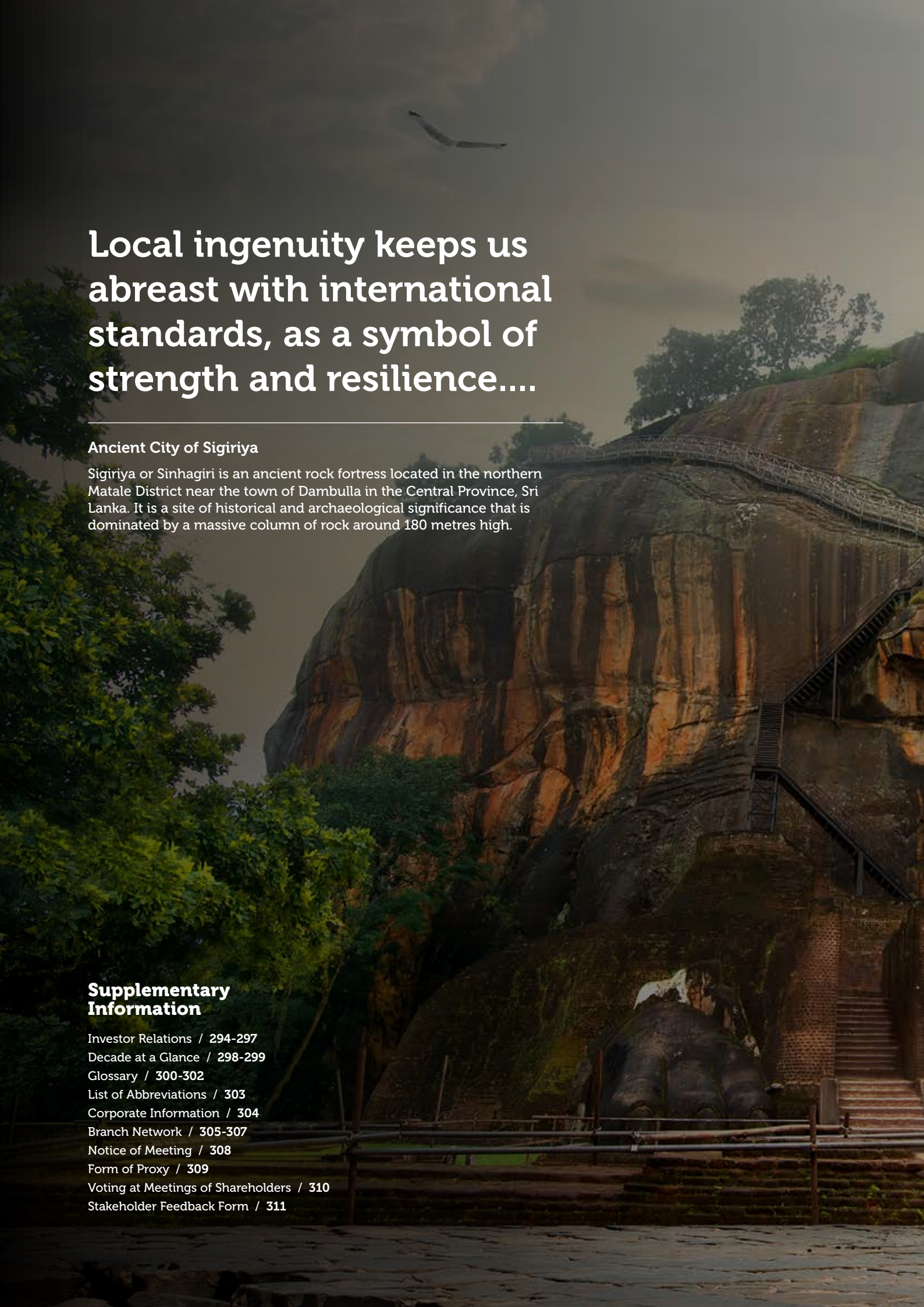
MI's sound capital adequacy levels remain a core competitive advantage when comparing Core Capital and Total Risk Weighted Capital with similar size industry peers. Based on current and projected performance targets, MI is confident of maintaining its total Risk Weighted Capital Ratio above 15%, thus safeguarding the "well capitalized" grade status in terms of the regulatory PCA framework (CAR \geq 14%) expected by July 2022.

Core Capital Ratio



Total Risk Weighted Capital Ratio





Local ingenuity keeps us abreast with international standards, as a symbol of strength and resilience....

Ancient City of Sigiriya

Sigiriya or Sinhagiri is an ancient rock fortress located in the northern Matale District near the town of Dambulla in the Central Province, Sri Lanka. It is a site of historical and archaeological significance that is dominated by a massive column of rock around 180 metres high.

