



Mercantile Investments  
and Finance PLC



# Navigating Our Way

Mercantile Investments and  
Finance PLC

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**ANNUAL REPORT**  
**2022/23**

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# Navigating Our Way

In a year that challenged us to redefine our ways of doing business, we at Mercantile Investment demonstrated our inherent resilience as we made sustainable progress.

Over the years, our purpose for financial inclusivity has only grown stronger, driving us to discover new, lean ways to grow as we navigate an ever-changing, yet possibility-filled financial environment.

By adopting stringent and cost effective methodologies, we are ensuring quality and wellbeing through every strata, especially through a renewed focus on our expanding product lines. It is what inspires us and propels us, as we navigate a dynamic and challenging sphere, in our own unique way...

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## Navigating our Journey



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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.

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## Capitals



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



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



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



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



**Infrastructure:** Physical resources that support all our business operations



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

## Capital Management Report



### Financial Wealth –

Pages 46 to 57



### Alliances –

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### Human Strength –

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### Infrastructure –

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### Nature –

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### Committee Reports

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### Other Information

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## on Icons

### 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



# Navigating our Game Plan





## OUR JOURNEY

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## Overview About this Report



We are proud to unveil our 10th Integrated Annual Report to stakeholders, made concise with e-website facilitating further comprehensive reporting, in accordance with International Integrated Reporting Council (IIRC) guidelines and sustainability disclosures established by the Global Reporting Initiatives (GRI). This Report demonstrates our commitment to creating value for all stakeholders through a strategic approach coupled with integrated thinking and responsive decision-making. It highlights the operational and financial performance for the financial year 2022/23, emphasising the progress made in financial and non-financial aspects throughout our journey, for a better understanding of the readers.

### REPORTING PARAMETERS AND FRAMEWORKS

GRI 2-2, 2-3, 2-4, 2-25

### SCOPE OF THE REPORT AND CONSOLIDATION

GRI 2-2

This Integrated Report depicts the primary operations of MI within local territories, including its business clusters and key support areas for the period spanning 1st April 2022 to 31st March 2023. To provide a comprehensive view, the Report includes comparative figures from previous years and up to three additional years for specific disclosures (total of five years).

We took care to include significant material matters, positive and negative, that arose during the reporting period, up to the date the Board authorised the financial statements. MI holds a 26.12% stake in Nuwara Eliya Hotels PLC as an associate company but has no subsidiary holding relationships locally and does not operate internationally.

### TARGET AUDIENCE

GRI 2-3

The primary purpose of this Report is to provide information that meets the needs of our current and prospective investors, including our shareholders and other providers of funding. However, the Report also serves as a valuable source of information for a broader range of stakeholders, including our invaluable customers, employees, business partners, regulators, as well as society and environmental groups.

### MATERIALITY

GRI 2-4, 2-2

We exert the principal of materiality in assessing what information is to be included in the Report. Materiality assessments were based on the significance of the organisation's economic, social and environmental impacts for the period as well its influence on decisions of the stakeholders. During the reporting period, for purpose of deciding disclosure extent, identified various key matters were pivoted and prioritised based on their impact and relevance to stakeholder decision making for reporting.

## Overview About this Report

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 2022, except for changes in the level of materiality from last year to this year, no restatements of opening balances have been carried out during the year.

### EXTENT OF REPORTING

GRI 2-2

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 stay resilient despite the multifaceted challenges of this period.

### EXTERNAL ASSURANCE

GRI 2-5

Area Assured	External Assurance Party	External Assurance Reports/ Certifications/ Assurance Statements
The Audited Financial Statements	Messrs. Ernst and Young, Chartered Accountants	Audit Report (pages 211 to 216)
Compliance with Central Bank Corporate Governance Directions	Messrs. Ernst and Young, Chartered Accountants	Assurance Statement on Corporate Governance Direction Compliance (page 163)
Directors’ Statement on Internal Controls Accuracy	Messrs. Ernst and Young, Chartered Accountants	Limited Assurance Report (page 212)
Sustainability Reporting	Messrs. Ernst and Young, Chartered Accountants	Limited Sustainability Assurance Report (pages 74 to 75)

### RELIABILITY AND COMPLETENESS

Reliability and completeness of our financial and non-financial information has been assured by extracting and deriving this information from various reliable sources and through internal audit and independent external audit assurances.

### COMPARABILITY AND CONSISTENCY

GRI 2-3

We have provided sufficient comparable information throughout the Integrated Annual Report, ranging from one to four years of comparable data, based on what was available to us. We have also ensured consistency across all sections of the Report.

#### Conciseness

We have made concerted efforts to produce a concise Report and this is reflected in each section through the provision of relevant, comprehensive information, in a nutshell. Detailed information wherever necessary has been given in MI’s website under value creation section which should be read in conjunction with this report.

#### Strategic Focus and Future Orientation

We have shared the deployed growth strategies, integrated business philosophy and our prospects in tandem with this years performance results in achieving the Board-approved corporate objectives, vision, mission and value statements.

#### Value Creation and Preservation

At the heart of our business operations lies the process of value creation, a strategic approach to transforming our capital into expected outputs and outcomes, generating both tangible and intangible returns to our stakeholders, while managing trade-offs. Our distinctive value creation process and key components are highlighted in the unique business model we have put to practice, an overview of which is given on pages 34 to 35.

# Overview About this Report

## PRECAUTIONARY APPROACH

GRI 2-25

As a responsible corporate citizen, we acknowledge the far-reaching effects that our operations can have on the economy, society and environment. Whilst extending our support to uplifting economic wellbeing, we remained committed to reducing any negative impact of our actions. By incorporating strategic corporate sustainability ideologies into our business model, we aligned our lending, investment, operational and risk management policies to promote sustainable value creation for our stakeholders while simultaneously mitigating or eliminating any harm to society and the environment from a broader perspective. Through this approach, we aim to achieve long-term success while fostering a healthier, more equitable and sustainable world for future generations.

## Forward-Looking Statements

The contents of this Report include forward-looking statements regarding MI's financial position and operational performance. The actual outcomes could differ from our expectations since these statements depend on the occurrence or nonoccurrence of future events, including opportunities, risks and uncertainties. This is especially true given the highly volatile climate prevailing since the pandemic.

## REPORTING REGULATIONS, PRINCIPLES AND PROTOCOLS

GRI 2-1

### 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'.

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



## Overview About this Report

### Availability of the Annual Report

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

### Concerns and Feedback

GRI 2-3

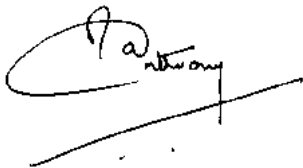
If you have any queries about the information in this Report, please feel free to contact us via preferred mode.

The Chief Financial Officer/Director (Non-Board),  
Mercantile Investments and Finance PLC,  
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Colombo 03  
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### Statement of the Board of Directors on the Integrated Annual Report

The Board acknowledges its responsibility towards ensuring 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 2022/23 provides a true and fair presentation of the Company's financial and operational performance for the financial year under review. This Report was approved by the Board of Directors of the Company on 23rd June 2023.

On behalf of the Board;



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



**Shermal Jayasuriya**  
*Finance Director*

# About Business and Operating Dynamics

## MI's HISTORY

Our history spans 58 years of legacy, with visionary leadership embraced from the Company's inception in 1964, under the helm of founder Chairman George Ondaatjie to the current leadership, has enriched and transformed the enterprise to great heights. The business has established a reputation as a premier, trusted financial service provider, fulfilling evolving customer needs by affording them easy access to credit and investment opportunities through a growing branch network, and in turn, optimising stakeholder value propositions with sustainable growth prospects.

As another milestone in MI's growth trajectory, the Company was listed in the Diri Savi Board of the Colombo Stock Exchange in 2011 and is now categorised as an 'A' graded well capitalised LFC by the regulator based on expanding asset size and capital strength. Our solid foundation, capital strength, longstanding reputation, and performance have positioned us well to seize emerging market opportunities while also enabling us to navigate the multitude of challenges we face, enhancing our strength and resilience throughout this successful journey.

## PRIMARY BRANDS, PRODUCTS AND SERVICES

GRI 2-6

We offer a comprehensive range of financial products that includes a diverse selection of lending and deposit options. In addition to conventional lending products, such as leasing and vehicle backed lending, we have broadened our portfolio to encompass personal and corporate loans, pledge loans, property mortgages, gold loans and micro-finance.

## OUR BUSINESS STYLE

While adopting a customer-centric strategic approach, we continued to build an agile, high-performance culture, deploying proactive risk management practices to remain resilient despite unprecedented challenges. Moreover, we uphold transparent and ethical business practices focusing on financial and non-financial interests of our stakeholders. To achieve broader aspirations of contributing sustainably to a wider society, we have embedded strategic prerogatives into our business model. They deliver sustainable outcomes and impacts, helping us stay committed to corporate sustainability and societal wellbeing.

## CORPORATE STRUCTURE

At present, a majority of MI's shares is held by a small number of large investors. There are no subsidiary or holding company relationships as at the balance sheet date. However, MI owns a 26.12% holding in its associate, Nuwara Eliya Hotels Company PLC, which is a public listed company. Within the Company, a clear organisation structure has been established, delegating authority and responsibility to the Corporate Management and their support staff. (Refer page 78 to 88).

## About Business and Operating Dynamics

### FUNDING STRUCTURE

Our funding is from investor capital, customer deposits and borrowings from banks and other reliable sources. We understand the significance of diversifying funding options and do not materially depend on any single individual or corporate funding line. Except for the increase in the depositor base and alliances formed with new external financing sources, there were no materially significant changes to our funding sources or mix for the year under review.

We continue to deploy resources to expand our reach and product mix to better service our growing clientele.

### MARKETS SERVED

GRI 2-4

We cater to a wide range of businesses and individuals seeking financing and investment opportunities covering all strata of society and communities. While broad-basing our digital presence, making it easier and more convenient for our customers to access our services, we expanded our geographical footprint through physical outreach into the North of Sri Lanka, extending our services from Jaffna to bolster our island-wide branch network to 43.



# Products and Services Offered

GRI 2-6

## 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 us by 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 a customer's repayment capacity.



### TERM LOANS

At MI, we provide a range of term-based funding which is 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 SERVICES

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

## DEPOSIT PRODUCT OFFERINGS



### FIXED DEPOSITS

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



### SAVINGS

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



# Products and Services Offered

## 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.

### EQUITY/DEBT INVESTMENTS



**Equity Investments**  
Primarily investments in ordinary shares of listed entities.



**Money Market, Unit Trust and Other Investments**  
Fixed-return yielding investments in short- and medium-term deposits in rated banks and financial institutions.



**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



## VISION

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



## MISSION

To deploy resources effectively towards innovative financial solutions that will enrich our business partners, whilst assuring profitable investor returns by staying ahead in our sphere of business and creating a sustainable future for our employees and society.



## PURPOSE

Creating meaningful value that exceeds people's expectations.



## PRINCIPLES

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



## VALUES

- Empathetic: Proactively being sensitive to customer expectations.
- Respect: Recognising and encouraging employee efforts through acknowledgement and reassurance.
- Collaborative: Collective and united team efforts in any aspect of work.
- Integrity: Uncompromisingly standing up for what is right.
- Prudence: Creating value for stakeholders in all aspects by being conscious of costs and revenues.
- Competitive: Being fair but aggressive in competition.
- Ethical: Being socially responsible and ensuring all actions are ethical.
- Friendly: The 'Friendly Specialist' in finance, bringing happiness through financial solutions and superior service.

# Direction and Value System

GRI 2-14, 2-22

## Our Sustainability Pledge

We strive to meet the expectations of our stakeholders to the best of our abilities, while also fulfilling our broader economic, social, and environmental responsibilities in a responsible manner, contributing to the development of a strong and sustainable nation. Thus, we have integrated our business objectives in line with the UN's Sustainable Development Goals to fulfill our sustainability pledge and aspirations.

With this directive, the Board and Management efficiently tailored MI's operations to promote exceptional service, while also empowering communities through various social initiatives. To accomplish this, we secured the support of our team and made this sustainability pledge for the greater good of society. Through this pledge and directed efforts thus far, we have gained a deep understanding of people's, communities' and society's evolving needs to support their wellbeing through our financial services, operations and corporate social initiatives.

## MI Products and Services

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



## MI Operations

We reoriented our business processes and aligned our integrated thinking philosophy towards achieving corporate goals while contributing towards economic, social and environmental goals.



## MI Corporate Social Initiatives

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



# Financial Highlights

GRI 2-6

For the year ended 31 March	Actual 2023 Rs. '000	Actual 2022 Rs. '000	Change %	Actual 2021 Rs. '000
<b>Results for the year</b>				
Gross Income	9,035,723	7,127,706	26.77	6,496,631
Interest Income	8,749,868	6,759,925	29.44	6,273,624
Interest Expense	6,134,824	2,586,220	137.21	3,219,671
Profit Before Tax	132,820	1,468,920	(90.96)	827,501
Provision For Taxation	26,767	457,370	(94.15)	213,358
Profit After Tax	106,053	1,011,550	(89.52)	614,143
<b>Financial Position at the year end</b>				
Shareholders' Funds (Stated Capital and Reserves)	11,016,005	10,974,336	0.38	10,309,570
Deposit from Customers	31,223,715	26,349,272	18.50	23,060,274
Loans & Advances, Leases & Hire Purchases (Net)	32,746,812	34,702,467	(5.64)	29,738,640
Total Assets	47,623,304	46,999,575	1.33	41,749,549
<b>Investors</b>				
Gross Dividend	-	345,690	(100.00)	-
Earnings per Share (Rs.)	35.28	336.51	(89.52)	204.31
Dividends per Share (Rs.)	-	115.00	(100.00)	-
Net Assets per Share (Rs.)	3,665	3,651	0.38	3,430
<b>Ratios</b>				
Return on Shareholders' Funds (%)	0.96	9.51	(8.55)	6.39
Return on Average Assets (%)	0.22	2.28	(2.06)	1.45
Interest Cover (Times)	1.02	1.57	(34.93)	1.26
Equity: Assets (%)	23.13	23.35	(0.22)	24.69
Debt: Equity (Times)	3.16	3.08	2.58	2.86
Dividend Payout Ratio (%)	-	34.17	-	-
P/E Ratio (Times)	73.70	7.73	853.83	12.73
Non-performing Loans Ratio (%) *	10.74	8.54	2.20	14.09
Total Assets Growth (%)	1.33	12.58	(11.25)	(3.29)
Advance Growth (Net) (%)	(5.64)	16.69	(22.33)	(9.22)
Deposit Growth (%)	18.50	14.26	4.24	1.08
Operating Profit Margin (%)	1.26	20.57	(20.56)	13.30
Value Added per Employee (Rs. '000)	8,255	5,893	40.08	5,820
<b>Statutory Ratios</b>				
Liquid Assets (%)	18.82	13.57	5.25	17.07
Core Capital Ratios (%) – Minimum required 8.5%	16.45	15.45	1.00	15.31
Total Risk Weighted Capital Ratio (%) – Minimum required 12.5%	18.02	16.84	1.18	17.07

\* The basis of non-performing classification was changed from 180 day (rental in arrears) to 120 day (past due) basis to comply to regulatory requirement changes effective from 1st April 2022.

# Financial Highlights

## Sustainable Performance Trajectory – FY 2022/23

**Net Profit After Tax**  
**> Rs. 100 Million**

**Gross Revenue**  
**> Rs. 9 Billion**  
 With 26.77% YoY Growth

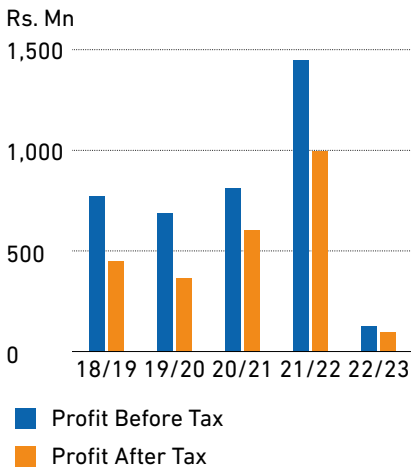
**Deposit Base**  
**Rs. 31 Billion**  
 Mark Reached

**Robust Capital Growth**  
**Shareholder funds**  
 > Rs 11 Billion  
**Core Capital Ratio**  
 > 16 % (Minimum 8.5%)  
**Total Risk Weighted Capital Ratio**  
 > 18 %  
 (Minimum 12.5%)

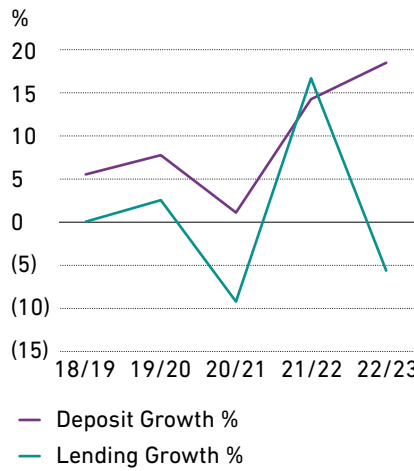
**Asset Quality Strengthening**  
**Non-Performing Loans Ratio**  
 120 days < 11 %  
 90 days < 12 %