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Investor Relations

Stock Exchange Listing

The issued ordinary shares of Mercantile Investments and Finance PLC are listed with the Colombo Stock Exchange. The audited Income Statement for the year ended 31st March 2022 and the audited Balance Sheet of the Company as at date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

Stock exchange code for Mercantile Investments & Finance PLC share is "MERC".

Mi's Investor Base

The Company's investor base currently comprises of 3,006,000 voting shares distributed among few large investors as given in the table below. The total numbers of shareholders were 15 in 2021/22, where as the previous year stood at 15. 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	0	0	0.00				0	0	0.00
10,001 - 100,000	7	180,279	6.00				7	180,279	6.00
100,001 - 1,000,000	6	2,825,560	94.00				6	2,825,560	94.00
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 2022			31st March 2021		
	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 2022			31st March 2021		
	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

Public Holding

As per the rule No. 7.6 (iv) of Colombo Stock Exchange, percentage of public holding as at 31st March 2022 was 6.00% ,comprising 09 shareholders.(2021 - 10.84% comprising 09 Shareholders). Subsequently the public shareholding percentage has been increased to over 10%.

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. 468,936,000.00
- Public Holding Percentage 6.00%
- Number of Public Shareholders 09

The Company is not fully compliant with the minimum public holding requirement as of 31/03/2022.

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 2022

Name	% on total capital	No of Shares 2022	% on total capital	No of Shares 2021
Nilaveli Beach Hotels (Pvt) Ltd	20.94	629,580	20.94	629,580
G.G. Ondaatjie	18.85	566,725	15.88	477,213
A.M. Ondaatjie	17.49	525,670	15.88	477,213
T.J. Ondaatjie	16.12	484,614	15.88	477,213
Mercantile Fortunes (Pvt) Ltd	13.81	415,162	13.81	415,162
Tangerine Tours (Pvt) Ltd	6.78	203,809	6.78	203,809
C.A. Ondaatjie	2.80	84,114	0.07	2,004
A.S.G.H.Jafferjee	1.37	41,055	0.00	0
P.R. Divitotawela / R.D.Madugalle	0.42	12,525	0.42	12,525
P.R. Divitotawela / A.D.Galagoda	0.42	12,525	0.42	12,525
N.H.V. Perera	0.33	10,020	0.33	10,020
J.A.S.S. Adhihetty	0.33	10,020	0.33	10,020
R.M.D. Abeygunawardena	0.33	10,020	0.33	10,020
A.M. Dominic	0.01	151	0.01	151
R.Vaseeharan	0.00	10	0.00	10
G.L.A. Ondaatjie (Deceased)	0.00	0	8.93	268,535
Total	100.00	3,006,000	100.00	3,006,000

Investor Relations

Directors' Shareholdings as at 31st March 2022

Name	Position	31st March 2022		31st March 2021	
		No. of Shares held	%	No. of Shares held	%
Mr. G G Ondaatjie	Managing Director	566,725	18.85	477,213	15.88
Ms. A M Ondaatjie	Director	525,670	17.49	477,213	15.88
Mr. T J Ondaatjie	Director	484,614	16.12	477,213	15.88
Mr. S H Jayasuriya	Director	-	0.00	-	0.00
Mrs. E D Wickramasuriya	Director	-	0.00	-	0.00
Mr. P D D Perera	Act. Chairman	-	0.00	-	0.00
Mr. A L N Dias	Director	-	0.00	-	0.00
Mr. M K S Pieris (Appointed on 05.04.2021)	Director	-	0.00	-	0.00
Mr. P C Guhashanka (Resigned on 28.07.2021)	Deputy Managing 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.

	2021/2022	2020/2021
Number of transactions	-	-
Number of shares traded	-	-
Value of Shares traded - Rs '000	-	-

Market Value

	Highest Rs.	Lowest Rs.	Year End Rs.
2020/2021	-	-	-
2021/2022	-	-	-

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
2021-2022	10,974,337	7,815,600	3,826,498,456	0.20
2020-2021	10,309,570	7,815,600	3,111,250,000	0.25

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 2022.

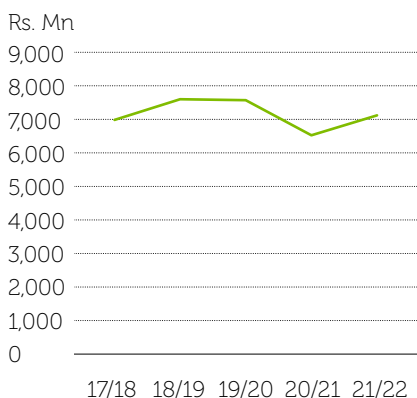
The following table presents the important disclosures made by the company to the Colombo stock exchange during the year 2021/2022.

Date of Disclosure	Details of disclosures
8-Apr-21	Announcement of Appointment of Directors
31-May-21	Submission of unaudited interim financial statement for the period ended 31 March 2021
22-Jun-21	Submission of Annual Report for the period ended 31 March 2021
28-Jul-21	Disclosure of 1st interim dividend
30-Jul-21	Announcement of Resignation of Directors
30-Jul-21	Resolution adopted at the Annual General Meeting
13-Aug-21	Submission of unaudited interim financial statement for the 01st quarter ended 30 June 2021
14-Sep-21	Disclosure on Annual Rating Review
6-Oct-21	Announcement of Dealings by Directors
15-Nov-21	Submission of unaudited interim financial statement for the 02nd quarter ended 30 September 2021
14-Feb-22	Disclosure of 2nd interim dividend
15-Feb-22	Submission of unaudited interim financial statement for the 03rd quarter ended 31 December 2021

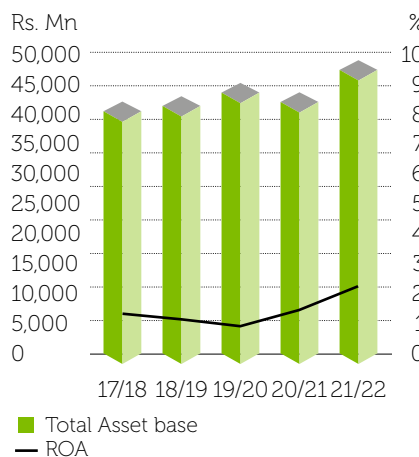
Decade at a Glance

For the year ended 31st March	2022 Rs. '000	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
Operating Results										
Income	7,127,706	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
Interest expense	2,586,220	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
Non Interest expenses	3,072,566	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
Profit before tax	1,468,920	827,501	691,791	786,653	858,771	313,679	802,645	911,884	824,331	732,069
Provision for taxation	457,370	213,358	320,082	328,580	344,706	111,664	297,626	280,612	148,969	101,278
Net profit for the year	1,011,550	614,143	371,708	458,073	514,065	202,015	505,019	631,272	675,362	630,791
Dividends	345,690	-	60,120	-	45,090	-	21,042	88,677	30,060	82,665
As at 31st March										
Assets										
Liquid assets	3,569,782	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
Investments	2,343,510	2,316,531	1,055,767	2,339,990	1,509,192	3,319,973	3,559,791	4,202,760	2,892,173	2,980,019
Debentures	-	-	-	-	-	10,200	10,400	10,700	10,700	10,773
Advances	34,702,466	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
Other assets	626,453	737,306	640,205	619,565	638,866	656,452	226,532	157,544	419,479	718,304
Property, plant & equipment	3,952,290	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
Right-of-use assets	181,499	180,357	223,255	-	-	-	-	-	-	-
Leasehold Property	39,802	40,270	40,739	41,207	41,672	42,140	42,609	43,076	43,545	44,013
Intangible Assets	28,235	47,299	45,987	64,211	48,979	12,578	12,386	3,344	3,714	4,681
Investment Property	220,717	237,381	246,166	198,431	172,795	158,340	448,234	198,769	-	-
Investment in Associates	1,334,821	1,234,582	1,260,144	1,267,430	1,006,506	995,977	927,318	794,381	777,127	695,670
Total Assets	46,999,575	41,749,548	43,171,119	41,354,565	40,355,948	37,492,664	33,964,707	28,408,825	23,499,218	21,222,946
Liabilities										
Bank overdraft	395,159	86,451	86,567	186,276	254,238	1,092,434	412,472	272,634	279,269	999,036
Borrowings	7,022,730	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
Deposits from customers	26,349,272	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
Other liabilities	2,258,078	1,935,561	2,242,319	2,361,514	2,017,656	1,349,453	1,555,245	953,057	618,694	860,501
	36,025,239	31,439,978	34,272,792	32,681,701	31,672,862	29,625,399	26,310,476	20,629,060	17,232,833	15,516,588
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	10,938,336	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
	10,974,336	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
Total Share Holder's Funds										
& total liabilities	46,999,575	41,749,548	43,171,119	41,354,565	40,355,948	37,492,664	33,964,707	28,408,825	23,499,218	21,222,946