**Sound Liquidity Buffers**  
**Liquid Asset Ratio**  
 > 18% (Minimum 10%)

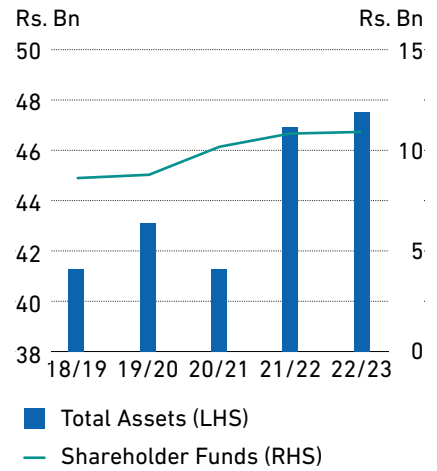
### Earnings Performance



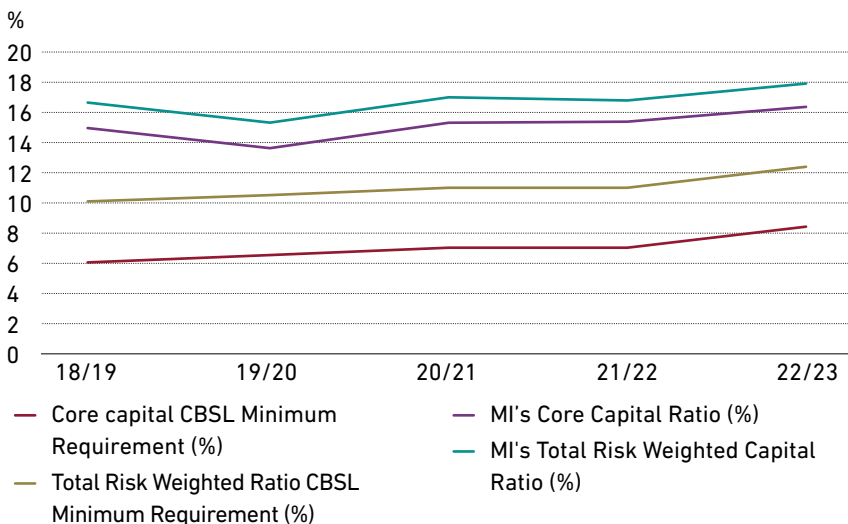
### Deposits and Lending Growth



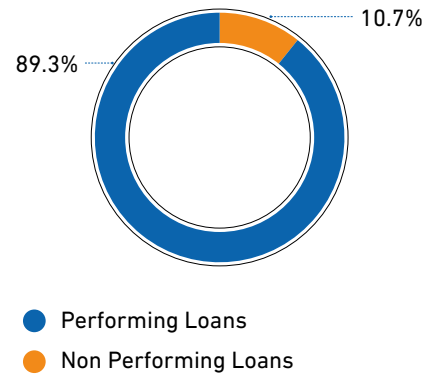
### Total Assets vs Shareholder Funds



### Capital Adequacy



### Asset Quality – FY 2022/23



## Operational Highlights

GRI 2-6

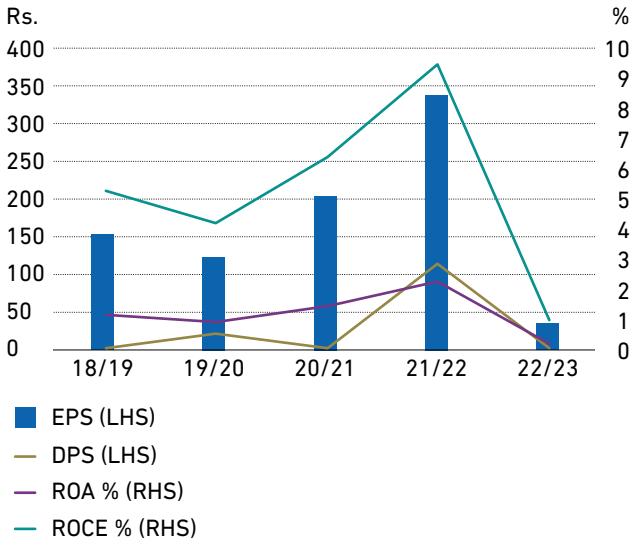
GRI Standard	For the year ended 31st March	2023	2022	Variance (%)	2021
<b>Alliances</b>					
413-1	Total clientele	> 200,000	> 78,000	156%	> 62,000
	New products launched (Number)	-	-		1
204-1	Percentage of purchases from suppliers: Head office, Colombo (%)	58	65	(7)	67
	Other locations of Sri Lanka (%)	42	35	7	33
2-27	Significant fines for product/service (Rs. '000)	-	-	-	-
413-1	Number of CSR Beneficiaries	215	768	-72	601
205-2	Training on anti money laundering (Number of employees)	156	469	-67	60
2-27	Significant fines for violation of laws/regulations (Rs. Million)	-	-	-	-
201-1	Community investment cost (Rs. '000)	1,567	1,506	-14	1,203
201-1	Staff volunteered time on CSR (Hours)	24	196	-88	268
<b>Human Strength</b>					
2-7	Total workforce (Number)	1,097	1,210	-9	1,110
2-7	Female Representation (%)	25	23	2	22
401-1	Recruitments for the year (Number)	170	321	-47	242
202-2	Local hiring of senior managers (%)	5	20	-15	88
401-1	Attrition rate (%)	25	19	6	20
401-3	Retention rate after parental leave (%)	44	100	-56	56
403-2	Number of injuries	6	3	100	5
403-2	Number of lost days	439	39	1,026	160
404-1	Training hours per participant as an average (Hours)	9	13	-31	4
404-3	Employee performance appraisal as a percentage of total workforce (%)	75	71	4	72
	Employee grievances reported and resolved (Number)	-	-	-	-
201-3	Employee benefit liability (Rs. '000)	337,518	272,003	24	322,501
406-1, 408-1, 409-1	Human rights violation	-	-	-	-
<b>Intellect</b>					
	Brand Expenditure (Rs. Million)	25	167	-85	155
	Market Share (%) (Total Assets)	3.0	3.0	-	2.90
<b>Infrastructure</b>					
201-1	Number of new business locations launched	1	3	100	-
	Investment on IT Infrastructure (Invested/ To be invested in Rs. Million)	> 123	> 40	-20	> 50
	Investment in fixed assets (Rs. Million)	130	519	-75	108
<b>Nature</b>					
302-1	Electricity consumption (kWh)	1,274,935	1,293,628	-1	1,266,820
303-1	Water consumption (Units '000)	13,102	11,587	13	11,394
306-2	Paper recycling (Kg)	2,174	995	118	398
	Significant environmental fines (Rs. '000)	-	-	-	-
201-2	Environment protection expenditure (Rs. '000)	152	943	-84	711

# Operational Highlights

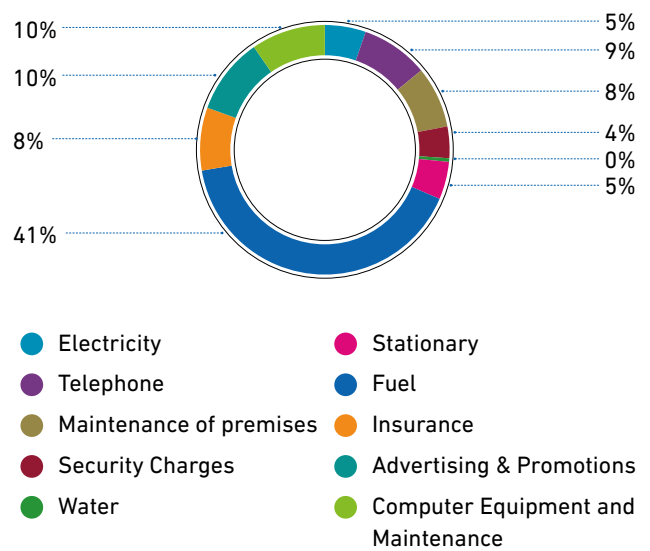
## STAKEHOLDER IMPACT CREATED

### Investors

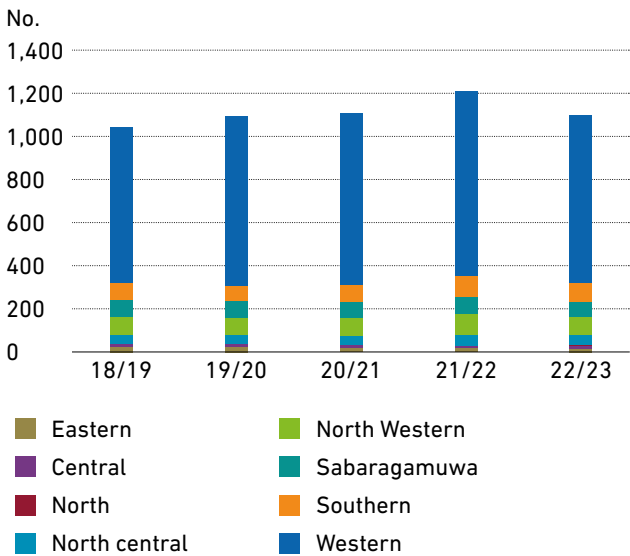
#### Investor Returns



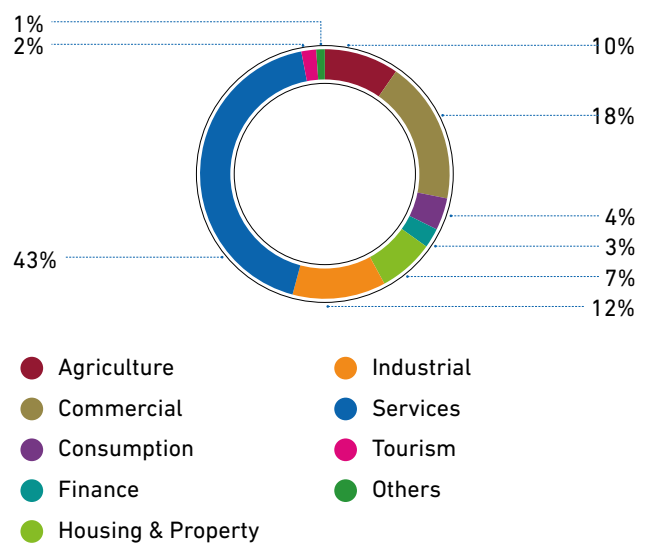
#### Spending on Suppliers



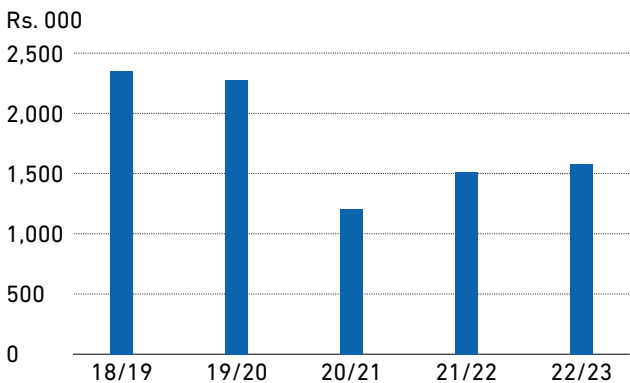
#### Employment Strength



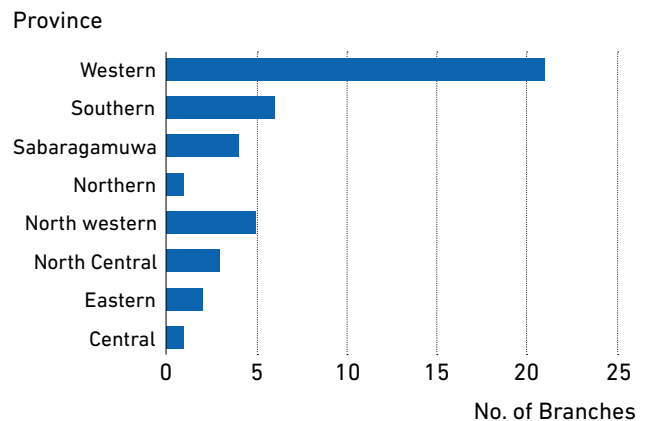
#### Credit Support to Various Sectors



#### Community Investment



#### Branch Composition



# Highlights of the Year

September 2022

Awarding ceremony honoring long service of employees



November 2022

Declaring 2022/23 as a year of knowledge building  
"Technical training on recoveries"



Annual employee get-together under the theme of  
"Fifty Shades of Denims"



December 2022

Going beyond commercial boundaries to assist the needy.  
Donation made to Lady Ridgeway Hospital for Children





# Highlights of the Year

January 2023

Jaffna Branch opening at Chunnakam



March 2023

Expansion of gold loan operations across MI's budding branch network



Reached Rs. 31 Billion mark in mobilisation of public deposits



Kick off of the Scierter IT system migration with project team



## Message from the Chairman

GRI 2-22



**“With the entire NBFIs sector experiencing significant pressure from the phenomenal increase in interest rates coupled with the contraction in credit demand and hyperinflation, our strategies were aimed at sustaining our market positioning and asset quality, while enhancing productivity and staying leaner towards improving our operating performance.”**

**Dear Stakeholders,**

Post-COVID macro-economic pressures and volatility combined with the shifting policy stances of states internationally and domestically, have stifled the livelihoods of millions of individuals across the globe, including those in Sri Lanka. In spite of the country's efforts to recover from the pandemic, the subsequent economic catastrophe that emanated from the combined impact of recurrent foreign exchange shortages and an unprecedented precipitous depreciation of the Sri Lankan Rupee, posed multifaceted macro-economic challenges leading to enormous hardships to Sri Lankans, whilst considerably stifling business growth. These impediments led to a

## Message from the Chairman

shortage of essential food, medication, fuel and gas, as well as extensive power cuts, thereby exacerbating inflation and interest rates pressure in a short span. Year-on-year inflation hit an unprecedented 73.7% by September 2022, impacted by continued import restrictions amidst supply side shortages, rising global commodity prices, monetisation of the fiscal deficit and steep currency depreciation.

Extensive tax reforms covering corporates and individuals, along with a significant increase in the price of electricity, water and other essentials resulted in the deterioration of the purchasing power and living standards of people, breeding further uncertainties to the Sri Lanka's economic future. Repeated trade union action and civil protests hampered normalcy for the people and businesses alike in 2022, making survival and sustenance even more challenging. The situation stabilised gradually in the latter half of the financial year, once political stability was established.

Despite the government making several proactive efforts to ensure the long-term stability of the Sri Lankan economy, including securing the initial tranche of the much-awaited International Monetary Fund (IMF) support, the business environment performed below par in 2022 and the operating context is likely to remain challenging with many uncertainties relating to domestic debt restructuring and proposed other streams of reforms to be implemented under IMF facilitation.

Despite these numerous obstacles confronted throughout the year, Mercantile Investment adopted strategies to stay resilient, navigating the challenging operating conditions with caution whilst contributing to financial sector stability and financial wellbeing of the nation. MI prioritised the provision of immediate respite and support to its customers in spite of being far from our targeted business performance and prospects.

### STAYING RESILIENT AGAINST MULTITUDE OF CONVERGING CHALLENGES

With the entire Non-Bank Financial Institution (NBFI) sector experiencing significant pressure from the phenomenal increase in interest rates coupled with the contraction in credit demand and hyperinflation, our strategies were aimed at sustaining our market positioning and asset quality, while enhancing productivity and staying leaner towards improving our operating performance. These array of challenges and unfavorable economic conditions hampered business growth prospects and eventually pegged back key performance indicators, such as revenue and asset growth and moreover, profitability and capital expenses. Nevertheless, despite the adversity, we stayed resilient managing to conclude the financial year with a steady pre- and post-tax profits of Rs. 132 Mn and Rs. 106 Mn, respectively.

A key highlight was the sharp increase in interest rates that went above 25% which resulted in a significant 137.2% increase in interest expenses, stemming from the repricing of the deposit base and borrowings narrowing interest margins. Although we gradually aligned lending rates with upward moving market rates, interest income grew by only 29.4%, whilst net interest income dropped by 37.3% against the previous year, mainly due to the curtailed credit demand and significant repricing hit experienced across the sector.

However, our enduring ability to swiftly adapt to volatile circumstances, coupled with a precautionary approach to risk management, allowed us to re-strategise our efforts in enhancing productivity and cost optimisation, which allowed us to record a 4.9% dip in overheads despite the hyperinflationary effects. Moreover, by continuing to extend superlative customer service and cementing trust through proactive management and long term bondage, we retained and attracted business from varying

segments to record a noteworthy 18.5% growth in the deposit base, boosting trust and confidence among our depositors during this turbulent period.

Although our lending portfolio dipped by 5.6%, mainly on account of the increase in interest rates and contraction in economic activity, we strived to mitigate the effects of these external shocks by promoting shorter tenor financing such as gold-backed lending, capitalising on rising world gold prices to develop gold services across the country. Despite the industry-wide increase in non-performing advances, we also managed to sustain our asset quality whilst maintaining our 90-day and 120-day NPL controlled at 11.9% and 10.7%, with staunch efforts to improve credit quality and recovery.

Another key highlight was the prudent management of the company's liquidity requirements, despite the challenging economic conditions, providing the much-needed stability to our overall operations. Similarly, by preserving a strong capital position at over Rs. 11 billion, MI's financial solidity remained fortified to withstand the pressures with a tier 1 capital ratio, and a total capital ratio which stood very healthy at 16.45% and 18.02%, respectively, as of 31st March 2023, both well above their respective statutory minimum ratios of 8.5% and 12.5%.

### FORTIFYING CUSTOMER CENTRICITY

In remaining true to our customer-centric ethos, the MI Board and management were committed to offering uninterrupted services even during challenging times. We offered our depositors attractive pricing, passing on the benefit of the interest rate hike, whilst absorbing the repricing hit. Furthermore, MI offered greater flexibility and convenience through process and service enhancements with emphasis on strengthening technology driven solutions as the way forward to gain competitive advantage. We also extended our support to those

## Message from the Chairman

with restricted access to finance to fulfill their needs by extending micro financing, personal loans and gold loan services across the branch network. The company offered financing support to individuals and businesses looking to revitalise and grow. We also proffered relief measures mandated by the Central Bank, while offering tailored customised solutions to borrowers aimed at resuscitation and ultimate revival.

### OUTLOOK TOWARDS AN OPTIMISTIC TRAJECTORY

As the nation embarks on a new financial year with hope and optimism, backed by the IMF support programme, we can expect a gradual revival of the economy with the easing of the monetary policy as against declining inflation and stabilisation of the Rupee. A healthy influx of tourist is already witnessed whilst improving foreign exchange reserves and international sentiments augur well for the business community. Most industries, including the finance sector, are gearing to capitalise on this expected revival from the second quarter of the new financial year.

MI will remain steadfast and resolute against the expected unprecedented challenges of 2023 and beyond. We believe that the awaited domestic debt restructuring will have only a minimal impact on the finance industry as most of the re-profiling in the long-term government securities market is likely to be for the superannuation funds. Thus, we are optimistic of market rates moving down steadily, which will drive credit demand and improve industry margins back to normalcy.

Augmenting from our past track record to forge new paths for progress and growth, we are confident that Mercantile Investments will be able to unleash greater value to its stakeholders. Our journey will be solidified by our strengths, encompassing a robust capital base, longstanding bond with stakeholders and our ability to align and maneuver strategic direction to

demanding environments and evolving dynamic business landscape.

To achieve this, we will align ourselves with the national agenda whilst driving a scalable and profitable business. Our growth strategies will focus on exploring new dimensions and profitable segments, offering differentiated products and services that cater to the changing needs of our customers. However, we will remain steadfast in our commitment to cost optimisation and productivity enhancement in core business lines whilst upholding staunch risk management methodologies and governance principles.

Having embarked on our digital journey, we are hopeful of launching other digital channels that include the mobile wallet facility and broad basing of other digital transacting modes during this year to enhance the customer experience and shorter transacting time. We will stay committed to our planned migration to an advanced external IT solution to bolster technological capabilities that will assist towards operational efficiency, productivity, and customer convenience. In all our endeavors, we will remain true to our core values and principles, advocating our commitment to transparency, accountability and ethical business practices. With this approach, we are confident that we will enhance business growth to pre-COVID levels and beyond to bolster investor returns and serve communities to the levels we aspire.

### APPRECIATIONS

The year under review brought forth enormous difficulties to businesses and people alike. Hence, it was commendable to witness the commitment displayed to stay undeterred. I take this opportunity to extend my gratitude to those who demonstrated their unwavering commitment and support during these tumultuous times, enabling MI to remain resilient.

As the Acting Chairman, I want to express my sincere appreciation to my esteemed colleagues on the Board

for their profound expertise, devotion, and consistent guidance, brought forth and invaluable insights shared during these difficult times. The unwavering spirit and professionalism of our staff was a great strength in helping us navigate through the challenges and reinforced our ability to withstand future headwinds.

I thank Mr. Gerard Ondaatjie, Managing Director, for his staunch leadership and proactive strategic navigation, and all members of the Corporate Management for their hard work and determination.

I express my deep appreciation to the Governor of the Central Bank of Sri Lanka and his able team for their exceptional support and collaboration during the onsite review and offsite surveillance, as well as for their continued regulation of the NBF sector, towards its resilience.

To all our valued customers, I extend my sincere gratitude for your enduring loyalty and trust during these unprecedented times. I also thank our esteemed business partners and agents for their exceptional professionalism and trusted relationships with our organisation. Last but not least, I thank our shareholders and investors for their unshakeable faith in the Board of Directors and the team at MI.

As we move ahead, I reassure all stakeholders that the Board and I remain dedicated and determined to stay focused and positive despite imminent headwinds to surpass challenges that may come during our journey. We will make every effort to ensure continued success and to meet the expectations of our investors whilst striving for greater value addition for our customers, business partners, employees and community.



**Dinuka Perera**  
Acting Chairman  
23rd June 2023

# Managing Director's Review

GRI 2-22



**“Amidst uncertainties and adverse conditions for businesses with persistent economic headwinds, Mercantile Investment was boldly able to navigate the macro-economic confronts successfully. We retained our inherent strengths, staying resilient through focused strategies and a committed workforce, demonstrating the company’s agility to face extraordinary times.”**

## **OPERATING UNDER UNPRECEDENTED TURBULENCE**

The year under review brought magnitude of challenges both globally and domestically which thrust economies into uncertainty and turbulence. As destabilizing shocks to the world economy, from the COVID-19 pandemic to the Russian Federation’s invasion of Ukraine, deepened the global growth slowdown, with severe energy and supply chain disruptions resulting in elevated inflationary effects across the globe.

## Managing Director's Review

Whilst these undesirable developments that unfolded globally cascaded to the domestic front, Sri Lanka was not immune to the global impacts and moreover the local foreign exchange shortages that led to consequential unprecedented challenges, and having possessed a fragile economy, faced its worst economic crisis since independence. The nation had to cope with the emergence of severe domestic macroeconomic pressures, primarily emanating from a deteriorating external financing position. With the pre-emptive default of foreign debt service obligations, international credit rating agencies continued to downgrade the sovereign credit ratings of the nation during the first half of 2022, further heightening the country risk and market volatilities. With the severe tightening of the monetary policy measures from April 2022 that resulted in the rapid escalation of interest rates, cost of funding for the Non-Bank Financial Institution (NBFI) sector surged significantly over 25% to historic high levels since April 2022, though dipping marginally by the end of the financial year under review.

With the soaring inflation recording an all-time high of 73.7% (YoY NCPI), with rapidly depreciating currency and surge in interest rates resulted in a steep contraction in the Sri Lankan economy by 7.8% YoY, stifling most sectors and peoples livelihoods. The impact reverberated across all industries and had a cascading impact on the finance sector. Moreover, extensive tax reforms covering corporates and individuals, along with a significant increase in the price of electricity, water and other essentials caused a deterioration in peoples purchasing power and general living standards of communities whilst creating political unrest and mass protests hampering day to day living and economic activities positively, the eventual political stability and immediate respite measures implemented during the latter part of the year yielded much-needed relief, overcoming supply side shortages brought somewhat stabilizing of the economy to enter into a recovery mode.