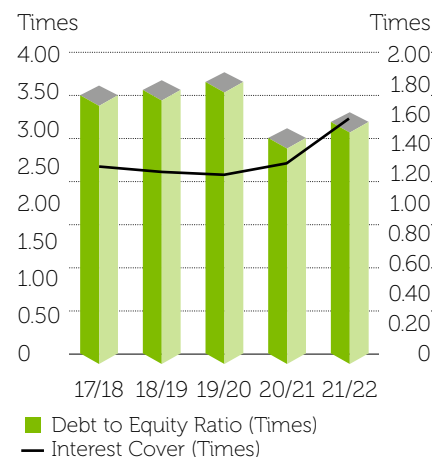
Gross Revenue



Total Asset Base & ROA

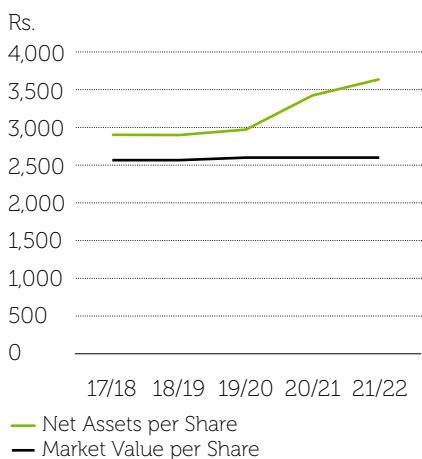


Debt to Equity & Interest Cover

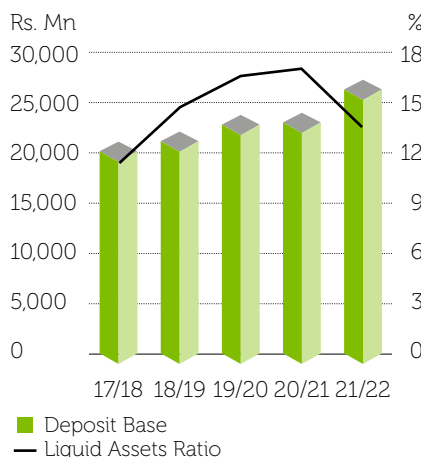


For the year ended 31st March	2022 Rs. '000	2021 Rs. '000	2020 Rs. '000	2019 Rs. '000	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000
Financial Position										
Total Assets to Shareholders funds - (Times)	4.28	4.05	4.85	4.77	4.65	4.77	4.44	3.65	3.75	3.72
Debt to Equity - (Times)	3.08	2.86	3.60	3.50	3.42	3.59	3.23	2.53	2.65	2.57
Liquid assets as a % of deposits	13.55	17.07	16.63	9.59	11.51	10.94	11.89	12.93	12.75	17.00
Investor										
Return on shareholders' funds - (%)	9.22	5.96	4.18	5.28	5.92	2.57	6.60	8.11	10.78	11.05
Return on Average Assets - (%)	2.28	1.45	0.88	1.12	1.32	0.57	1.62	2.43	3.02	3.25
Assets per share - (Rs.)	3,651	3,430	2,960	2,885	2,889	2,617	2,546	2,588	2,085	1,898
Earnings per Share - (Rs.)	336.51	204.31	123.66	152.39	171.01	672.00	168.00	210.00	224.67	209.84
Dividend per Share - (Rs.)	115.00	-	20.00	-	15.00	-	7.00	29.50	20.00	27.50
Dividend Cover - (Times)	2.93	-	6.18	-	11.40	-	24.00	7.12	11.23	7.63
Dividend Payout - (%)	0.34	-	16.17	-	8.77	-	4.17	14.05	8.90	13.10
Interest Cover - (Times)	1.57	1.26	1.18	1.20	1.24	1.10	1.38	1.47	1.37	1.39
Growth										
Growth in income - (%)	9.71	(14.63)	(0.37)	9.37	23.71	25.45	4.99	4.65	21.53	40.76
Growth in Interest Expenses - (%)	(19.67)	(16.21)	(0.50)	4.27	18.10	49.46	7.73	(12.08)	18.62	84.99
Growth in Other Expenses - (%)	25.44	(20.37)	2.88	22.45	8.55	36.01	9.77	45.87	37.09	6.05
Growth in Profit before Tax - (%)	77.51	19.62	(12.06)	(8.40)	180.21	(60.92)	(11.98)	10.62	12.60	16.99
Growth in Profit after Tax - (%)	64.71	65.22	(18.85)	(10.89)	154.47	(60.00)	(20.00)	(6.53)	7.07	3.39
Growth in Total Assets - (%)	12.58	(3.29)	4.39	2.47	7.64	10.39	19.56	20.89	10.73	20.54
Growth in advances - (Net) (%)	16.69	(9.22)	2.55	0.03	11.48	14.34	28.69	20.27	16.92	32.53
Growth in Deposit Base - (%)	14.26	1.08	7.74	5.50	17.95	7.60	15.27	20.17	35.53	37.26
Growth in Shareholders Funds - (%)	6.45	15.86	2.60	(0.12)	10.37	2.78	(1.61)	24.15	9.81	4.23
Statutory ratios										
Core Capital Ratio - (Minimum 5%)	15.45	15.31	13.56	14.98	16.24	17.17	19.35	21.70	22.52	20.83
Risk Weighted Capital Ratio - (Minimum 10%)	16.84	17.07	15.25	16.69	17.36	14.26	15.75	15.27	17.32	22.40
Liquid assets - (%)	13.57	17.07	16.63	14.77	11.40	10.81	11.73	12.45	12.78	17.11

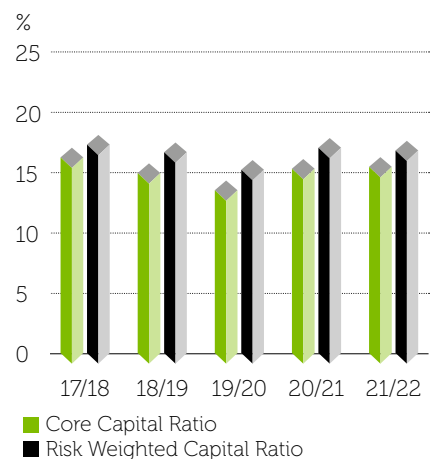
Net Assets per Share & Market Value per Share



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.