Despite the many challenges posed to the business community, many opportunities emerged to reimagine and reinvent business dynamics, pushing corporates to enhance productivity and optimise on innovation including technology as means of yielding better results.

### NBFI SECTOR PROGRESS

Despite the multitude of macro-economic challenges, market volatilities, and heightened pressure on net interest margins, NBFI sector remained resilient, supporting the financial stability of the country. Nonetheless, with the continued import restrictions, contraction of the economic growth and phenomenal increase in interest rates, the sector profitability pegged back by 21% year on year by December 2022, aggravated by high costs of funding from the repricing hit and under par revenue generation. Moreover, in the backdrop of adverse economic conditions and the fall in borrower repayment capacity, the asset quality of the sector further deteriorated. Accordingly amidst these adverse economic conditions coupled with the adoption of 120 days past due date classification change to recognise non performing accounts, sector gross Non-Performing Loans (NPL) ratio averages deteriorated from 11% to 17.5% by 31st December 2022, intensifying pressure on sector profitability, capital adequacy and credit rating.

### HOW WE DISPLAYED RESILIENCE

Amidst uncertainties and adverse conditions for businesses with persistent economic headwinds, Mercantile Investment was boldly able to navigate the macro-economic confronts successfully. We retained our inherent strengths, staying resilient through focused strategies and a committed workforce, demonstrating the company's agility to face extraordinary times. Our robust capital strength, strong liquidity position and the longstanding customer bonding allowed us to reinforce our superior standing in the NBFI sector, despite these adversities.

Prudent planning, futuristic thinking, and stable structures enabled us to conquer the array of unprecedented challenges to stay focused to forge towards anticipated targets though falling short from originally planned growth targets. Setting aside temporarily our plans for growth and expansion, we quickly shifted gears to focus on strategic realignment to adapt and consolidate amidst such unprecedented economic conditions. Hence, whilst managing the repricing hit and heightened pressure on net interest margins, we re-strategised to broad base our product mix dynamics, whilst striving to enhance employee productivity and cost optimisation as a means of strengthening MI's financial standing and core competencies, gearing to capitalise on futuristic opportunities. As part of our resource optimisation strategy, we redeployed staff and resorted to selective recruitment only when essential, efficiently utilizing the excess resources encountered with the curtailed credit demand.

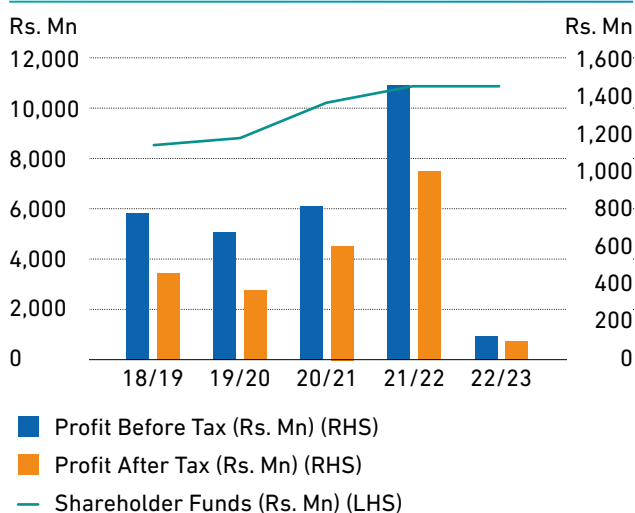
# Managing Director's Review

By staying receptive to our stakeholder needs in difficult times and forging further ahead with the right strategy and adaptability, we were able to sustain our market positioning and asset quality, while enhancing customer convenience and reach. During the year, we continued to broad base our product mix expanding further Gold Loan services across over our branch network, whilst facilitating seamless customer experience and uninterrupted service. Moreover, we expanded our physical outreach by opening a new branch in Chunnakam amplifying our brand presence in Northern Province. As other key highlights, we continued to invest in technology solutions towards service excellence explained further under the capital management section of this Integrated Annual Report.

## FINANCIAL RESULTS

Though faced with extraordinary challenges, the deploying of prompt strategies aided MI to record a post-tax profit of Rs. 106 million, reflecting yet a YoY drop of 89.5%, mainly impacted by the high funding costs experienced with the repricing of the deposit base.

### Profitability and Shareholder Funds

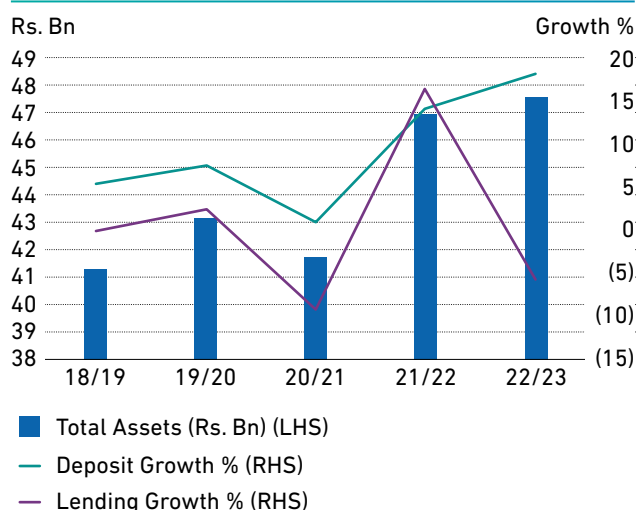


Gross revenue remained up at 26.8% driven by enjoying higher lending yields and government security income than past years. However, as the majority of finance sector loan portfolios being comprised of traditional fixed rate products, MI's core lending income growth stayed modestly up at 14.9%, despite the steep interest rate hike, thus enjoying relatively slower growth in loan book average yields in contrast to funding costs. Nonetheless we enjoyed superlative short terms yields by investing excess funds in government securities which enabled us to record Rs. 955 million as interest income recording an astounding 794.3% YoY growth.

With the heightened repricing hit from a shorter tenor deposit base, interest expense rose steeply by 137.2%, resulting in MI's Net Interest Income declining sharply by 37.3%, narrowing the net interest margin from 10.86% to 6.46%, a similar phenomenon experienced across the sector. Hence, we stayed committed in improving our margins, focusing on high yield lending products while deploying strategy to keep cost of funding optimal in the medium and long term, leveraging on anticipated margin improvements with the expected drop in rates in the later part of 2023.

With higher interest rates applied on lending, saw the shrinking of credit growth across the sector, and as a result MI's lending book recorded a negative growth of 5.6% during the year, reaching Rs. 32 billion. Nonetheless in contrast, I'm pleased to record a commendable 18.5% growth in our deposit base for the year under review, beyond the industry growth of 10.4%, recorded for December 2022.

### Total Assets, Deposits and Lending Growth



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 proactive and staunch recovery strategy enabled us to commendably control the 120 day Non Performing Loans (NPL) to 10.74% by March 2023, despite the industry wide NPL remaining up at 17.5% by December 2022. These concerted efforts enabled us to record an impairment reversal of Rs. 276 million, indicating a notable 87% reduction in related reversals YoY.

## Managing Director's Review

Despite the hyperinflationary effects and the sharp devaluation in Rupee, our unwavering commitment towards cost optimisation and productivity enhancement enabled us to record a 4.9% YoY decline in general overheads, further strengthening our resilience in navigating the ongoing challenges. To match the changes in business conditions, we curtailed recruitments and dipped the workforce strength by 9.3%, and made strives to further enhance productivity.

By further solidifying our financial position from all facets, we continued to uplift trust and confidence of the stakeholders through steady growth in shareholder funds, that reached Rs. 11 Bn by the balance sheet, date keeping the company's strong capital base intact whilst maintaining prudential capital adequacy and liquidity position well above the regulatory norms.

### NURTURING A WINNING TEAM

Our people and culture remained the bedrock of our successful journey and played a pivotal role during this tumultuous period in navigating the multifaceted confronts and to stay resilient despite the adversities. I am extremely inspired by the character and capacity of the MI team, reflected by their ability to cope and adapt to unique challenges. Similarly, I remained acutely aware of how extremely challenging the year was for the team as operational disruptions, slowing business activity and general anxiety regarding the country's future impacted their financial and mental well-being. Hence, we continued to safeguard employee motivation and morale consistently extending career development programs which included mentoring and coaching to build core competencies, skills, and attitudes of employees to bring out their talents even in these hard times.

### RESPONSIVE RESPONSIBLE GOVERNANCE

During this turmoil period, the importance of developing strong governance practices remained pivotal to stay resilient and face for the future. Thus our corporate governance framework backed by a solid skilled and able Board and Management team helped the company navigate effectively in tough conditions to safeguard stakeholder value by embedding integrity, transparency and accountability across all spheres of the organisation. In doing so, we adhered to several voluntary standards and industry best practices, going beyond general standard and compliances to strengthen the governance framework.

Amidst significant volatility and uncertainty, MI Board actively fulfilled its oversight role by supporting the management team and implementing necessary corrective actions. The Board embraced policy directions and guidelines issued by the regulator, which included adoption of the revised corporate governance direction for finance companies and a stream of new regulations to navigate through the pandemic and prevailing adversities. Throughout the year, the Company maintained due compliance with all relevant laws and regulations and I am confident in the Board's appropriate balance of experience, skills, and diverse perspectives, which remained pivotal in effectively overseeing the company's strategic goals including proper risk management applications to mitigate emerging risks and same time manoeuvre towards capitalizing on emerging opportunities.

### FUTURE OUTLOOK

The global economy is predicted to experience a subdued growth trajectory in 2023, which will inevitably have ripple effects on emerging markets and developing economies. Though, there are positive indications that the Sri Lankan macroeconomic fundamentals will gradually improve over the medium-to-long term, the current volatility and hardships will prevail at least till end of this year. I strongly believe that as we strive to regain momentum, our nation is at a crucial juncture, presenting a unique opportunity to redefine our socio-economic development model towards a more robust, inclusive, and sustainable growth trajectory.

Recent policy interventions aimed at restoring macroeconomic stability has resulted in the country reaching a functional equilibrium, bolstered by the approval of the Extended Fund Facility by the International Monetary Fund (IMF). Inflationary pressures are expected to ease gradually in the coming months as external factors stabilize, and supply-side dynamics return to normal. We believe that the awaited domestic debt restructuring will have only a minimal impact on the finance industry and the recent downward trend in interest rates will drive credit demand yet again, whilst improving industry margins to bolster NBFIs sector bottom line.



## Managing Director's Review

It is also anticipated that the Sri Lankan Rupee will gradually stabilize towards the latter part of 2023, driven by the improving tourism and the expected developments in the external sector activity coupled with the gradual restoration of macroeconomic stability, with firm government policy commitment. Whilst the country has commendably embarked on the hard road to recovery, it is imperative to sustain the reform momentum, rebuild trust in public institutions through greater transparency and accountability, and protect the livelihoods of those most affected by the crisis.

In this context it is indeed heartening to witness already the manner in which the MI team has rallied around to ensure we continue to prepare, pre-empt and navigate challenges successfully. As we look positively to the year ahead to meet our immediate goals and targets, we pledge to take a proactive role in shaping and driving the nation's economic recovery.

As we gaze into the future with renewed hope and optimism, Mercantile Investments will remain confidently anchored to the core business principles of customer affinity, prudent lending, and digital augmentation coupled with robust risk management and oversight, to manoeuvre ourselves through headwinds towards competitive advantage. Having embarked on our digital journey, we will stay committed to the planned migration to the advanced external IT solution to strengthen MI's IT landscape to further bolster technological capabilities to enhance operational efficiency, productivity, and customer convenience. Moreover, to bolster the loan book growth, efforts will be made to widen the branch network coupling with our cost optimisation drive of deploying a leaner and more agile operation to yield faster results in active regions.

While reiterating our desire to enhance the value we create for our stakeholders, we believe with the deployment of our next three year corporate plan strategic priorities already initiated will help generate greater sustainable value in line with our visionary aspirations for our stakeholders.

### WORDS OF APPRECIATION

As we look forward to a year of recovery, revival and hope, I deeply appreciate the unwavering commitment displayed and remarkable efforts of MI's corporate management team together with all our staff members for their invaluable contribution during this challenging period.

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 extremely challenging conditions to conclude the year with resilience and consolidation.

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 take this opportunity to extend my gratitude to all our investors for constantly placing their confidence with Mercantile Investments, especially during these unprecedented times. As the Managing Director, I reassure all stakeholders that, despite the multifaceted challenges and predicted headwinds, MI is well-gearred in all aspects to meet our ambitious targets and to drive the business into greater heights.

I reserve my last words of tribute to all our stakeholders that include our customers, business partners and agents to wish them every success in the year ahead and look forward to your continued support towards the company's future endeavours.



**Gerard G. Ondaatje**

Managing Director

23rd June 2023



**Navigating  
our Efficiency**



## MANAGEMENT DISCUSSION AND ANALYSIS

Sustainable Value Creation

Process / 34-44

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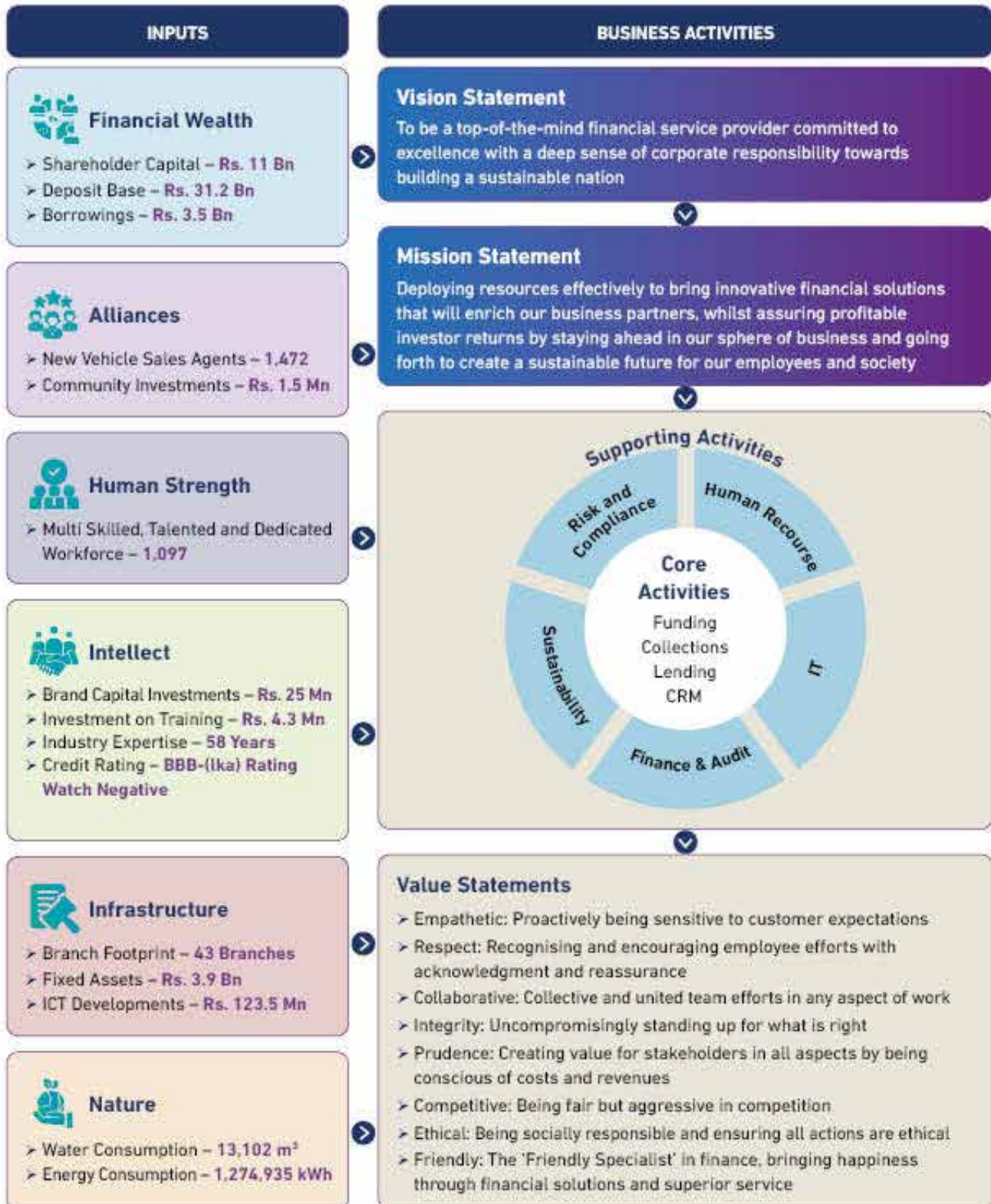
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# Sustainable Value Creation Process

GRI 2-6

## OUR BUSINESS MODEL AND APPROACH TO VALUE CREATION

MI's Business Model represents the integration of vision, mission and corporate strategy towards achieving key goals and objectives and it is designed to be agile in order to meet evolving stakeholder expectations and to stay resilient and successful even during a challenging operating environment. We have embedded strategic sustainable dimensions into our business model, allowing us to strike a balance between financial and non-financial perspectives, in order to enhance our triple bottom line. Our strong capital mix, which encapsulates both financial and non-financial wealth, is well reflected through our strong and accumulated balance sheet capital, strategic and longstanding alliances, upgraded infrastructure and high calibre competent workforce, along with our brand strength and natural and social capital, optimally utilised to ensure the achievement of business targets and wider societal aspiration.



## Sustainable Value Creation Process

The value we created as outputs and outcomes are reflected through the business results (refer Capital Management Report on page 45 of our Annual Report 2022/23) and impacts (refer web content for the Impact Management Report) which are measured, monitored and well-managed to serve stakeholder expectations annually.

Impact Management Report is made available in our website



OUTPUTS	OUTCOMES/IMPACTS	PERFORMANCE
Lease Finance	<b>Financial Wealth</b> <ul style="list-style-type: none"> <li>&gt; Stable and Steady Growth in Financial Position</li> <li>&gt; Growth in Revenue</li> <li>&gt; Sound Liquidity and Capital Adequacy</li> </ul>	<b>Financial Wealth</b> <ul style="list-style-type: none"> <li>&gt; Revenue – &gt; <b>Rs. 9 Bn</b></li> <li>&gt; Profit After Tax – &gt; <b>Rs. 106 Mn</b></li> <li>&gt; Asset Base – &gt; <b>Rs. 47.6 Bn</b></li> <li>&gt; Core Capital Ratio – &gt; <b>16%</b></li> </ul>
Hire Purchase		
Vehicle Loans	<b>Alliances</b> <ul style="list-style-type: none"> <li>&gt; Cordial &amp; Professional Relationship</li> <li>&gt; Increase in Clientele</li> </ul>	<b>Alliances</b> <ul style="list-style-type: none"> <li>&gt; Total Customers – &gt; <b>200,000</b></li> <li>&gt; Leasing Agents – &gt; <b>14,000</b></li> <li>&gt; Deposit Retention – &gt; <b>77%</b></li> </ul>
Term Loans	<b>Human Strength</b> <ul style="list-style-type: none"> <li>&gt; Enhanced Competitive Strengths</li> <li>&gt; Improved Productivity and Agility</li> </ul>	<b>Human Strength</b> <ul style="list-style-type: none"> <li>&gt; No. of Training Programmes – <b>45</b></li> <li>&gt; New Recruitments – <b>170</b></li> <li>&gt; Employee Promotions – <b>243</b></li> </ul>
Micro Finance		
Gold Loan	<b>Intellect</b> <ul style="list-style-type: none"> <li>&gt; Nurturing Employee Knowledge</li> <li>&gt; Brand Development</li> <li>&gt; Business Process Reengineering</li> </ul>	<b>Intellect</b> <ul style="list-style-type: none"> <li>&gt; IT System Enhancements – <b>6</b></li> </ul>
Fixed Deposits	<b>Infrastructure</b> <ul style="list-style-type: none"> <li>&gt; Branch Maintenance</li> <li>&gt; New Branch Openings</li> </ul>	<b>Infrastructure</b> <ul style="list-style-type: none"> <li>&gt; New Branch Openings – <b>1</b></li> <li>&gt; Investment in Fixed Assets – <b>Rs. 130 Mn</b></li> </ul>
Savings		
Property Backed Lending	<b>Nature</b> <ul style="list-style-type: none"> <li>&gt; Minimising Paper Usage</li> <li>&gt; Reduction in Resource Usage</li> </ul>	<b>Nature</b> <ul style="list-style-type: none"> <li>&gt; Paper Recycling – <b>2,174 Kg</b></li> <li>&gt; Environmental Initiatives – <b>2</b></li> <li>&gt; Green Lending – <b>Rs. 1.79 Bn</b></li> </ul>

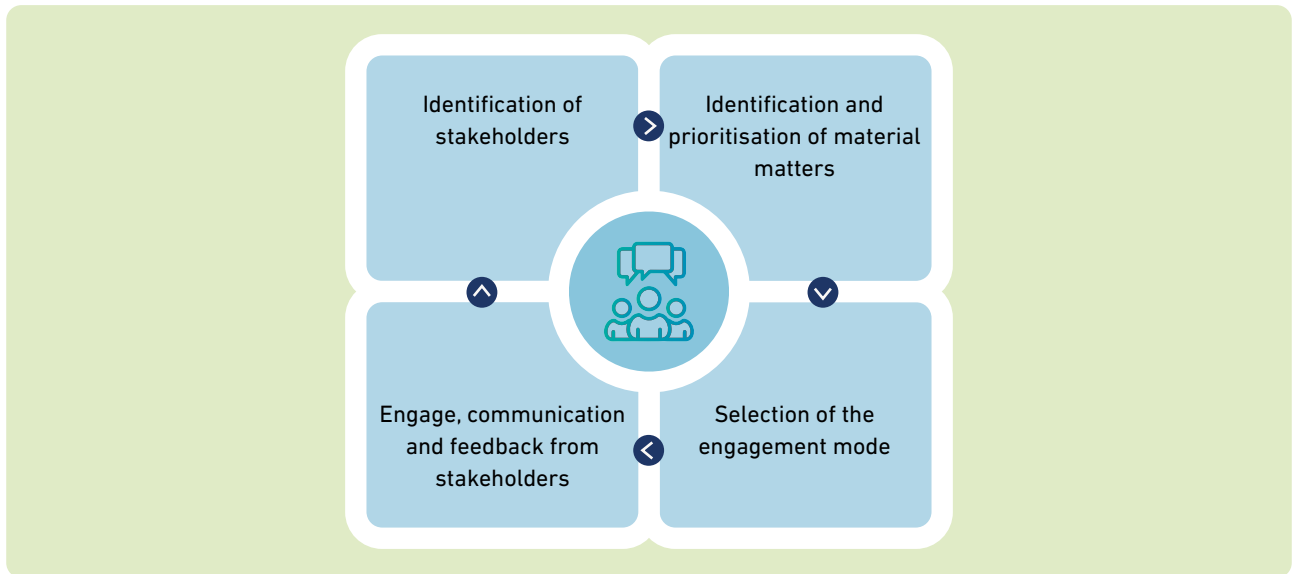
# Sustainable Value Creation Process

## STAKEHOLDER ENGAGEMENT

GRI 2-29

Being a premier finance company having more than 58 years of industry experience, we understand the importance of consistent stakeholder engagement in our value creation process and have aligned our business model to build, enrich and secure long-term constructive relationships. We respect the views and expectations of our stakeholders as it allows us to identify opportunities as well as potential risks and challenges to MI, while striking a balance among the diverse interests of multiple stakeholder groups. We initiated our stakeholder engagement process by ascertaining interests of all stakeholders and mapping them into different segments to customise strategies to address their concerns.

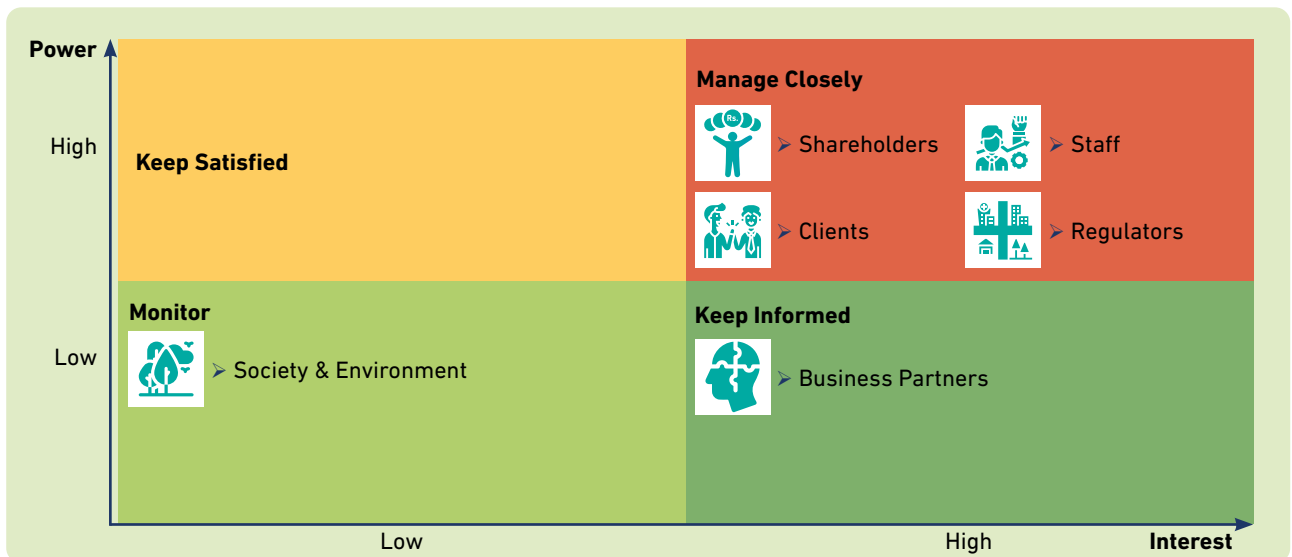
## STAKEHOLDER ENGAGEMENT PROCESS



## STAKEHOLDER MANAGEMENT

Our stakeholders represent a diverse range of individuals and entities that create substantial impact to our value chain at each point of the value addition process. We have carefully segmented our stakeholders, considering their interests and influence, in order to prioritise and fulfil their interests. Aligning our strategic goals and objectives towards MI’s visionary aspirations, we adopted unique and tailored strategies to each of the identified segments and designed customised solutions to address various stakeholder concerns.

## APPROACH ADOPTED TO PRIORTISE KEY STAKEHOLDERS



# Sustainable Value Creation Process

Based on the interest and power vested with each stakeholder segment, we conducted targeted initiatives to manage each group interdependently. We believe such measurements have allowed us to build mutual trust, satisfaction and engagement of high power-high interest stakeholders such as regulators, customers, employees, shareholders and investors. Moreover, we used effective communication channels to keep stakeholders who have less power but high interest in MI informed. As part of MI's sustainable reporting framework, this stakeholder review enabled MI to fine-tune existing strategies and to craft new strategies in order to drive business functions effectively.

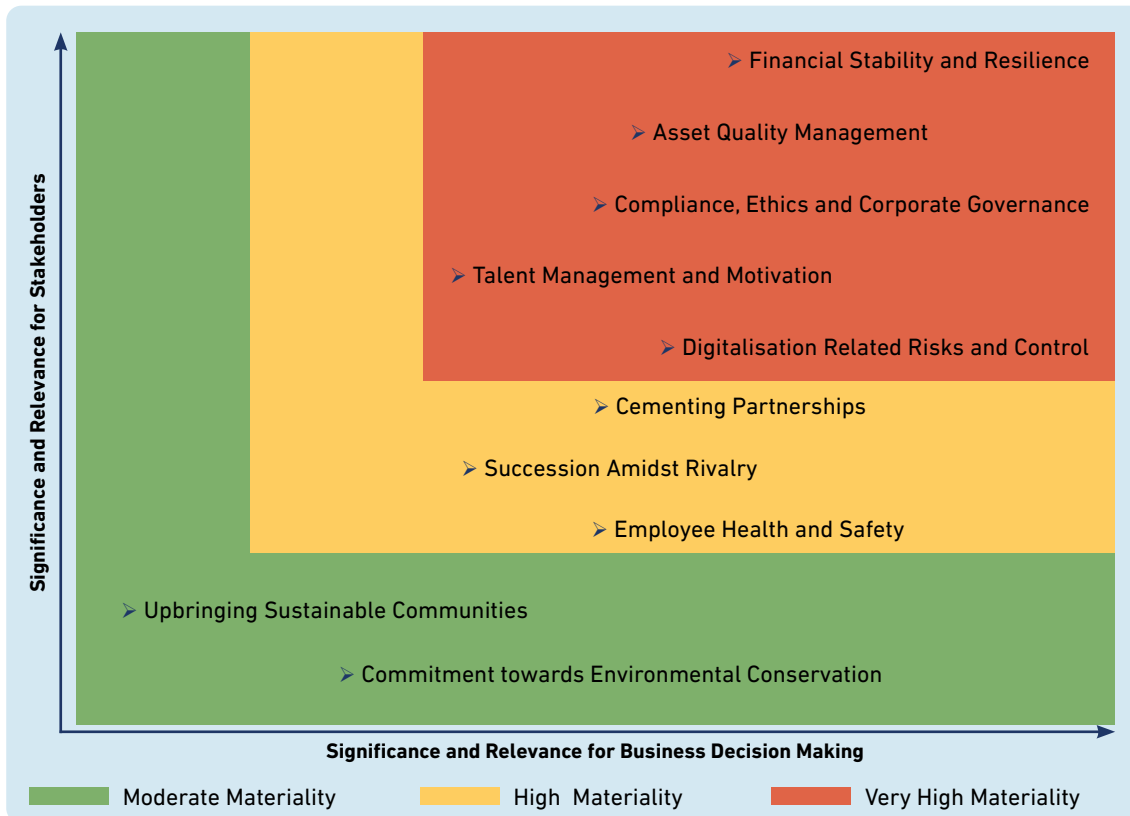
## MATERIALITY ASSESSMENT

GRI 3-1

We initiate an annual materiality assessment analysing data-driven insights picked up from each key stakeholder group, ascertaining their significance levels against an in-depth analysis of the immediate operating environment, changes to the legal and regulatory frameworks, local and global industry trends and our internal capabilities and weaknesses. We identified material matters concerning the organisation by determining those issues that substantively affect our ability to create value over the short, medium and long term. Determination of each materiality topic was followed by an evaluation of opportunities and challenges that could stem from sector-specific topics as well as from the evolving volatile business ecosystem as a whole.

This process is further supported by and aligned with Global Reporting Initiative (GRI) indicators and United Nations Sustainability Development Goals (UNSDGs) as internationally accepted frameworks, to better manage and disclose matters key to our stakeholders. Emerging matters such as rapid economic downturn, health and safety concerns, global inflation and data theft and data privacy were also considered pivotal in the current context and were prioritised as additional material matters deemed significant to the company. These material topics form the foundation of our strategy and hence through an annual review we ensured that we monitored progress to assess the effectiveness of strategies in addressing evolving issues and meeting growing stakeholder expectations.

## MATERIALITY GAUGE MATRIX



Detailed disclosures about the Stakeholder Management is made available in the "value creation" web content pages 4 to 6.

# Sustainable Value Creation Process

## STRATEGY & RESOURCE ALLOCATION

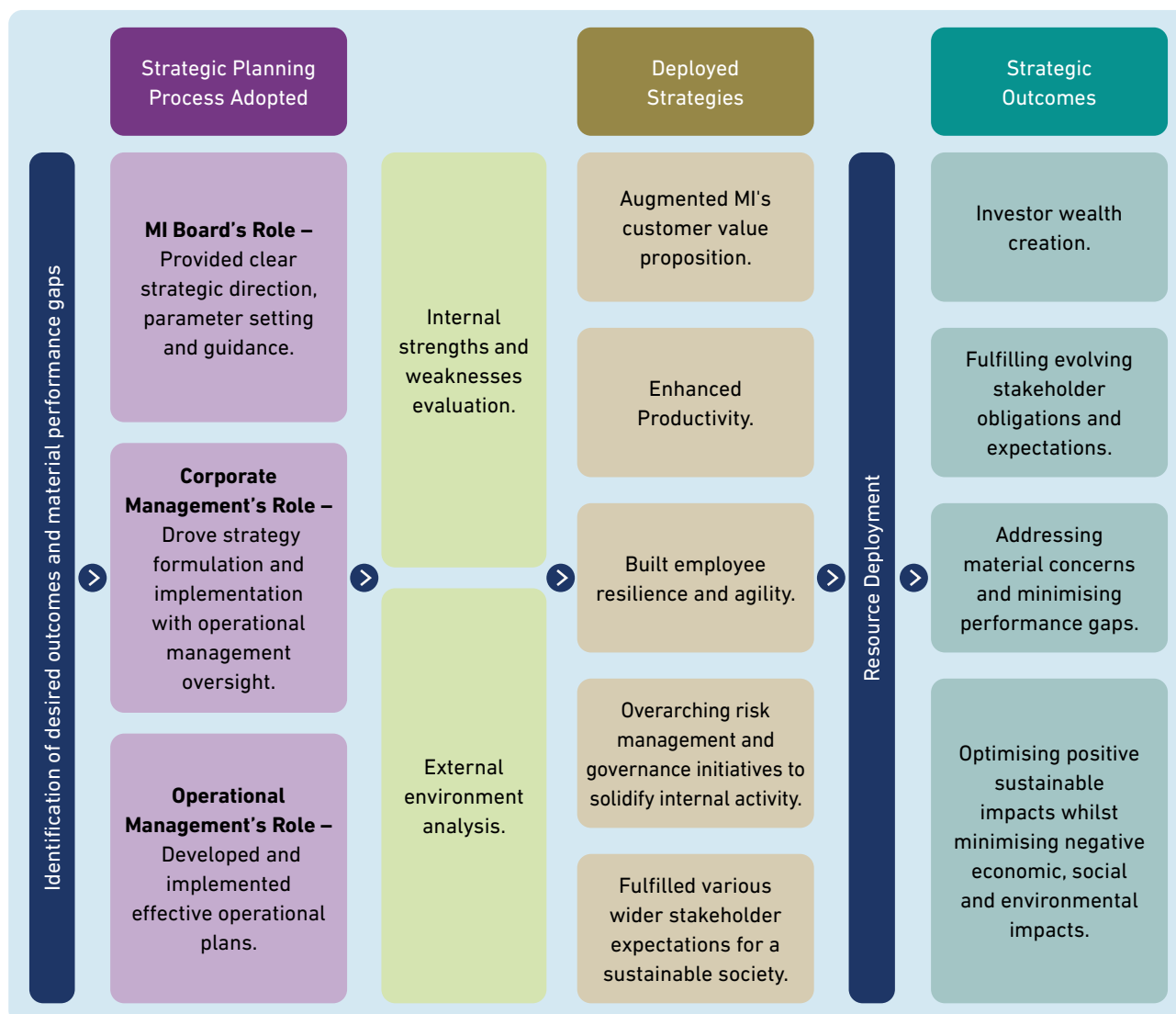
### Strategy Executed

Amidst ever changing landscape of the finance industry, our strategic priorities were positioned mainly to allow us to stay resilient throughout the financial year, keeping risks managed, as the finance sector underwent significant pressure due to challenging macro-economic conditions and persistent economic crisis. During this year, MI navigated through turmoil, staying to basics and adopting situation specific strategy that enabled us to build resilience, leveraging on our capital strength and robust liquidity position, whilst consolidating our position to capitalise on envisaged future growth prospects.

Our corporate strategy formulation process is underpinned by the expectations of all our stakeholders and focuses on generating long term value, through capitalising on opportunities from external market developments and evolving customer demands. While assessing future investments required to improve our operating landscape, we carefully reviewed our strategy and tactical plans including resource needs to reinforce on our strengths and overcome the weaknesses in achieving our goals and objectives.

As the NBFi sector was experiencing significant pressure from the drastic increases in interest rates coupled with contraction in credit demand and hyperinflationary effects, we paid more attention in sustaining our market positioning and asset quality, while enhancing productivity and cost optimisation towards improving our bottom-line. Thus, we prioritised critical business activities and ensured that our strategies are aligned to short, medium and long term goals. Furthermore, as an essential part of our strategy, we continued to embrace sustainable practices in driving towards our wider visionary aspirations as a responsible corporate citizen.

### THE STRATEGY FORMULATION PATH EXECUTED TOWARDS RESILIENCE AND PROGRESS





# Sustainable Value Creation Process

## INTERNAL ENVIRONMENT REVIEW

### Our Strengths

Key Strengths	How We Leveraged
Over 1,000, high calibre workforce.	<ul style="list-style-type: none"> <li>➤ Unparalleled and personalised service kept MI's brand close to our customers as a trusted and longstanding financial specialist.</li> <li>➤ Increased productivity through effective employee engagement, multitasking redeployment and continuous training and development.</li> <li>➤ Despite the evolving risk of skilled migration, we managed to retain our talented and high performing employees to drive our business journey during this challenging phase.</li> <li>➤ By implementing a transparent and value-driven performance management mechanism, we enhanced performance levels to fulfill a wide array of customer expectations.</li> </ul>
A well-capitalised, financially solid A- grade finance company with a 58-year business heritage.	<ul style="list-style-type: none"> <li>➤ Continued to build and leverage MI's reputation as a solid, trustworthy finance company to strengthen bonds with and confidence among stakeholders.</li> <li>➤ A solid capital base enabled the company to remain resilient despite unprecedented challenges.</li> <li>➤ Business intelligence gained over five decades enabled MI to cater to evolving customer needs.</li> <li>➤ Leveraging on the company's reputation as a top-tier brand for personalised financial solutions.</li> <li>➤ Leveraged on the MI brand to surpass the gold loans portfolio of Rs. 1.2 Bn within the financial year.</li> <li>➤ Expanded our branch footprint by opening services in the Northern Province (Chunnakam) whilst operating 43 branches island-wide.</li> </ul>
Solid Liquidity Position.	<ul style="list-style-type: none"> <li>➤ Preserved sufficient liquidity buffers as a contingent approach amidst economic crisis, whilst assuring trust and confidence among depositors.</li> <li>➤ Enhanced retail deposit base and retention levels.</li> </ul>
Tech-Savvy Operating Environment.	<ul style="list-style-type: none"> <li>➤ Enhanced customer convenience and service excellence.</li> <li>➤ Improved productive output via automation.</li> <li>➤ Created strategic advantage and competitive edge.</li> </ul>

### Our Weaknesses

Key Weaknesses to Eradicate	How We Overcame
Fixed Deposits Being the Primary Product Driving the Deposit Base.	<ul style="list-style-type: none"> <li>➤ Promoted savings product with the launch of ATM services across the country.</li> <li>➤ Enhanced product features related to fixed deposit product lines.</li> <li>➤ Created strategic advantage competitive edge.</li> </ul>
Short-Term Maturity Mismatch as a Result of Market Volatility and Customer Preference in Short-Term Investments.	<ul style="list-style-type: none"> <li>➤ Maintained a healthy retention level of 77% in fixed deposits, negating the withdrawal effect impacting maturity mismatch.</li> </ul>
Traditional Platforms in Key Business Processes.	<ul style="list-style-type: none"> <li>➤ Accelerated our digital journey.</li> <li>➤ Expedited system migration to enhance user experience and productivity.</li> </ul>