Effective Interest Rate

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. the profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

F

Fair Value

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in other entity.

I

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired Loans

Loans where identified impairment provisions have been raised and also include loans which are collateralized or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Impairment allowances

Impairment allowances are a provision held as a result of the rising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

Impairment Provision Cover

Total impairment provision expressed as a percentage of non-performing loans.

Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Intangible Asset

An Intangible Asset is an identifiable non-monetary asset without physical substance.

Interest Cover

Profits before interest and taxes divided by the interest cost. This ratio measures the number of times Interest is covered by the current year's profits before interest and taxes.

K

Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with banks free from any charge or lien and Treasury Bills and Bonds.

Liquid Assets ratio

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total deposits and outstanding borrowings excluding secured borrowings and borrowings considered as capital funds.

Loans and Receivables

Conventional loan assets that are unquoted (originated).

Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to loss in the event of obligor default

Loan to Value Ratio –

LTV ratio is a computation that expresses the amount of a first disbursement as a percentage of the total appraised value of assets kept as security.

M

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Market Value Added (MVA)

The difference between the current market value of a firm and the capital contributed by investors. Market value added represents the wealth generated by a company for its shareholders since inception. Since the main goal of a for-profit organization is to maximize shareholders' wealth, market value added is an important measure to analyze how much value a company has added to the wealth of its shareholders. Higher market value added indicates higher wealth generation.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net assets per share

Shareholders' funds excluding preference shares divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amount a Financial Institution earns on assets such as Loans and securities and what it incurs on liabilities such as deposits and borrowings.

Net Interest Margin

Net interest income expressed as a percentage of average assets.

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.

Glossary

P

Price earnings ratio

Market price of an ordinary share divided by earnings per share.

R

Related parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Return on average assets

Net profit after tax divided by the average assets.

Return on shareholders' funds

Net profit after tax divided by the shareholders' funds.

Risk Weighted Assets

On-Balance Sheet assets and the credit equivalent of off-Balance Sheet assets multiplied by the relevant risk weighting factors prescribed by the Central Bank of Sri Lanka.

S

Segmental Analysis

Analysis of financial information by segments of an organization specifically, the different Industries and the different business lines in which it operates.

Shareholders' funds

Total of stated capital plus capital and revenue reserves.

Sustainability report

Sustainability reporting is a practice of measuring, disclosing, and being accountable for organizational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organization.

T

Tier I capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier 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	IFRS	International Financial Reporting Standard	SEC	Securities and Exchange Commission
AGM	Annual General Meeting	IIRC	International Integrated Reporting Council	SLC	Specialized Leasing Company
ALCO	Assets and Liabilities Management Committee	IMF	International Monetary Fund	SLA	Statutory Liquid Assets
AML	Anti-Money Laundering	IRMC	Integrated Risk Management Committee	SLAS	Sri Lanka Accounting Standard
ASPI	All Share Price Index	IS	Information Systems	SLFRS	Sri Lanka Financial Reporting Standard
ATM	Automated Teller Machine	IT	Information Technology	SME	Small and Medium Enterprises
AWPLR	Average Weighted Prime Lending Rate	IUCN	International Union for Conservation of Nature	UN	United Nations
BCP	Business Continuity Plan	KMP	Key Management Personnel	UNGC	United Nations Global Compact
BN	Billion	KPIs	Key Performance Indicators	USD	US Dollar
BOD	Board of Directors	KRIs	Key Risk Indicators	VAT	Value Added Tax
CAR	Capital Adequacy Ratio	KYC	Know Your Customer	WHT	Withholding Tax
CASL	The Institute of Chartered Accountants of Sri Lanka	L&R	Loans and Receivables	YoY	Year on Year
CBSL	Central Bank of Sri Lanka	LCB	Licensed Commercial Bank	YTM	Yield to Maturity
CCTV	Closed-Circuit Television	LGD	Loss Given Default		
CEO	Chief Executive Officer	LFC	Licensed Finance Company		
CFO	Chief Financial Officer	LKAS	Sri Lanka Accounting Standards		
CRO	Chief Risk Officer	LKR	Sri Lankan Rupees		
CSE	Colombo Stock Exchange	LTV	Loan to Value		
CSR	Corporate Social Responsibility	MI	Mercantile Investments and Finance PLC		
DPS	Dividend Per Share	MIS	Management Information System		
DR	Disaster Recovery	MN	Million		
DRL	Debt Repayment Levy	NBT	Nation Building Tax		
ECL	Expected Credit Loss	NPA	Non-Performing Advances		
EIR	Effective Interest Rate	NII	Net Interest Income		
EPF	Employees' Provident Fund	NIM	Net Interest Margin		
EPS	Earnings per Share	NO.	Number Of		
ESC	Economic Service Charge	NPL	Non-Performing Loans		
ETF	Employees' Trust Fund	OCI	Other Comprehensive Income		
EVA	Economic Value Addition	ODS	Ozone Depleting Substances		
EY	Ernst and Young	PAT	Profit after Tax		
FTRA	Financial Transaction Reporting Act	PAYE	Pay As You Earn		
FVOCI	Fair Value Through Other Comprehensive Income	PCA	Prompt Corrective Action		
FVTPL	Fair Value Through Profit and Loss	PD	Probability of Default		
FY	For the Year	PER	Price Earnings Ratio		
GDP	Gross Domestic Product	PLC	Public Limited Company		
GHG	Green House Gas	PR	Personnel Relationship		
GRI	Global Reporting Initiative	PVT	Private Limited Company		
HODs	Head of Departments	ROA	Return on Assets		
HP	Hire Purchase	ROCE	Return on Capital Employed		
HR	Human Resource	ROE	Return on Equity		
HRIS	Human Resource Information System	RWA	Risk-Weighted Assets		
HTM	Held to Maturity	ROU	Right Of Use		
		SBUs	Strategic Business Units		

Corporate Information

GRI 102-1, 102-3, 102-5

Name of the Company

Mercantile Investments and Finance PLC

Legal Form

Public Limited Liability Company incorporated in Sri Lanka under the Companies Ordinance No 51 of 1938 and re-registered under the Companies Act No. 07 of 2007. A licensed finance company under the Finance Business Act No 42 of 2011.

Company Registration Number

PB 76 PQ

Tax Payer Identification Number

104021794

VAT Registration Number

104021794 7000

Registered Office

No. 236 Galle Road,
Colombo 3

Head Office

No. 236 Galle Road, Colombo 3
Telephone: 2343720 – 7
Fax: 2434524
Email: mercantile@mi.com.lk
Website: <http://www.mi.com.lk>

Board of Directors

Pandithasundara Dinuka Dilhan Perera
(Acting Chairman)
Gerard George Ondaatjie
(Managing Director)
Shermal Hemaka Jayasuriya
(Finance Director)
Angeline Myrese Ondaatjie
Travice John Ondaatjie
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 -
(Chairman 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/
Director (Non-Board)
Thusitha Indunil Jayawardana -
Assitant 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

Bankers

Commercial Bank of Ceylon PLC
Hatton National Bank PLC
Seylan Bank PLC
Sampath Bank PLC
NDB Bank PLC
Nations Trust Bank PLC
Peoples Bank
Bank of Ceylon
Union Bank PLC
PanAsia Bank PLC
Cargills Bank PLC
Public Bank
DFCC