# 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"> <li>➤ Political volatility stemming from the loss of public trust and confidence since the mass protests arising from 2022 supply shortages and hardships, though stabilising with the appointment of the new President.</li> <li>➤ The restriction on vehicle imports remains in force and continued to adversely impact the NBFIs' core traditional lending.</li> <li>➤ Extensive tax reforms covering corporates and individuals resulted in further deterioration in peoples' purchasing power and general living standards of communities as well as the contraction in business growth and bottom line.</li> <li>➤ Local debt restructuring process continued to heighten future uncertainties, especially interest rates and other market financial parameters.</li> </ul>	<ul style="list-style-type: none"> <li>➤ While adhering to heightened fiscal policies, MI's proactive strategic approach enabled the Company to stay resilient, with receptive strategic changes and tactical plans including proactive treasury actions.</li> <li>➤ Broad-based product mix dynamics pursuing for alternative lending opportunities and expanded Gold Loan operations across the branch network.</li> </ul>
Economic	<ul style="list-style-type: none"> <li>➤ Sri Lanka faced its worst economic crisis since independence with the default of foreign debt service obligations emanating from the recurrent foreign exchange shortages and depreciation of the Sri Lankan rupee, downgrading the country's credit rating and risk premium.</li> <li>➤ Severe tightening of the monetary policy measures from April 2022, resulted in the rapid escalation of interest rates heightening the pressure on net interest margins of the NBFIs sector, though dipping marginally by the end of the financial year.</li> <li>➤ Inflation recorded an all-time high of 73.7% (YoY NCPI), creating hyperinflationary economic conditions, further deteriorating purchasing power and living standards of communities, escalating the credit/default risk across the finance sector.</li> <li>➤ Sri Lanka's GDP recorded 7.8% steep contraction, curtailing the credit growth and profitability of the NBFIs sector.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Our strong capital strength, liquidity position and the longstanding customer bonding allowed us to remain resilient, despite the adversities.</li> <li>➤ We stayed committed in improving our margins, focusing on high yield lending products while deploying strategy to keep cost of funding lower in the medium and long term, leveraging on margin improvements with the anticipated drop in rates.</li> <li>➤ While focusing on cost optimisation to combat hyperinflationary effects, we stayed committed in resource optimisation strategy to utilise the excess resources encountered with the curtailed credit demand, by redeploying staff and resorting to selective recruitment.</li> </ul>
Social	<ul style="list-style-type: none"> <li>➤ Contracted economic activities coupled with supply shortages, import restrictions and hyperinflation have deteriorated living standards, impacting demand for vehicle ownership and savings habit.</li> <li>➤ Increasing demand for skilled migration has created a vacuum in the job market creating difficulties in attracting and retaining best talents.</li> <li>➤ General public dissatisfaction and political concerns has created continued social unrest disrupting the economic revival.</li> <li>➤ Changing stakeholder expectations towards sustainable and eco-friendly products and initiatives.</li> <li>➤ Social media and digital based transacting pick up has led to emerging prospects.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Whilst embedding strategic corporate sustainability ideologies into our business model, we extended shared growth opportunities to our stakeholders to enrich livelihoods and community living standards.</li> <li>➤ Despite the adverse economic conditions, we continued to invest in technology to provide convenience and from a wider perspective, extended focused initiatives to support community wellbeing.</li> <li>➤ We safeguarded our employees' job security and their mental wellbeing.</li> </ul>

## Sustainable Value Creation Process

Factor	Impact on the LFC Sector	MI's Approach
Technological	<ul style="list-style-type: none"> <li>➤ Aggressive deployment of digital and online technology by the industry to facilitate contactless transacting.</li> <li>➤ Increased emphasis on capitalising on Artificial Intelligence (AI), Robotic Process Automation (RPA), Internet of Things (IoT), Cloud Computing, Big Data as a competitive advantage to enhance customer convenience and productivity.</li> <li>➤ Evolving risk of cyber security threats and customer data protection with digitalisation.</li> </ul>	<ul style="list-style-type: none"> <li>➤ We broad-based our payment platforms, ATM operations and process automations to enhance productivity and customer experience.</li> <li>➤ We stayed committed to expedite planned migration to the advanced external IT solution to strengthen MI's IT landscape.</li> <li>➤ Further strengthened our fully-fledged Call Centre with the latest technology upgrades to expedite recoveries while enhancing intelligence gathering process.</li> <li>➤ Automated several core business and operational functions to improve productivity.</li> <li>➤ Upgraded IT security systems and reduced the risk of cyber security threats.</li> </ul>
Ethical	<ul style="list-style-type: none"> <li>➤ Increased corporates' attention on fostering culture of ethics, right corporate values, and good governance practices across the industry.</li> <li>➤ Enhanced requirement of voluntarily compliance with rules, regulations, and ethical standards.</li> </ul>	<ul style="list-style-type: none"> <li>➤ MI's operations continued to be underpinned by its underlying corporate values, transparent actions and solid governance initiatives and voluntarily practices to safeguard stakeholder interests.</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>➤ Surging need for environment conservation business practices due to climate emergency.</li> <li>➤ Evolving demand for sustainable financing and green lending such as Solar Power, Electric and Hybrid Vehicle financing.</li> <li>➤ Establishment of local and global partnerships and alliances to develop and implement strategies to protect eco systems and Environmental, Social and Governance (ESG).</li> <li>➤ Increased attention on enhanced financial and non-financial disclosures about environmental impacts.</li> <li>➤ Enhanced corporate focus on building customer bond and loyalty through greener environment practices.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Stayed committed towards sustainable financing whilst promoting green lending.</li> <li>➤ Continued to reduce Greenhouse Gas (GHG) emissions with the aim of becoming a carbon neutral entity in the medium term.</li> <li>➤ Whilst minimizing the resource usage, implemented several environment conservation business practices such as the 3R concept, lean management practices and environmentally friendly waste management initiatives to minimise negative environmental footprint.</li> <li>➤ Continued to invest in environment conservation projects, whilst preserving bio-diversity in expanding our branch footprint.</li> </ul>
Legal	<ul style="list-style-type: none"> <li>➤ Heightened regulatory controls over Non-Banking Financial Institutions to curb corporate failures and irregularities.</li> <li>➤ Enhanced regulatory requirements on Corporate Governance and regulatory capital needs, Technology Risk Management and resilience demands structural changes and wider compliance requisites.</li> <li>➤ Stream of new directions from regulator to improve governance and sector stability.</li> <li>➤ Introduction of extensive tax reforms too has elevated regulatory compliance requirements.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Close monitoring and feedback to Board by compliance unit on company's compliance to various regulatory requirements.</li> <li>➤ Introduced new policies and procedures and provided training to comply with the emerging regulatory needs and best practices.</li> <li>➤ Improved staff awareness on money laundering activities, suspicious transactions and other risk mitigation actions to comply with FIU guidelines.</li> </ul>



Detailed disclosures about the External Environment Review is made available in the "value creation" web content pages 26 to 46.

## Sustainable Value Creation Process

### STRATEGY IN ACTION

#### Actual Efforts Vs Overall Objectives

	Short-Term Target		Medium-Term Objective			Long-Term Goals	
	Net Interest Margin (NIM) > 8%	Cost to Income Ratio < 65%	Asset Quality (NPL) < 10%	Net Profit After Tax > 500 Million	Growth in Customer Base > 15%	Market Share > 3%	Asset Base > 10%
FY 22/23	6.46	105.6	10.74	106	18.5	3	1.3
Past 3 Year Average	9.6	71	11.5	665	Approx 9	2.9	4.6

### CORE STRATEGY 01– AUGMENTING THE CUSTOMER VALUE PROPOSITION

As a friendly financial specialist, we stayed committed in enhancing the customer value proposition deployed, relentlessly focusing our efforts in satisfying their evolving expectations and needs. We continued to widen our product mix during the year, extending gamut of financing and loan services across our branch network, whilst exploring new ways of differentiating our service from others. Moreover, we expanded brand presence and outreach and continued to invest in technological solutions towards service excellence.

#### KPI Achievement Status

	Actual FY 22/23	Planned FY 22/23	Past FY 21/22
<b>Portfolio Growth</b>			
- Lending	-5.64%	20%	16.7%
- Deposits	18.5%	15%	14%
Total Customer Base	>200,000	>80,000	>78,000
Deposit Retention Total Customer Base	77%	>80%	>78,000
New Branches Opened/ Expansions	1	5	3

### CORE STRATEGY 02 – ENHANCING PRODUCTIVITY

We placed great emphasis during the year on improving productivity as a strategy to build our resilience against multifaceted challenges arising from adverse macro-economic conditions and to improve our bottom line. As inflation reached historical highs, we deployed resource and cost optimisation strategies to curtail escalation of overhead costs. We redeployed staff and resorted to selective recruitment to optimise resources to withstand excess resources encountered with the curtailed credit demand.

#### KPI Achievement Status

	Actual FY 22/23	Planned FY 22/23	Past FY 21/22
Return on Assets	0.22%	>5%	2.28%
Cost to Income Ratio	106%	<60%	71%
Process Automation	3	>3	10

## Sustainable Value Creation Process

### CORE STRATEGY 03 – BUILDING EMPLOYEE RESILIENCE AND AGILITY

As the fundamental driver of corporate strategy, our employees remain pivotal in driving competitive advantage, to reach aspired goals and objectives. Having understood the economic hardships and multifaceted challenges faced by our employees during this economic crisis, we continued to build employee resilience to successfully face myriad of challenges, empowering them to overcome adversities. As a part of this strategy, we have strengthened employee skills with required training and provided monitoring and coaching programs to bring out talents even in hard times whilst promoting shared growth opportunities.

#### KPI Achievement Status

	Actual FY 22/23	Planned FY 22/23	Past FY 21/22
Training Hours Per Employee	9.01	>10	13.30
Attrition Rate	25.8%	<30%	19%

### CORE STRATEGY 04 – UNLEASHING ROBUST RISK MANAGEMENT AND GOVERNANCE PREROGATIVES

We embraced risk management and governance as essential components of cementing resilience, stability and future progress. We adopted a sound and effective risk management approach that will enable us proactively face emerging risks. We undertook regular assessments, prioritising the interest rate and credit risk aspects, considering the magnitude of their impact on the company's top and bottom line. We updated our risk matrix and risk register to introduce more stringent controls to our business model in order to safeguard key KPI's including asset quality and net interest margins. These approaches have helped us arrest increasing credit risk and to control our non-performing advances at 10.74%, whilst enabling us to stay resilient amidst market volatility.

#### KPI Achievement Status

	Actual FY 22/23	Planned FY 22/23	Past FY 21/22
New Initiatives on Risk Management	5	>5	7
One-Year Maturity Mismatch	Rs. 2 Bn	Rs. <6 Bn	Rs. <6.9 Bn
NPL Ratio	10.74%	<11%	8.54%
Non-Compliance	0	0	0

### CORE STRATEGY 05 – SUSTAINABLE PREROGATIVES TO BOLSTER COMMUNITY WELLBEING

Our commitment towards sustainability, remained unwavering as we continued to adopt sustainable business practices to be agile to cater to the evolving economic hardships and challenges surrounding communities and other Economic Social Governance (ESG) related perspectives. As a longstanding finance company, we continued to deploy sustainable business practices alongside our unique corporate culture to further cement bonds with communities we have active presence in. We voluntarily executed sustainable initiatives, especially the promotion of financial inclusion among the lesser-privileged to create better lives, in these hard times.

#### KPI Achievement Status

	Actual FY 22/23	Planned FY 22/23	Past FY 21/22
Social Investment	Rs. 1.5 Million	Rs. 1.5 Million	Rs. 1.5 Million
No. of Beneficiaries	>200	> 200	>768



Detailed disclosures about the Strategy Execution is made available in the "value creation" web content pages 47 to 59.

# 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 derive expected results from our business lines to generate required outputs and impacts.

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

● Critical      ● Moderate      ● Not Significant

# Capital Management

## VALUE CREATION THROUGH CAPITAL MANAGEMENT

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.

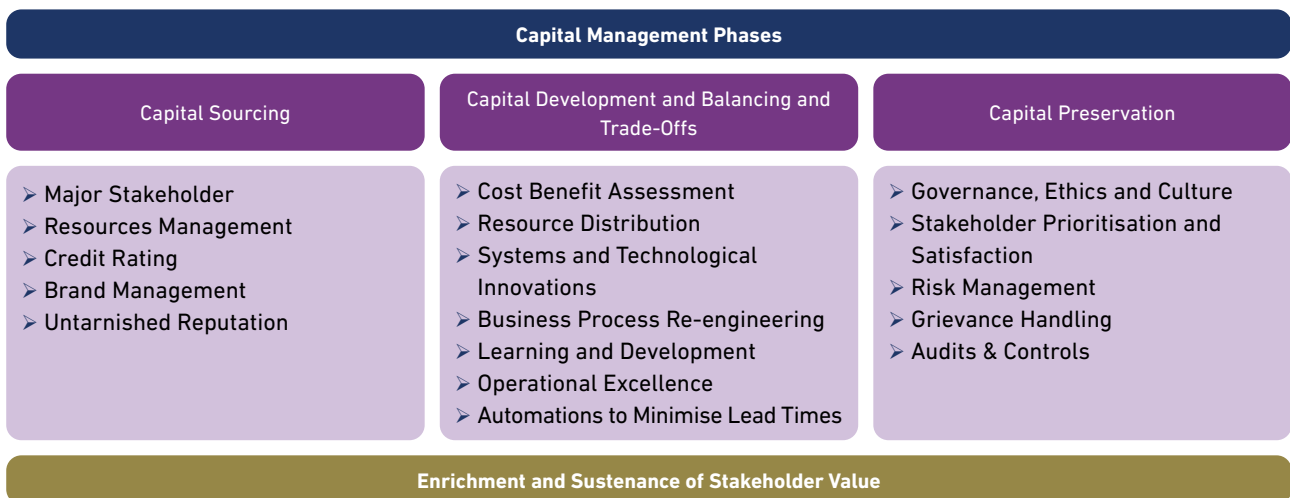
As we navigated through a year of continued uncertainty and hardships, we demonstrated the strength of our resilience by leveraging these capitals towards achieving our strategic goals and objectives, while delivering positive impacts to the economy, society and environment. Thus, despite numerous challenges,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

## CAPITAL DEPLOYMENT



## CAPITAL MANAGEMENT APPROACH

We put to practice a systematic approach that optimises the use of each capital resource in our value creation process. We sourced capitals and distributed them in an optimum way in order to maximise stakeholder returns, while striving to preserve the gamut of capitals to fulfil our future growth aspirations and to make a positive impact towards the betterment of society.



## Financial Wealth



The strength of MI's financial wealth determines our ability to remain resilient despite adversities and drive towards strategic directions focusing sustainable growth prospects. As a premier finance company with a top-notch regulatory rating, we remained committed to fortifying our capital strength further, though falling short of targeted profitability—posting yet Rs. 106 Mn in post-tax profits in this unprecedented challenging year. Through an accumulation of over Rs. 11 Bn in capital, we supported our business expansion efforts and provided a cushion against ongoing volatilities and risks, whilst fostering investor wealth and confidence.

Despite the multitude of macroeconomic challenges and market volatilities, we same time maintained a sound liquidity position throughout the year, uplifting trust and confidence of our stakeholders. As a company embraced with transparent, prudent risk management and governance practices, we remained resilient and focused on sustaining a sound financial position within the Industry, whilst weathering headwinds to sustain a modest revenue growth and asset quality of our loan book through a tighter recovery process.






Detailed disclosures about the Financial Wealth is made available in our web site.
















# Financial Wealth

## PERFORMANCE HIGHLIGHTS

 Sustainable Investor Returns and Business Growth	 Robust Capital Growth and Liquidity Buffers	 Enhanced Efficiency
<ul style="list-style-type: none"> <li>&gt; Gross Income Growth &gt; 26%</li> <li>&gt; Profit After Tax &gt; Rs. 100 Mn</li> <li>&gt; Deposit base Growth &gt; 18%</li> <li>&gt; Net Assets Per Share &gt; Rs. 3,600</li> <li>&gt; Earnings per Share &gt; Rs. 35</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Capital Adequacy Ratio – Tier 1 &gt; 16% (Minimum 8.5%)</li> <li>&gt; Capital Adequacy Ratio – Tier 2 &gt; 18% (Minimum 12.5%)</li> <li>&gt; Liquidity Ratio &gt; 18% (Minimum 10%)</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Controlled NPL (120 day) &lt; 11%</li> <li>&gt; Reversal of Impairment – Rs &gt; 200 Mn</li> <li>&gt; Decline in Overheads &gt; 4%</li> <li>&gt; Decline in 1 year maturity mismatch - Rs. 2 Bn</li> <li>&gt; Growth in Investment Income – &gt; 400%</li> </ul>

## CAPITAL INTERDEPENDENCIES

Capital	Activities	Sustainable Business Growth	New Technology Investments	Shareholder Value Creation and Regulatory Compliance
Intellectual Capital		Company Brand image 	Technological Awareness 	Company Brand image 
Social & Relationship Capital		Business Partnerships 	Customer Convenience 	Shareholder bonding and Trust 
Human Capital		Employee Remuneration and Bonuses 	Employee Efficiency 	Operational Smoothness 
Manufactured Capital		New Branch Openings 		
Natural Capital		Investment in Nature focused initiatives 	Waste Disposal 	Environmental Conservation 

## FUTURE ASPIRATIONS

Short Term (Within 1 Year)	Medium Term (2 – 5 Years)	Short Term (5 & Beyond)
<ul style="list-style-type: none"> <li>&gt; Boost Lending Growth, Net Interest Margin and Profitability</li> <li>&gt; Improve Cost to Income Ratio</li> <li>&gt; NPL control up at single digit level</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Sustainable growth in assets and shareholder funds</li> <li>&gt; Asset Quality Sustenance</li> <li>&gt; Maintain Robust Capital and Liquidity Buffers</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Sustainable Growth in Profitability, Return on Assets (ROA) and Return on Equity (ROE)</li> <li>&gt; Strengthening Credit Rating</li> </ul>

# Financial Wealth

## FINANCIAL MANAGEMENT FACETS FOCUSED

In driving financial capital in tough business conditions, efficient financial management actions played a key part in the following three fundamental financial facets of:

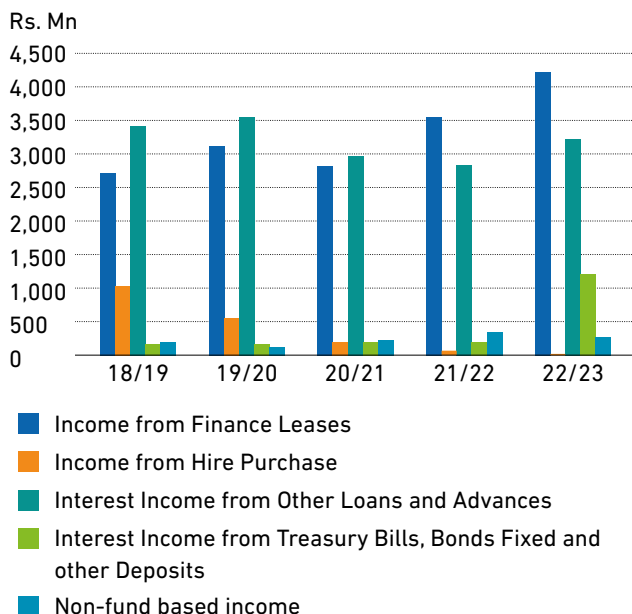
- Revenue Sustenance
- Treasury Management
- Cost Optimisation

## REVENUE SUSTENANCE

Core revenue generation remained central in these challenging conditions which was tackled with right strategy to bolster volumes, though demand for vehicle finance remained pegged back with the extension of import restrictions. Emphasis was placed in broad basing the product mix, targeting high yield credit including gold loan and micro financing services. Focusing on medium term, we expanded our network access points and capabilities by investing in technology to enhance decentralised credit services across our branch network, reinforcing sales staff with required skills and drive.

## CORE LENDING REVENUE PERFORMANCE

### Composition of Gross Revenue



## TREASURY MANAGEMENT

With the tightening of the monetary policy measures and the escalation of interest rates, cost of funding surged drastically to its highest within a short span of time, though the rates slightly dropped during the latter part of the year with the sanction of the IMF tranche. Thus we continued to prioritise effective fund management, focusing on minimising our funding costs whilst retaining an impeccable liquidity position. Considering the market volatilities and uncertainties, we maintained sufficient contingency funding options to mitigate liquidity and reputational risks.

We generated robust returns by investing excess funds in government securities, leveraging on the increase in interest rates during first three quarters of the year. Similarly, we managed to reduce our less-than-one-year maturity mismatch to Rs. 2 billion as at 31st March 2023 from Rs. 6.8 billion reported in the last year, mitigating liquidity risk in the medium term.