Credit Rating

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

Branch Network

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@ami.com.lk	Kularuwan Jayarathne kularuwan.j@ami.com.lk 0712498231
	Micro Unit #15, Mosque lane Colombo 03, Sri Lanka.	+94-11-2339895	+94-11-2339896		Tharanga Peiris tharanga.d@ami.com.lk 0717327978
	Corporate Department #236, Galle Road, Colombo 3, Sri Lanka.	+94-11-2343720	+94-11-2390113		Niranjan Edirisinghe niranjan.e@ami.com.lk 0710582670
2.	Anuradhapura Branch #521/6, Maithreepala Senanayake Mawatha, Anuradhapura, Sri Lanka.	+94-25-2224886	+94-25-2224887	mianuradhapura@ami.com.lk	Prabhath Weerasinghe prabhath.w@ami.com.lk 0712498597
3.	Akuressa Branch #124, Matara Road, Akuressa, Sri Lanka.	+94-41-2284752	+94-41-2284752	miakuressa@ami.com.lk	Gihan Ganganath gihan.g@ami.com.lk 0712498336
4.	Ampara Branch #975, Browns Junction, D.S.Senanayake Road, Ampara, Sri Lanka.	+94-63-2224255	+94-63-2224255	miampara@ami.com.lk	Kelum Priyankara kelum.s@ami.com.lk 0712498330
5.	Awissawella Branch #93/1 Colombo Road Ukwatta, Awissawella, Sri Lanka.	+94- 36-2235733	+94-36-2235734	miawissawella@ami.com.lk	Dharshana Piyaratne dharshana.p@ami.com.lk 0714158484
6.	Balangoda Branch #27, Haputhale Road, Balangoda, Sri Lanka	+94-45-2287605	+94-45-2287606	mibalangoda@ami.com.lk	Danthika Amarasinghe danthika.a@ami.com.lk 0710577104
7.	Bentota Branch #149 1/2, Colombo Road, Bentota, Sri Lanka.	+94-34-2275402	+94-34-2275403	mibentota@ami.com.lk	Shakthi De Silva shakthi.d@ami.com.lk 0712498362
8.	Chilaw Branch #288L, Colombo Road, Maikkulama, Chilaw Sri Lanka.	+94-32-2224244	+94-32-2224245	michilaw@ami.com.lk	Nandana Pradeep nandana.p@ami.com.lk 0712498393
9.	Elpitiya Branch # 44C/44D,Pituwala Road, Elpitiya, Sri Lanka	+94-912491300		mielpitiya@ami.com.lk	Chavana Mahage chavana.d@ami.com.lk 0712498389
10.	Embilipitiya Branch #127 C, New Town Road, Embilipitiya, Sri Lanka.	+94-47-2261351	+94-47-2261352	miembilipitiya@ami.com.lk	Dimuthu Mahesh dimuthu.m@ami.com.lk 0712498340
11.	Galle Branch #12, Park Road, Kaluwela, Galle, Sri Lanka.	+94-91-2246387	+94-91-2246388	migalle@ami.com.lk	Subash Niroshan subash.n@ami.com.lk 0712439750
12.	Gampaha Branch #116, Colombo Road, Gampaha, Sri Lanka.	+94-33-2234463	+94-33-2234463	migampaha@ami.com.lk	Vidura Wijewickrama vidura.t@ami.com.lk 0712498226
13.	Gampola Branch #190, Kandy Road, Gampola, Sri Lanka.	+94-81-2076561	+94-81-2076563	migampola@ami.com.lk	Chinthaka Gamanayake chinthaka.g@ami.com.lk 0702579972
14.	Giriulla Branch # 116, Kurunegala Road, Giriulla	+94-37-2050447		migiriulla@ami.com.lk	Buddika Karunaratne buddhika.k@ami.com.lk 0713216967

Branch Network

	Address	Telephone	Fax	Branch Email	Details of Branch Head
15.	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
16.	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
17.	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
18.	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
19.	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
20.	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
21.	Kesbewa Branch #53, Horana Road, Honnaththara, Kesbewa, Sri Lanka.	+94-11-2545847		mikesbewa@mi.com.lk	Mohan Janada Deegodage mohan.j@mi.com.lk 070-3013640
22.	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
23.	Kotahena Branch #313, 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
24.	Kottawa Branch #341, High Level Road, Pannipitiya, Kottawa, Sri Lanka.	+94-11-2838145	+94-11-2838146	mikottawa@mi.com.lk	Amila Edirisinghe amila.e@mi.com.lk 0717837507
25.	Kuliyapitiya Branch #286, Madampe Road, Kuliyapitiya, Sri Lanka.	+94-37-2282464	+94-37-2282465	mikuliyapitiya@mi.com.lk	Chanakya Nawarathna chanakya.n@mi.com.lk 0710122782
26.	Kurunegala Branch #257, Negombo Road, Kurunegala, Sri Lanka.	+94-37-2222021	+94-37-2222021	mikurunegala@mi.com.lk	Hasintha Chandima Hettige chandima.h@mi.com.lk 0701840755
27.	Maharagama Branch #176, Lake Road, Maharagama, Sri Lanka	+94-11-2848925	+94-11-2848925	mimaharagama@mi.com.lk	Dinesh Seneviratne dinesh.s@mi.com.lk 0712498430
28.	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
29.	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