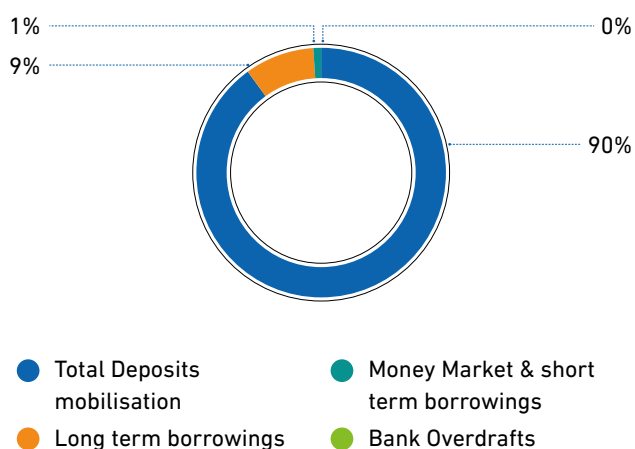
Treasury Management Priorities	Target	Actual	Status
Generate sound investment yields and optimise on cost of funding to maintain acceptable NIMs.	> 8%	6.46%	NIM contracted with the repricing hit, as experienced across the industry.
Maintain optimum liquidity levels whilst bridging maturity mismatches.	Strong liquidity level >Staying above minimum requirement of 10%.	19.2%	Achieved
	1 year assets and liabilities mismatch < Staying below threshold level of Rs. 6 Bn across the year.	Rs. 2 Bn	Achieved
	Maintain a minimum contingency fund of Rs. 2 Bn.	Rs. 2.7 Bn	Achieved

# Financial Wealth

## FUNDING MIX

An optimal funding mix was maintained between deposits and borrowings to minimise funding costs while managing assets and liabilities maturity gaps. The deposits business remained the primary contributor to the funding mix, accounting for 89.7% which reflected a 12% upward trend from previous year, fuelled by the increased mobilisation of fixed deposits attracted by the phenomenal rise in interest rates above 22%. With bank borrowing costs remaining relatively on the high side, we opted for deposit funding, which saw total borrowings drop year on year.

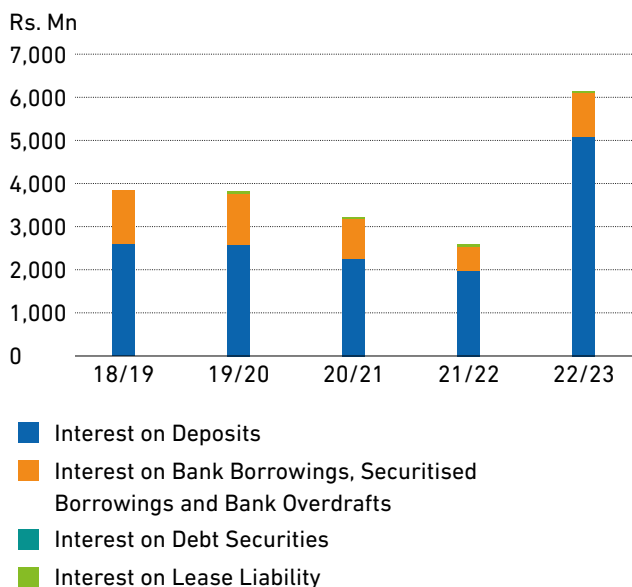
### Funding Mix



## FUNDING COST

With the rapid upward trajectory in interest rates and the repricing effect, interest expenses increased significantly by 137.2% YoY. As majority of the funding base stemmed from customer deposits that comprised of shorter tenor placings, the repricing hit for MI like others in the sector increased significantly, squeezing interest spreads and profitability in the short run.

### Analysis of Interest Expense



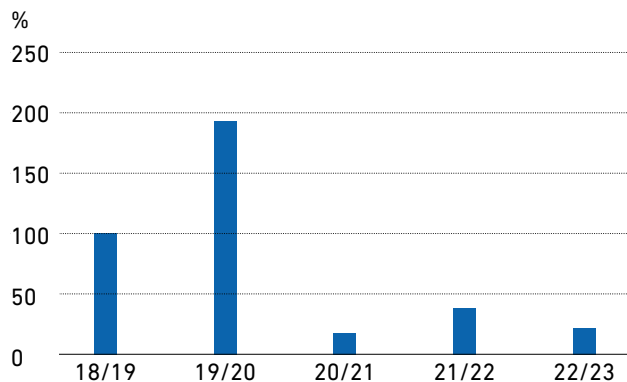
## DEPOSIT FUNDING

Overshooting of Treasury Bill yields and the corresponding rapid rise in the market offered rates on deposits provided greater flexibility than before for the company to retain and attract customer deposits, though bearing the brunt of the repricing hit. Deposit mobilisation was somewhat challenging amidst volatile investor sentiments but through a constant mobilisation drive we recorded a commendable 18.5% deposit base growth year on year to stay above the average industry growth of 10.4% recorded by December 2022.

## FIXED DEPOSITS

Our focus on fixed deposits as our main deposit product contributed to 99% of our total base. By offering attractive returns and improving service standards across our branch network, particularly in terms of speed and customer convenience, we were able to grow the depositor base by 21% YoY. Our ongoing decentralisation efforts combined with higher investment in technology and IT infrastructure continued to drive greater deposit flow from branches, with a 13.7% increase year on year contributing 31.6%, while head office premises being in the Western Province remained the primary mobilisation point.

### Growth in Depositor Base (Number of Depositors)

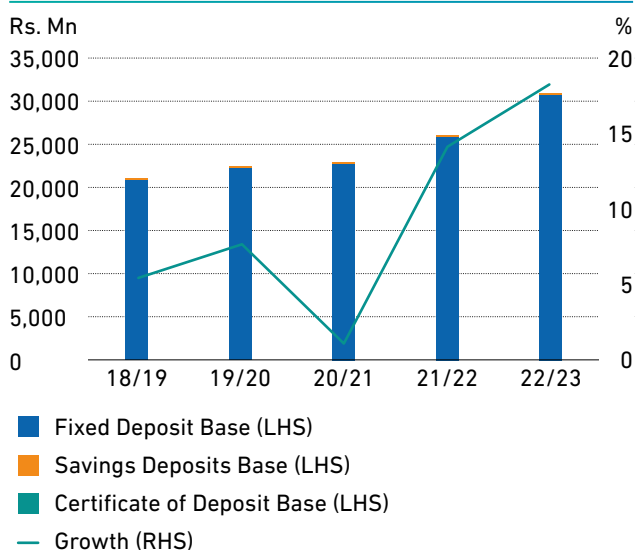


## Financial Wealth

### SAVINGS DEPOSITS

While fixed deposit remained more attractive with the interest rates hikes, MI's savings base reduced from Rs. 260 million to Rs. 193 million by 31st March 2023. Despite this, continued efforts were made to boost the savings base, focusing on greater branch mobilisation, through the micro auto product linked savings drive and ATM service offered through the partnership of Hatton National Bank ATM network service, spanning to over 700 locations across the country to further develop this low-cost funding source.

#### Deposit Mix

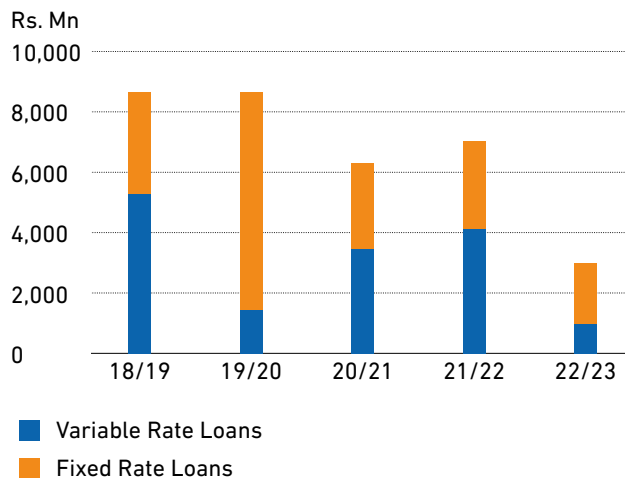


With the planned enhancement of our IT systems and digitalisation initiatives, including the launch of the Common Electronic Fund Transfer (CEFT) facility, we hope to extend greater convenience to our depositor clientele across the branch network in the near future.

### BORROWINGS AND DEBT FUNDING

With the contraction of the lending book coupled with the rapid rise in funding costs, we kept bank funding controlled and therefore corporate borrowings reduced from Rs. 7,418 million to Rs. 3,580 million by the balance sheet date, dropping by 51.7%. However, we continued to strengthen our partnerships with longstanding banking partners to manage immediate and future funding requirements and to optimise on overall funding costs.

### Total Borrowing Analysis (Fixed Rate vs Variable Rate)



### COST OPTIMISATION AND BUDGETARY CONTROL

We continued to make inroads in productivity and efficiency improvements including the introduction of various digital channels, which enabled us to sustain cost savings in the past few years. Despite the unprecedented increase in inflation, we managed to reduce overhead costs by 4.9%, reflecting optimisation of human capital and organisation-wide initiatives to eliminate waste and build a leaner operating model.

Though we were compelled to revise our budgets and forecasts periodically as we recalibrated our targets to be more realistic, we forged ahead with the right strategy to overcome the prevailing challenges. We kept a close watch on actual costs versus budgeted costs through periodic variance reporting at Board and Executive Committee level, while implementing corrective measures towards our short and medium term goals. We generated updated strategic and operational management information which allowed Corporate Management and branch heads to closely monitor their business unit revenues, costs and key KPIs to take corrective measures promptly towards achieving profitable results.

## Financial Wealth

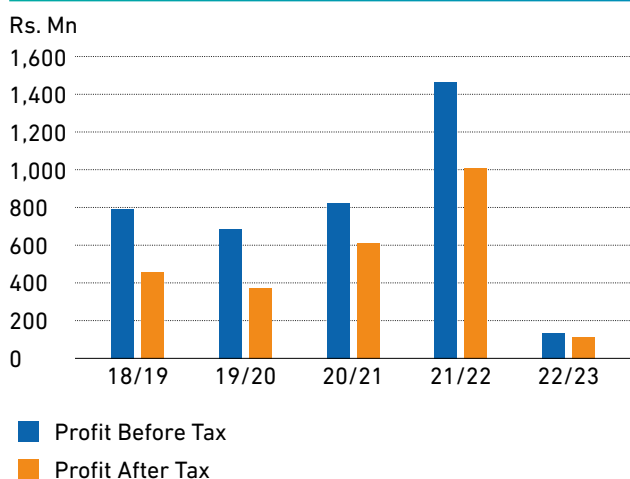
### FINANCIAL RESULTS REVIEW

As with the NBFIs sector being hit with high cost of funding from soaring rate rise, contraction in credit demand, hyperinflation, deterioration in purchasing power and credit worthiness, the profitability and asset growth eroded considerably across the industry. Amidst these unprecedented conditions, we remained resilient, recording a modest post-tax profit, staying committed in investor wealth creation and in safeguarding stakeholder interests by displaying prudent financial management from all possible facets. Though our strategic targets were curtailed by unprecedented and converging challenges, we regularly reviewed and recalibrated our growth targets to realign our strategies to ensure we stayed geared to capitalizing on emerging opportunities, in the next 12 to 18 months, once the economy picks up to normalcy.

### PROFITABILITY

With the sharp increase in interest expenses on account of the repricing hit from the deposit base and borrowings combined with shrinkage in credit demand negatively impacted core margins and Net Interest Income, pegging back pre and post-tax profitability level to Rs. 132 million and Rs. 106 million, respectively, reflecting 91% and 89.5% YoY dips. Nonetheless, despite experiencing hyper inflationary economic effects and deterioration in borrower repayment capacity across the industry, we successfully controlled declines to asset quality and pegged back overhead cost escalation to a greater degree with prompt actions.

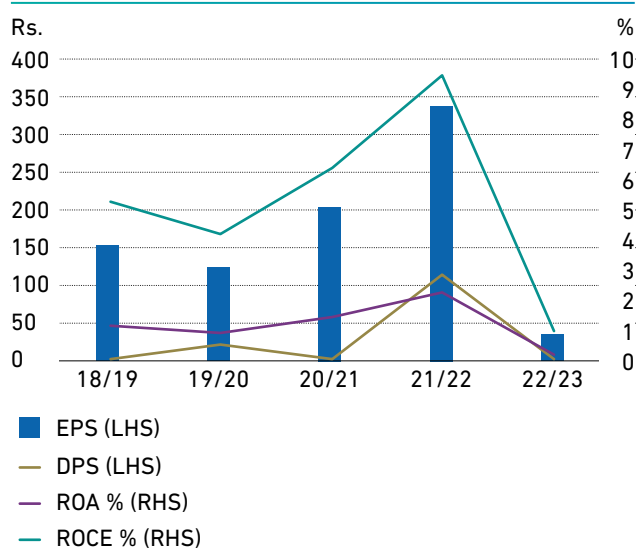
### Earnings Performance



### INVESTOR RETURNS

With the decrease in profitability, Return on average Shareholder's Equity (ROE) and Return on average Assets (ROA) dipped from 9.51% to 0.96% and 2.28% to 0.22%, respectively, reflecting explained unprecedented industry challenges and trends. The modest profits posted nonetheless drove shareholder funds marginally by 0.38%, which continued on an upward trajectory to Rs. 11 billion by 31st March 2023. (Refer 'Investor Relations' section on pages 316 to 319, on sound investor returns and capital accumulation trajectory.)

### Investor Returns



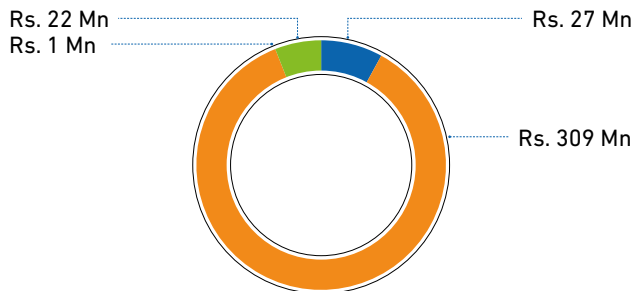
### TAX IMPACT ON PROFITABILITY

Despite the increase in tax rates, with the decline in operating profits, total tax expense dipped by 94% to Rs. 26.8 million during the year, while the effective income tax rate was recorded high at 81.4% compared to 30.1% recorded in the previous year. With the amendments to the tax legislation, the corporate income tax rate increased from 24% to 30% together with the imposition of Social Security Contribution Levy (SSCL) charged at 2.5% with effect from 1st October 2022.

In the backdrop of the decline in operating profits, VAT on Financial Services dipped by 71% to Rs. 332 million and SSCL and Crop insurance levy stood at Rs. 22.4 million and Rs. 1 million for the year respectively. (Refer Financial Statements Note 15.)

# Financial Wealth

## Tax Payments



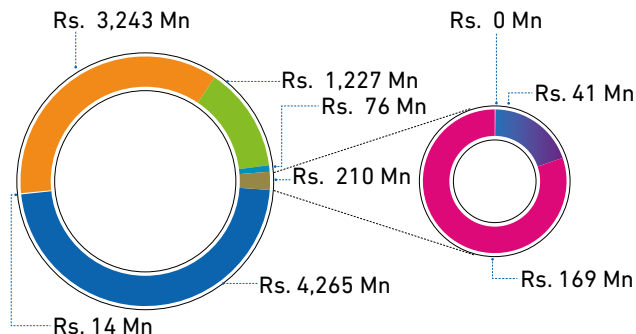
- Income Tax
- VAT on Financial Service
- Crop Insurance Levy
- SSCL

## GROSS REVENUE

Amidst depleted credit demand resulting from heightened interest rates and deteriorating purchasing power across most strata of society, the company's core loan book contracted, leading to gross revenue increasing moderately by 26.8% to Rs. 9,036 million for the financial year 2022/23, as against the 9.7% growth recorded for the previous year. Non-Fund Based Income declined by 22.5%, mainly with the fall in share trading and fair value gains earned with the lacklustre performance in share market witnessed during this challenging year.

In terms of gross revenue, 83.3% of the contribution was from our core lending business, whilst the contributions derived from investment income from Treasury activities significantly increased to 13.6% with higher investments in Treasury bills to capitalise on attractive yields. Non-fee based income derived from insurance, workshop and other fee-based revenue made up the balance 3.1%.

## Composition of Gross Revenue



- Income from Finance Leases
- Income from Hire Purchase
- Interest Income from Other Loans and Advances
- Interest Income from Treasury Bills, Bonds and Fixed Deposits
- Fee and Commission
- Capital Gains/Losses & Unrealised Gains/Losses
- Dividend Income
- Other operating Income / Profit/ (Loss)

## Lease Financing vs Hire Purchase Revenue

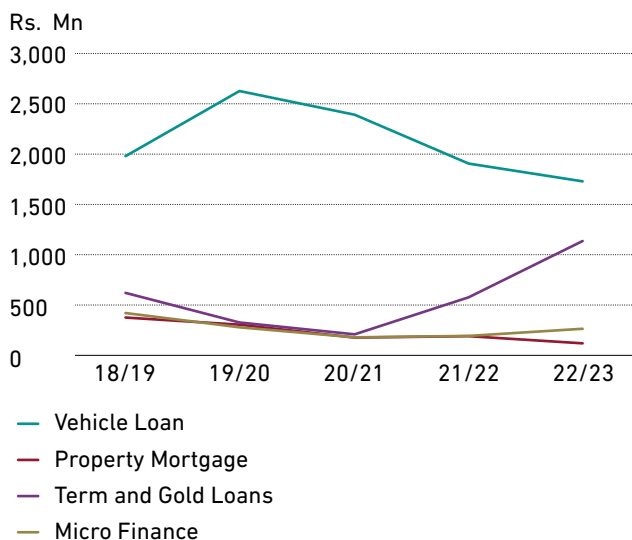
Leases, being MI's traditional and most popular product contributed 56.7% to the core lending revenue, with a 19% YOY growth. Hire Purchase revenue contribution continued to decline to 0.2% of the lending income, reflecting a YoY 83.6% dip, due to lower demand consequent to past years tax changes.

## 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 43.1% to the core lending revenue, with 12.7% YoY growth, as the remaining key revenue sources of MI's expanding product mix.

## Financial Wealth

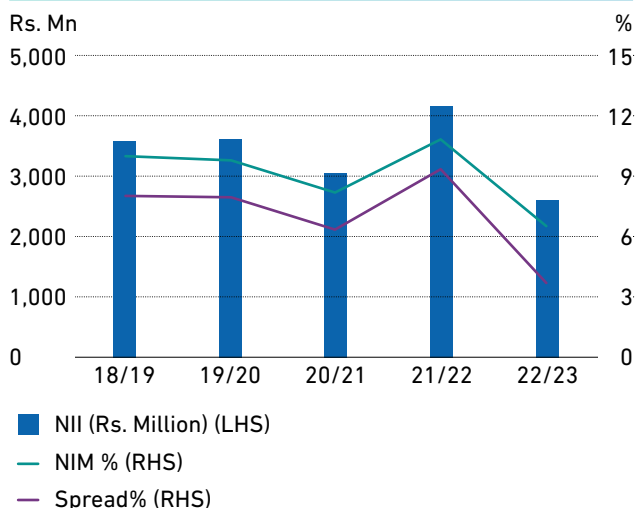
### Loans and Advances – Revenue



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

We gradually aligned lending rates with the upward trajectory in market rates, but with the relatively higher reprising hit arising from shorter tenor deposit base resulted in the Net Interest Income declining sharply by 37.3%, narrowing the Net Interest Margin from 10.86% to 6.46%. In this context, we stayed committed in improving core margins with varying product mix strategies, focusing on high yield lending products while keeping cost of funding lower in the medium term, to capitalize on margins improvements once interest rates start dropping.

#### NII, NIM and Spread



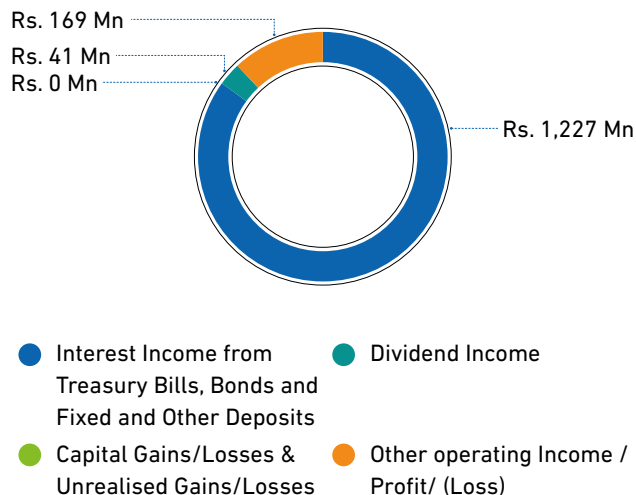
### INVESTMENT INCOME

Investment income contributed a handsome 14% to gross revenue, driven primarily by returns on government securities, placements with banks, unit trusts and dividend income.

As we continued to explore potential investment opportunities, we were able to reap the benefits from the surge in government security rates, which enabled us to record Rs. 955 million as investment income from government securities. Hence, the total interest income earned through investments increased staggeringly from Rs. 215 million to Rs. 1,227 million with a noteworthy 471.5% YoY growth, together with investments placed in bank deposits and unit trusts, maintained to meet our regulatory liquidity levels and match short- to medium-term funding needs.

Furthermore, we enjoyed Rs. 41 million as dividend income which nonetheless, reflected 18.6% YoY dip with the strained and volatile stock market. With the ongoing market volatility stemming from last years foreign exchange crisis, the share portfolio fair values remained lower. Hence we recorded a negative Rs. 372 million charged to the OCI reserve as of 31st March 2023.

#### Investment Income for FY 2022/23

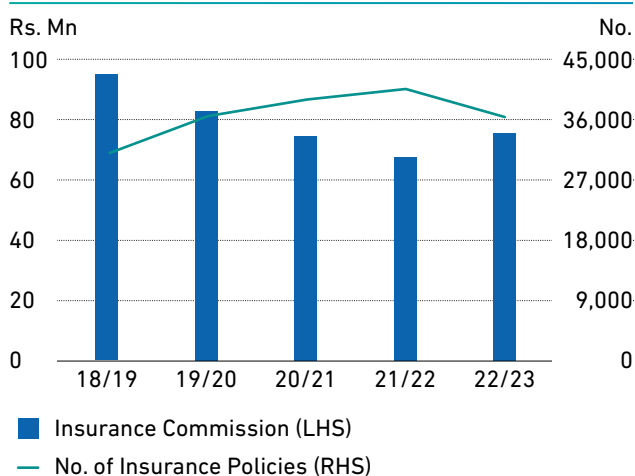


## Financial Wealth

### INSURANCE SERVICES

Insurance referral business income contributed Rs. 75 million to gross revenue compared with Rs. 68 million recorded for the previous year. Moreover, through a satisfactory track record of recovering insurance claims, which stood at Rs. 71 million (Rs. 95 million for 2021/22), we sustained 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.

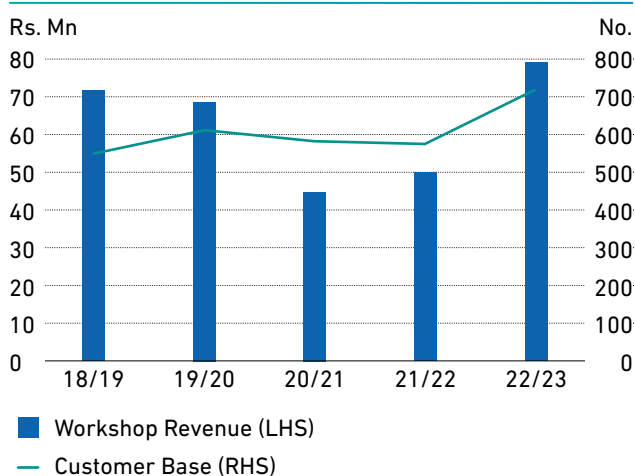
#### Insurance Commission vs No. of Insurance Policies



### WORKSHOP SERVICES

Amidst prevailing macroeconomic challenges, a total revenue contribution of Rs. 79 million was generated through our special workshop servicing and repair unit located in Kohuwala, recording an 58.6% growth against the previous year.

#### Workshop Revenue and Customer Base

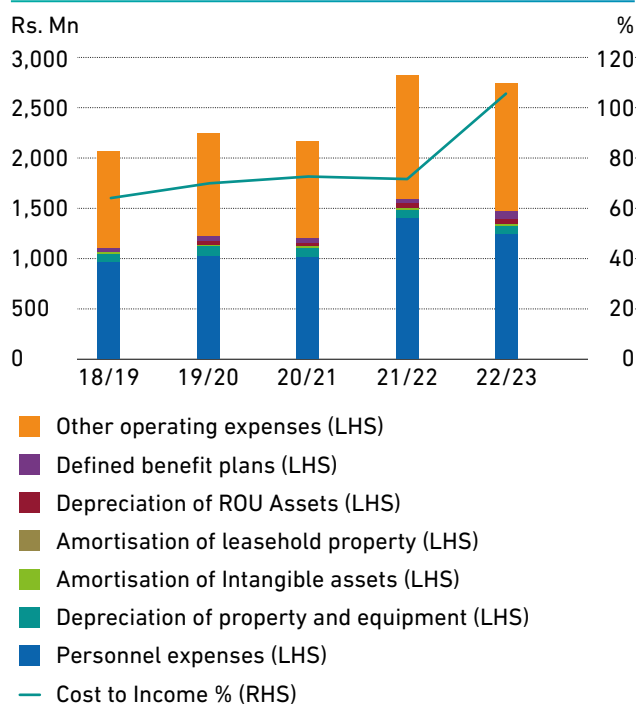


### EXPENDITURE MANAGEMENT

#### Controlled Overhead Cost Escalation

Despite the hyperinflationary effects of over 50% in the economy, our commitment to cost reduction and resource optimisation helped us record a 4.9% YoY decline in general overheads.

#### Composition of Operating Expenses Vs Cost Income Ratio



### CAPITAL EXPENDITURE

In line with the economic slowdown and challenging operating environment, we were mindful in prioritizing investments in long-term projects. Accordingly, we deployed capital based funding selectivity towards executing medium term core business strategy, prioritising projects based on bottom line growth projections. During the year, we focused on enhancing branch infrastructure which included bolstering IT systems and expanding operational capabilities across the branch network. During the year, we invested Rs. 123.5 million in technology initiatives and Rs. 130 million as investments in Property, Plant and Equipment with the aim of amplifying growth potential and future competitiveness. A significant investment will be deployed for the planned IT system migration planning for the next financial year.



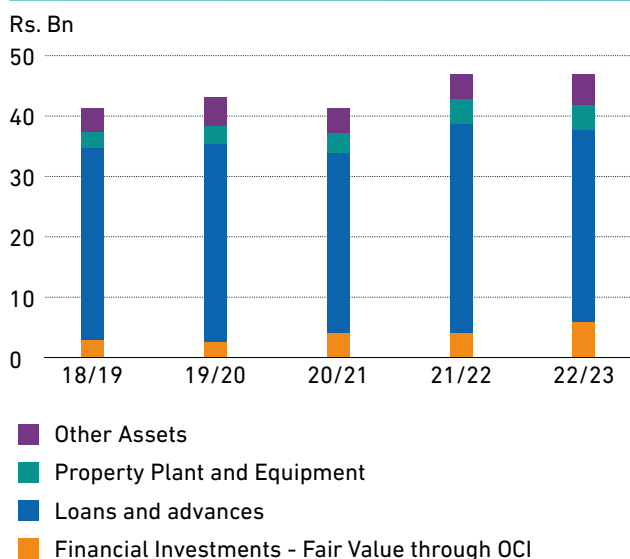
# Financial Wealth

## FINANCIAL POSITION, STRENGTH, BLEND AND EFFICIENCY

### Total Assets Position

Despite the contraction in credit growth stemming from the cascading effects of the macro-economic challenges, we were able to record a 1.3% YoY marginal growth in the Company's total asset base, reaching Rs. 47,623 million, mainly driven by the government securities investments portfolio growth.

### Total Asset Composition

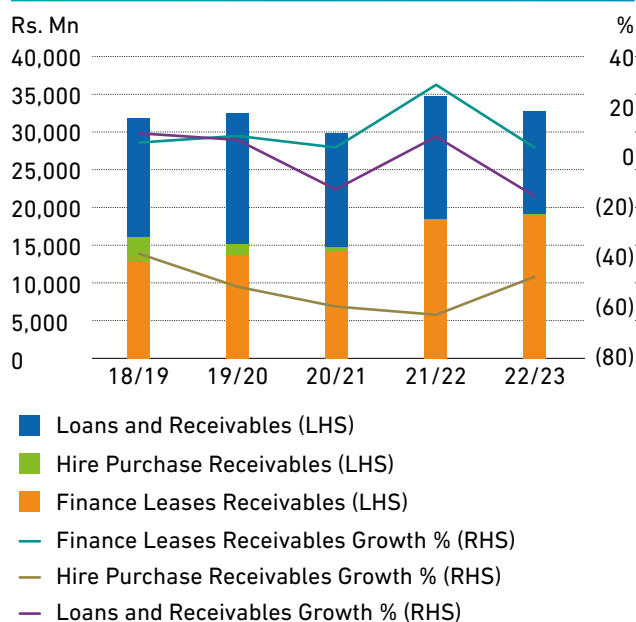


## LOANS AND ADVANCES

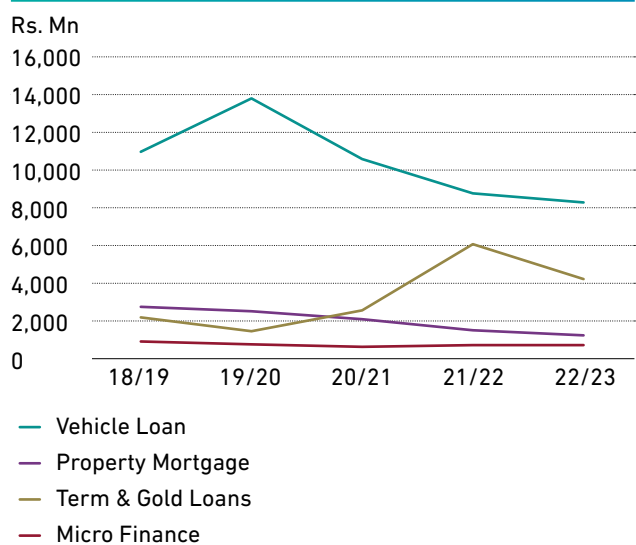
Loans and Advances, representing 68.8% of our total assets, remained the largest and most significant asset component. With the increase in interest rates, deterioration in borrower repayment capacity and shrinking credit growth experienced across the industry, MI's lending book recorded a negative growth of 5.6% during the year, reaching Rs. 32.7 billion, compared to a 16.7% growth recorded for the previous year.

During the year we continued to expand shorter tenor credit services such as the Gold Loan operations and revolving credit facilities, whilst observing demand contraction for longer tenor products. Lending business was driven by MI's primary product, lease financing, which grew by 3.7%, while the performance of term-based product categories recorded a negative growth of 15.7% pegged back by the steep increase in interest rates.

### Lending Portfolio vs Lending Growth



### Loans and Advances – Portfolio



## Financial Wealth

### ASSET QUALITY MANAGEMENT

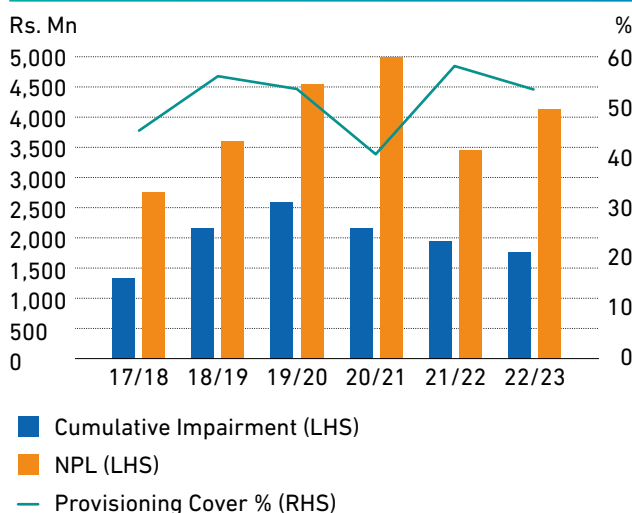
Despite the prevailing macroeconomic pressures and pandemic-led disruptions having a profound impact on the deterioration of borrower repayment capacity, we deployed effective recovery strategies to arrest erosions to asset quality, maintaining our 90 day and 120 day NPLs controlled at 11.9% and 10.7% respectively as at 31st March 2023. As we strategised our efforts on improving credit quality, we were able reverse significant impairment charges booked in prior years.

Whilst pursuing a conservative lending approach, especially with the perceived high-risk clients and sectors, we strengthened our recovery drive with the help of a robust credit risk management unit that reviewed high risk credit and provided post-credit feedback to the Management. Our full-fledged call centre played a pivotal role in following up on immediate arrears in contracts and on clients falling into longer arrears. Legal Department worked closely with the Recovery Team to fast-track longstanding bad debt accounts recovery, particularly with regards to the initiation of out-of-court settlements. Our Special Recoveries Force (SRF) additionally provided a 24/7 recovery effort whilst adhering to moratoria guidelines.

### IMPAIRMENT CHARGES

As we relentlessly focused our recovery efforts on controlling arrears clients and escalation of NPL levels and the contraction in loan book, we were able to make impairment reversal of Rs. 276 million, indicating a notable 87% reduction Year-on-Year. By building up the required provisioning in past years, we assured our stability and resilience for unprecedented shocks by maintaining a healthy provision cover of 57% by March 2023 (March 2022 – 62%), above the internal thresholds (Refer Financial Statements Notes on Impairment from pages 250 to 256).

#### Cumulative Impairment, NPL and Provision Cover

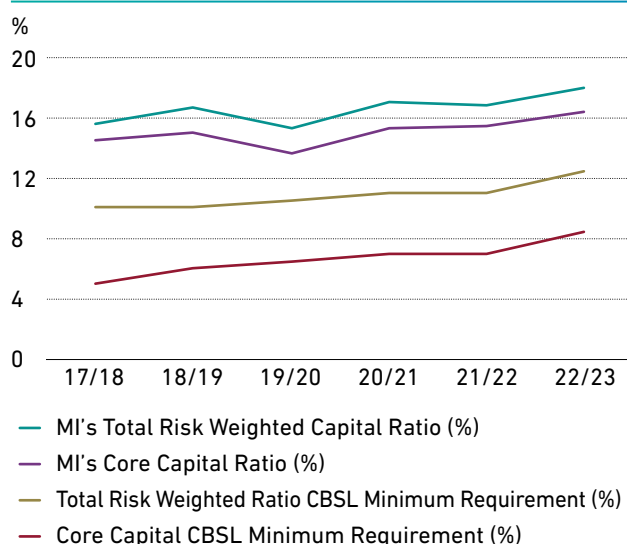


### CAPITAL STRENGTH

#### Regulatory Capital

Despite the multifaceted challenges we faced, our core capital and total capital ratios continued to remain well above the regulatory requirements as a “Well Capitalised Company”, even with the enhanced Basel II capital adequacy requirements, reflecting MI’s financial strength and the cushion that the company has in place to withstand unforeseen external shocks. MI’s prudential capital adequacy ratios of tier 1 and total risk-weighted assets ratio stood at 16.45% and 18.02%, respectively, remaining higher than the minimum regulatory limits of 8.5% and 12.5%. This reaffirmed MI’s balance sheet strength and ability to withstand possible future headwinds to the sector.

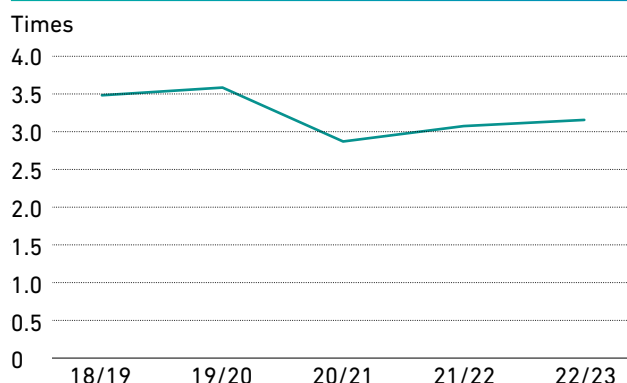
#### Capital Adequacy Position



### DEBT TO EQUITY

MI’s Debt to Equity ratio showed only a marginal increase from 3.08 to 3.16 by March 2023 with the 1.3% growth in the assets base, which was partly financed from borrowings. With the inherent nature of the industry of mobilising deposits to fund core business activities, right debt levels were maintained satisfactorily in keeping with accepted industry norms and safety standards.

#### Debt to Equity Ratio



## Financial Wealth

### LIQUIDITY

#### Short- and Medium-Term Liquidity

Despite the upward trajectory in interest rates, and the recovery delays observed with the macroeconomic challenges, MI continued to maintain solid liquidity buffers throughout the year, providing the much-needed stability to MI's overall operations, whilst managing the trade-off between liquidity and profitability levels. MI's strong liquidity position as at the balance sheet date stood at 18.82% (13.57% in 2022), above the regulatory limit of 10%. (Refer pages 304 to 306 of the Notes to the Financial Statements for a detailed ratio breakdown).

#### Long-Term Liquidity

By broad-basing our product mix and effective treasury management practices, we effectively reduced the maturity mismatches of assets and liabilities of less than one year to Rs. 2 billion from Rs. 6.8 billion recorded in previous year, mitigating short to medium-term liquidity risks upholding investor confidence. (Refer pages 304 to 306 of the Notes to the Financial Statements).

#### Cash Flow Position

Amidst 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. 1,697 million, compared to Rs. 286 million recorded for the previous year, apart from the contingency funding lines kept amounting to Rs. 2.7 billion by 31st March 2023.

#### Cash Flow from Operating Activities

With the growth in deposit base and decline in lending volumes, MI's operating cash flows reflected an inflow of Rs. 4,846 million for the current year compared to Rs. 1,505 million outflows recorded for the previous year, further strengthening MI's liquidity position.

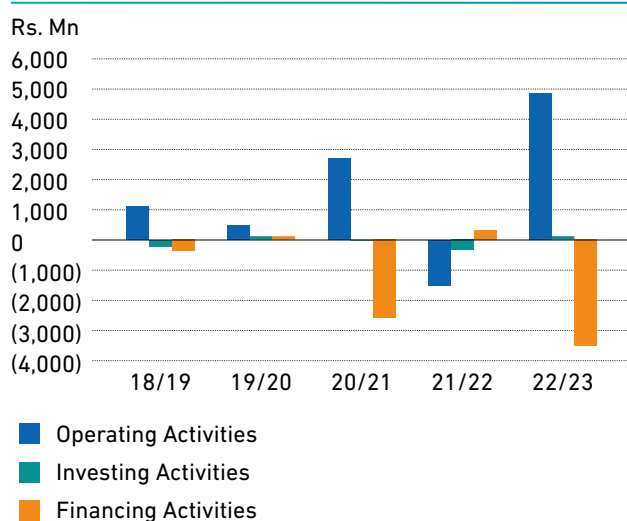
#### Cash Flow from Investing Activities

MI's cash flow from investing activities reflected an inflow of Rs. 100 million for the period under review, compared to Rs. 358 million outflows recorded in last year, with the proceeds gained from the sale of properties and investment income.

#### Cash Flow from Financing Activities

Cash flow from financing activities showed a net cash outflow, totalling to Rs. 3,535 million as at 31st March 2023, compared to the positive cash flow of Rs. 319 million recorded during the previous period, mainly due to the higher repayment of bank borrowings.

#### Cash Flow Analysis



# Alliances



In today's dynamic and competitive business climate, we believe a corporate's long term sustainability hinges on the social licence inculcated and the strength of stakeholder relationships built. Being a premier finance company with over 58 years of legacy, we are proud of the cemented bonds and long term partnerships we continue to enjoy with our stakeholders. We call these intangible must haves as "alliances".

These integrative alliances helped us create MI's top-of-the mind brand recall and streamlines our efforts to deliver a superlative personalised service that is unmatched in the market. Moreover, these lasting bonds enabled us to capture evolving needs, adapt and respond in the face of adversities and to stay resilient amidst the prevailing multifaceted challenges.

As a responsible corporate citizen, MI has always sought to create a more inclusive future for our stakeholders by adhering to a shared growth approach that delivers mutually beneficial solutions to satisfy varied stakeholder expectations and guarantees that everyone has the chance to prosper. Our two-dimensional strategy for creating corporate relationship-building has given us a competitive edge in the industry, elevating commercial and social alliances built over decades to new heights.



Detailed disclosures about our Alliances is made available in our web site.