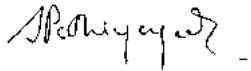
	Address	Telephone	Fax	Branch Email	Details of Branch Head
30.	Moratuwa Branch #716, Galle road, Idama, Moratuwa, Sri Lanka.	+94-11-2647525	+94-11-2647526	mimoratuwa@mi.com.lk	Dhanushka Galanga galanga.d@mi.com.lk 0712498411
31.	Malabe Branch #742 B, Thalangama North, Malabe, Sri Lanka.	+94-11-2790359		mimalambe@mi.com.lk	Sameera Jayasooriya Sameera.j@mi.com.lk 0703312896
32.	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
33.	Nittambuwa Branch #550/1/12, Colombo Road, Malwatte, Nittambuwa, Sri Lanka	+94-33-2298788	+94-33-2298789	minittambuwa@mi.com.lk	Lasantha Perera lasantha.p@mi.com.lk 0713602413
34.	Polonnaruwa Branch #05/142, Tamasha Place, Polonnaruwa, Sri Lanka	+94-27-2227022	+94-27-2227022	mipolonnaruwa@mi.com.lk	Darshana Weerakody darshana.w@mi.com.lk 0711204864
35.	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
36.	Premier Centre #219, Dr. N.M.Perera Mw, Colombo 08, Sri Lanka.	+94-11-2683445	+94-11-2683478	mipremiercentre@mi.com.lk	Srinath Rabel srinath.r@mi.com.lk 0712498240
37.	Rathnapura Branch #654/A, Colombo road, Rathnapura, Sri Lanka.	+94-45-2233188	+94-45-2233188	miratnapura@mi.com.lk	Chinthaka L Seram chinthaka.s@mi.com.lk 0712498350
38.	Tissamaharama Branch #19/6, Sagara Building, Palliyawatta, Tissamaharama, Sri Lanka.	+94-47-2239341	+94-47-2239342	mitissa@mi.com.lk	Gayana Priyankara priyankara.g@mi.com.lk 0701599026
39.	Tambuttegama Branch #1, Rajina Junction, Thambuttgama, Sri Lanka.	+94-25-2275276		mithambuttegama@mi.com.lk	Damith Rathnayake damith.c@mi.com.lk 0701599009
40.	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
41.	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
42.	Wattala Branch #120, Old Negombo Road, Wattala, Sri Lanka.	+94-11-2930793	+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-ninth (59) Annual General Meeting of MERCANTILE INVESTMENTS AND FINANCE PLC will be held at No 236, Galle Road, Colombo 3, on 30th June 2022, 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 2022 and the Report of the Auditors thereon.
- To re-elect Mr. P. D. D. Perera as a Director in terms of Articles 23(7) and 23(8) of the Articles of Association of the Company.
- To re-elect Ms. A. M. Ondaatjie as a Director in terms of Articles 23(7) and 23(8) of the Articles of Association 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 ratify the 2nd Interim dividend of Rs.50.00 per share paid as the final dividend for the year ended 31st March 2022.
- To authorize the Board of Directors to determine donations.
- In terms of Rule 713.2 (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 said requirement.

By Order of the Board,



Ms. Sonali Pethiyagoda
Company Secretary
Colombo

30th May 2022

Notes

1. A member who is entitled to attend and vote at the above- mentioned meeting is entitled to appoint a proxy, who need not also be a member to attend instead of him/her.
2. A Form of proxy is enclosed in the report.
3. The completed Proxy Form should be deposited at the Registered Office of the Company at No 236, Galle Road, Colombo 3, not less than 48 hours before the time fixed for holding the meeting.

Form of Proxy

I/We* of

being a member/members* of MERCANTILE INVESTMENTS AND FINANCE PLC, do hereby appoint;

of or failing him/her.

- | | |
|------------------------------------------|----------------|
| Mr. 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. Anil Lasantha Naomal Dias | or failing him |
| Ms. Eranjalie Deepthie Wickramasuriya | or failing her |
| Mr. Malwattage Kanchana Sujeewa Pieris | or failing him |

as my/our* proxy to represent me/us* and to vote for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held on 30th June 2022 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 31 st March 2022, with the Report of the Auditors there on.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. P. D. D. Perera 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 re-elect Ms. A. M. Ondaatjie retiring in terms of Article 23(7) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. 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"/>
5. To ratify the 2 nd Interim Dividend of Rs. 50.00 per share as the final dividend for the year ended 31 st March 2022.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorize the Board of Directors to determine contributions for charities and other donations for the year 2021/2022	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our* hand this day of 2022.

.....
Signature of Shareholder/s

Note: Please delete the inappropriate words.

INSTRUCTIONS AS TO COMPLETION

- 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.
- 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.
- 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.
- 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 2021/22 (Please scale from Excellent to Poor)

Theme & Layout	Content & Disclosures	Directness & Transparency
Excellent <input type="checkbox"/>	Excellent <input type="checkbox"/>	Excellent <input type="checkbox"/>
Good <input type="checkbox"/>	Good <input type="checkbox"/>	Good <input type="checkbox"/>
Average <input type="checkbox"/>	Average <input type="checkbox"/>	Average <input type="checkbox"/>
Poor <input type="checkbox"/>	Poor <input type="checkbox"/>	Poor <input type="checkbox"/>

Feedback and any suggestions to improve content:

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As a stakeholder any other suggestions, improvements and concerns to be addressed:

.....

.....

.....

.....

Your Name :

Your Tel/Email :

Your Organization & Designation (If Applicable) :

Finance Director,

Mercantile Investments & Finance PLC,
No.236,
Galle Road,
Colombo 03.
Tel : +94 11 2343720-7

Minimize waste by informing the Company Secretary to email a soft copy of the Annual Report or log on to our website and view the report.



Mercantile Investments and Finance PLC
236, Galle Road, Colombo 03, Sri Lanka
Tel: +94-112343720-7 | E-Mail: mercantile@mi.com.lk