# Alliances

## PERFORMANCE HIGHLIGHTS

Customer Bonding	Strategic Partnerships	Community Wellbeing
<ul style="list-style-type: none"> <li>&gt; Number of New Deposit Customers – 13,188</li> <li>&gt; Number of New Deposits Attracted – 24,184</li> <li>&gt; Deposit Retention-77%</li> <li>&gt; Deposit Growth – 18%</li> <li>&gt; Expanded Branch network 43</li> </ul>	<ul style="list-style-type: none"> <li>&gt; No of Suppliers – 153</li> <li>&gt; New Vehicle Sales Agents – 1,472</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Direct Community Investment – Rs 1.5 Million</li> <li>&gt; No of direct Beneficiaries – 215</li> <li>&gt; No of Community Development Projects – 9</li> </ul>

## CAPITAL INTERDEPENDENCIES

Capital	Activities	Community Empowerment Programme	Customer Engagement with Technology	Strategic Partnerships
Financial Wealth	Financial Profit	↓	Capital Outflow	↓
Human Strength	Employee Engagement	↑	New Recruitments & Trainings	↑
Infrastructure				Value Addition
Intellect	Company Brand Value	↑	ICT Infrastructure	↑
Nature	Environment Protection	↑	Usage of Paper	↓

## FUTURE ASPIRATIONS

Short Term (Within 1 Year)	Medium Term (2 – 5 Years)	Short Term (5 & Beyond)
<ul style="list-style-type: none"> <li>&gt; Leveraging digital platforms to meet evolving needs and enhance customer convenience.</li> <li>&gt; Enhanced customer accessibility and seamless experience</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Offer enhanced integrated end to end solutions</li> <li>&gt; Capitalizing lasting bonds for sustainable business growth</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Uplifting brand image</li> <li>&gt; Uplifting the Sri Lankan lives through financial empowerment and social wellbeing</li> </ul>

## Human Strength



Our employees' collective knowledge, skills, attitudes and agility displayed remained pivotal drivers of the company's showcased resilience during these extraordinarily challenging times, maintaining the trust and loyalty amongst our financial partners. The MI team played a critical role in achieving set strategic aspirations, enhancing customer experience and driving innovation, to stay competitive in the market during the pandemic hit challenging times and the commencement of the post-Covid phase since 2022.

We have integrated HR strategies, policies and practices with MI's vision, mission and corporate objectives with the aim of grooming our human resources in line with strategic goals. Our unique corporate culture and HR strategies have been successful in attracting and retaining high-calibre resource personnel, while providing them with a distinctive employee experience, including fair and equal opportunities to thrive and grow both personally and professionally. This year we placed more focus on building employee resilience and productivity while empowering staff to succeed in their fields. Our well-structured recruitment, training, performance management and reward policies and processes contributed in uplifting workforce motivation and our value proposition while driving staff towards wider visionary aspirations.



Detailed disclosures about our Human Strength is made available in our web site.

# Human Strength

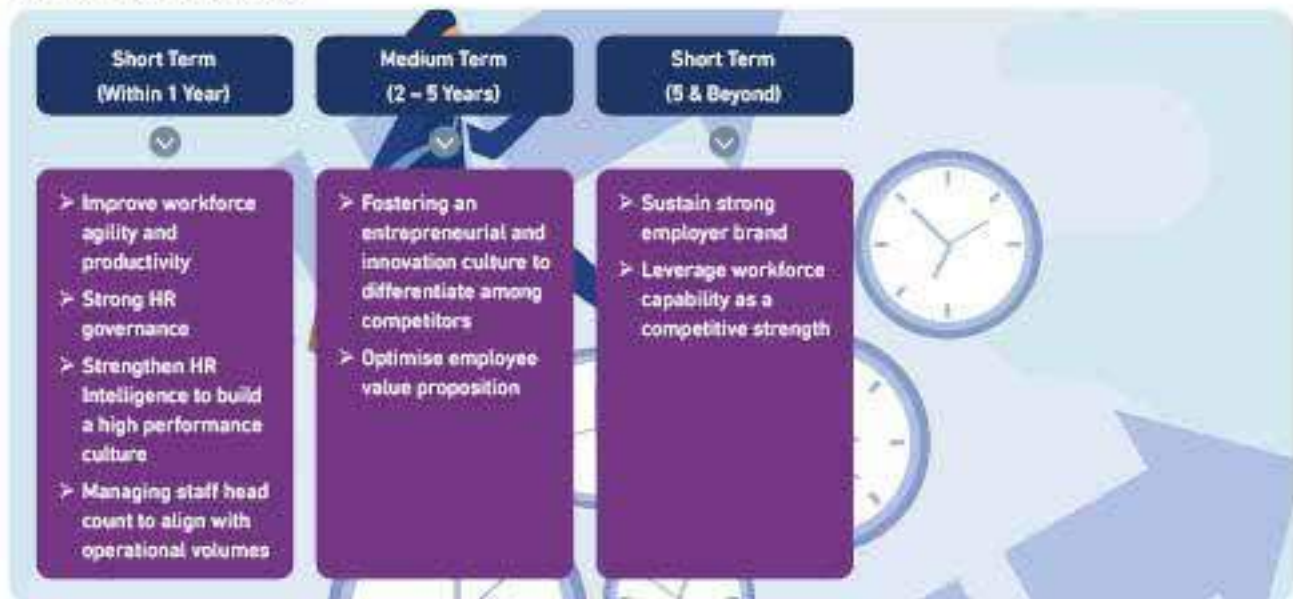
## PERFORMANCE HIGHLIGHTS



## CAPITAL INTERDEPENDENCIES

Capital	Activities	Employee Training Programmes	Performance Appraisals	New Recruitments
Financial Capital		Training Cost	Profitability	Cost of Recruitments
Social & Relationship Capital		Attraction of New Customers	Business Partnerships	New Market Development
Manufactured Capital		Platform Maintenance	Asset Management Skills	Additional Space Required
Intellectual Capital		Tacit Knowledge	Employee Productivity	Capital Stock
Natural Capital				Voluntary Hours

## FUTURE ASPIRATIONS



## Intellect



As a premier finance company with a history of more than five decades, MI continues to harness vast amounts of knowhow and intelligence through its talented experienced team of financial professionals. Our exceptional service extended to our stakeholders is offered utilising this gathered expertise, evolving knowledge in the NBFi sector. The strong corporate brand reputation that we possess has been built on a learning culture that we truly believe in. We are proud to be perceived as a pleasant financial specialist and a trustworthy partner throughout our remarkable journey which has played a critical role in defining the MI brand in terms of who we are and how we satisfy our stakeholder expectations.

Despite the challenging encounters presented by an unfavourable operating environment, we deployed resources and made bold strategic investments to enhance our legendary service with the newest technology to drive growth, stay competitive and reinforce our position in the industry. We focused our attention on process efficiency, automating most processes to enhance customer convenience and overall productivity. Whilst our staunch leadership and good governance enriched our brand image, we managed all elements of intellectual capital synergistically to enhance our service value chain toward maximizing customer satisfaction.



Detailed disclosures about our Intellect is made available in our web site.



# Intellect

## PERFORMANCE HIGHLIGHTS

Employee Development	Brand Development	Information Security & Business Digitalisation
<ul style="list-style-type: none"> <li>&gt; Number of Training Hours – 9,886</li> <li>&gt; AML Trainings to Employees (No.) – 156</li> <li>&gt; Career Development Opportunities – 243</li> <li>&gt; Training Programmes – 45</li> <li>&gt; Continuous knowledge development process</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Brand Capital Investment – Rs. 25 Million</li> <li>&gt; New Deposit attraction over – Rs. 5 Billion</li> <li>&gt; Widening Customer Image</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Cyber Security Awareness Programmes – 18</li> <li>&gt; Development in Online Payment Gateway</li> <li>&gt; IT System Enhancements – 06</li> </ul>

## CAPITAL INTERDEPENDENCIES

Capital	Activities	Brand Development	Cyber Security Enhancement	Knowledge Development	Process Automation
Financial Wealth	Branding Cost	↕	Investment Cost	Training Cost	Decline in operating Cost
Alliances	Business Recognition	↕	Trustworthiness	– Competencies – Client Service	Service Quality
Human Strength	Employee Motivation	↕	Reliability	Employee Performance	Improved Productivity
Infrastructure	Branch Value	↕	Digital Channel		Need of physical infrastructure
Nature	-		-	Environmental Hazards reduction	Decline in Manual Waste

## FUTURE ASPIRATIONS

Short Term (Within 1 Year)	Medium Term (2 – 5 Years)	Short Term (5 & Beyond)
<ul style="list-style-type: none"> <li>&gt; Enhance multi-tasking and employee productivity</li> <li>&gt; Migration to new ERP system</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Introduce AI support to improve business outcomes</li> <li>&gt; Enhanced automation to cut manual tasks</li> <li>&gt; Use of bots for routine tasks</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Digital migration of core products</li> <li>&gt; Enhance the reliability of the BCP</li> </ul>

## Infrastructure



With the rapid advancement of technology and evolving customer demands, the strength of physical and digital infrastructure plays a pivotal role in differentiating the service we offer and in sustaining our competitiveness and market positioning. Hence, as a dynamic financial institution, we continued to upgrade our physical infrastructure which included the IT systems to be agile, creative and sensitive to market needs. We successfully faced industry competition and macro-economic challenges during this turbulent phase, utilizing technology and industry proven building outlays and equipment to generate synergetic benefits towards productivity and customer experience. Through the deployment of infrastructure-related investments we capitalised on new and emerging opportunities in the market.




Our island-wide branch network comprised physical, material and technological resources reflected through our own and leased property, office and IT equipment, vehicle fleet, enhanced system infrastructure and extended digital platforms, which paved the path to maintain market competitiveness while boosting customer convenience and experience. While upgrading existing infrastructure, we also focused on resource optimisation as a strategy to improve overall productivity and bottom-line to counter hyperinflationary economic conditions.



Detailed disclosures about our Infrastructure is made available in our web site.

# Infrastructure

## PERFORMANCE HIGHLIGHTS

 Customer Reach	 Infrastructure Development	 Operational Efficiency
<ul style="list-style-type: none"> <li>&gt; Number of Branches – 43</li> <li>&gt; Gold Loan Expansions – 11</li> <li>&gt; New Branch Openings – 1</li> <li>&gt; Call Centre Operations</li> </ul>	<ul style="list-style-type: none"> <li>&gt; PPE Investments – Rs. 130 million</li> <li>&gt; IT Investment – Rs. 123 million</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Automated Processes</li> <li>&gt; System Enhancements</li> <li>&gt; Remote Working</li> <li>&gt; Adoption of Latest Technology</li> </ul>

## CAPITAL INTERDEPENDENCIES

Capital	Activities	Expansion of Branch Network	PPE Acquisitions	Digital Solutions	Resource Allocation			
Financial Wealth	Capital Investments	↘	Capital Investments	↘	Project Cost	↘	Economic Profit	↗
Alliances	Customer Interaction	↗	Business Partnerships	↗	Business Partnerships	↗		
Human Strength	Employee Recruitment	↗	Asset Management Skills	↗	Employee Productivity & Efficiency	↗	Employee Experiences	↗
Intellect	Company Brand	↗			Capital Stock	↗		
Nature	Location Impact	↗			Paper and other scraps reduced	↗		

## FUTURE ASPIRATIONS

Short Term (Within One year)	Short Term (Within One year)	Short Term (Within One year)
<ul style="list-style-type: none"> <li>&gt; Transforming core and supporting systems to an advanced platform</li> <li>&gt; Leverage technology to simplify operating processes and enhance productivity</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increase Branch Footprint and wider our branch saturation</li> <li>&gt; Enhanced digital transformation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Drive the adoption of the digital branch concept models</li> <li>&gt; Dynamically improve the digital Onboarding process</li> </ul>



## Nature



As a longstanding corporate citizen in the financial sector, MI deploys business practices that encapsulate great attention to environmental protection and conservation in our journey towards becoming a truly sustainable financial institution. To integrate environmental sustainability into our business, we abide by environmental laws and benchmark global best practices to safeguard the environment for the good of society and our stakeholders.

Alongside viable financing solutions, we ensured that our business model supported the preservation of natural resources while minimising our negative impact on the environment. We upheld a green corporate culture and adopted green policies and procedures in our day-to-day operations. Although, as a financial services provider, MI's activities do not have significant direct impact on the environment, we have routinely made a conscious effort to manage our ecological footprint.

During the last few decades, we went the extra mile to elevate our ecological value to society through the valuable guidance, insights and commitment of our Sustainability Governance Committee. We conducted campaigns to preserve wild life and natural resources and promoted the 3R concept throughout our branch network to keep utilisation of natural resources minimal. Accordingly, when selecting new locations to set up operations, we ensure due consideration is given to environmentally rich sites and protected areas with high biodiversity. We also encouraged the efficient use of renewable resources and reengineered our business processes to optimise our resource usage and ecological footprint, amidst a turbulent economic environment aggravated by the lack of renewable energy sources.



Detailed disclosures about Nature is made available in our web site.

# Nature

## PERFORMANCE HIGHLIGHTS

Environment Friendly Operations	Employee Engagement	Investment on Environment
<ul style="list-style-type: none"> <li>&gt; Paper usage reduction – 32.4%</li> <li>&gt; Recycle of Papers – 2,174 Kg</li> <li>&gt; Global Compliance</li> <li>&gt; Digitalisation</li> <li>&gt; Process Reengineering</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Increase Voluntary Contribution</li> <li>&gt; Continuous Awareness Programmes</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Number of Activities – 02</li> <li>&gt; Total Cost Incurred – &gt; Rs. 150,000/-</li> </ul>

## CAPITAL INTERDEPENDENCIES

Capital	Activities	Beach Cleanup Programme	Enhancement in Digital Payment Modes
Financial Wealth		Project Cost	Investment Cost
Social & Relationship Capital		Customer Loyalty	Business Partnerships
Human Capital		Employee Engagement	Employee Efficiency
Manufactured Capital			Branch Value
Intellectual Capital		Brand Image	Employee Knowledge and Exposure

## FUTURE ASPIRATIONS

Short Term (Within One year)	Short Term (Within One year)	Short Term (Within One year)
<ul style="list-style-type: none"> <li>&gt; Initiate 5R concept within selected departments.</li> <li>&gt; To establish a 'concept branch' which supports green corporate policies.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Implement 5R concept within all departments in head office and branch network.</li> <li>&gt; Transfer most of the operations to digital platform.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Transfer business operations to a platform which supports greater environmental ideologies and the preservation of natural resources.</li> </ul>

# GRI Contents Index

Category	Disclosure Number	Disclosures	Section in AR	Page Reference		Omission		
				Book Page	Web Page	Requirements omitted	Reason	Explanation
<b>GRI 2: General Disclosure</b>								
Organisational details	2-1	Organisational details	Corporate Information Infrastructure	10,326-330	3-5	Grey cell areas indicates that reasons for omission are not permitted for the disclosure or that a GRI Sector Standard reference number is not available		
	2-2	Entities included in the organisation's sustainability reporting	Overview about this Report	8-9				
	2-3	Reporting period, frequency and contact point	Overview about this Report	8-9,11				
	2-4	Restatements of information	Overview about this Report	8-9				
	2-5	External Assurance	External Assurance	9				
	2-6	Activities, value chain and other business relationships	About our Business and Operating Dynamics, Products and Services Offered, Financial Highlights, Operational Highlights Sustainable Value Creation Process, Our value creation model	12-15,18-21,34	1-3			
			Alliances		7-9			
	2-7	Employees	Human strength		3-10			
	2-8	Workers who are not employees	Human strength		4-5			
	2-9	Governance structure and composition	Our governance framework	91				
	2-10	Nomination and selection of the highest governance body	Board nomination committee report	186-187				
	2-11	Chair of the highest governance body	Board of Directors	78-83				
	2-12	Role of the highest governance body in overseeing the management of impacts	MI compliance status with finance business act No 5 of 2021	130				
	2-13	Delegation of responsibility for managing impacts	Chairman's statement on corporate governance	89				
	2-14	Role of the highest governance body in sustainability reporting	Direction and value system The corporate management committee's role in governance	17 102				
2-15	Conflicts of interest	Corporate Governance Report	126, 140, 153					

# GRI Contents Index

Category	Disclosure Number	Disclosures	Section in AR	Page Reference		Omission				
				Book Page	Web Page	Requirements omitted	Reason	Explanation		
	2-16	Communication of critical concerns	Our governance structure	92						
	2-17	Collective knowledge of the highest governance body	Board committee overview	98						
	2-18	Evaluation of the performance of the highest governance body	Board nomination committee report	186-187						
	2-19	Remuneration policies	Board remuneration committee report	185						
	2-20	Process to determine remuneration	Board remuneration committee report	185						
	2-21	Annual total compensation ratio					Confidentiality constraints			
	2-22	Statement on sustainable development strategy	Direction and value System	17						
			Message from the Chairman	24-26						
			Managing Director's Review	27-31						
	2-23	Policy commitments	Human Strength		30					
	2-24	Embedding policy commitments	Alliances		15					
	2-25	Processes to remediate negative impact	Human Strength		31					
			Alliances		5-6					
	2-26	Mechanisms for seeking advice and raising concerns	Human Strength		31					
			Alliances		5-6					
	2-27	Compliance with laws and regulation	Compliance	103						
	2-28	Membership associations	Memberships in Associations and Councils	95						
	2-29	Approach to stakeholder engagement	Stakeholder Engagement	36-37						
			Our value creation model		5-7					
	2-30	Collective bargaining agreements	Human Strength		31					
<b>GRI 3 :Disclosures on Material Topics</b>						Grey cell areas indicates that reasons for omission are not permitted for the disclosure or that a GRI Sector Standard reference number is not available				
	3-1	Process to determine material topics	Materiality Assessment	37						
	3-2	List of material topics	Our value creation model		9-21					
	3-3	Management of material topics	Our value creation model		9-21					
<b>GRI 200: Economic Performance</b>										
GRI 201: Economic Performance	201-1	Direct economic value generated and distributed	Impact Management		8-9					

## GRI Contents Index

Category	Disclosure Number	Disclosures	Section in AR	Page Reference		Omission		
				Book Page	Web Page	Requirements omitted	Reason	Explanation
	201-2	Financial implications and other risks and opportunities due to climate change	Nature		13			
	201-3	Defined benefit plan obligations and other retirement plans	Notes to the Financial Statements	274-	275			
	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		26			
	202-2	Proportion of senior management hired from the local community	Human Strength		13-14			
GRI 203: Indirect Economic Impacts	203-1	Infrastructure investments and services supported	Infrastructure		6-7			
	203-2	Significant indirect economic impacts	Impact Management		14-16			
GRI 204: Procurement Practices	204-1	Proportion of spending on local suppliers	Alliances		10			
GRI 205: Anti-corruption	205-1	Operations assessed for risks related corruption	Alliances		15-16			
	205-2	Communication and training about anti-corruption policies and procedures	Alliances		15-16			
			Human Strength		18-19			
	205-3	Confirmed incidents of corruption and actions taken	Alliances		15-16			
GRI 207: Tax 2019	207-1	Approach to tax	Notes to the Financial Statements	240-	241			
	207-2	Tax governance, control, and risk management	Notes to the Financial Statements	240-	241			
	207-3	"Stakeholder engagement and management of concerns related to tax"	Notes to the Financial Statements	240-	241			
	207-4	Country-by-country reporting	Notes to the Financial Statements	240-	241			



## GRI Contents Index

Category	Disclosure Number	Disclosures	Section in AR	Page Reference		Omission		
				Book Page	Web Page	Requirements omitted	Reason	Explanation
<b>GRI 300: Environmental Topics</b>								
GRI 301: Material 2016	301-1	Materials used by weight or volume	Impact Management		24-25			
	301-2	Recycled input materials used	Impact Management		25-26			
	301-3	Reclaimed products and their packaging materials					Not applicable	MI did not use Products and packaging materials reclaimed within the reporting period
GRI 302: Energy 2016	302-1	Energy consumption within the organisation	Nature		5-7			
			Impact Management		26-27			
	302-2	Energy consumption outside of the organisation	Nature		6-7			
			Impact Management		26-27			
	302-3	Energy intensity	Impact Management		26-27			
	302-4	Reduction of energy consumption	Impact Management		26-27			
302-5	Reductions in energy requirements of products and services	Impact Management		26-27				
GRI 303: Water and Effluents 2018	303-1	Interactions with water as a shared resource	Impact Management		27-28			
			Nature		7			
	303-2	Management of water discharge-related impacts	Impact Management		27-28			
			Nature		7			
	303-3	Water Withdrawal	Impact Management		27-28			
	303-4	Water discharge	Impact Management		27-28			
303-5	Water consumption	Impact Management		27-28				
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		11-13			
	304-2	Significant impacts of activities, products, and services on biodiversity	Nature		11-13			
	304-3	Habitats protected or restored	Nature		11-13			

## GRI Contents Index

Category	Disclosure Number	Disclosures	Section in AR	Page Reference		Omission		
				Book Page	Web Page	Requirements omitted	Reason	Explanation
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	Nature		11-13			
GRI 306: Waste 2020	306-1	Waste generation and significant waste-related impacts	Impact Management		29			
	306-2	Management of significant waste-related impacts	Impact Management		29			
			Nature		10			
	306-3	Waste generated	Impact Management		29			
	306-4	Waste diverted from disposal	Impact Management		29			
			Nature		10			
	306-5	Waste directed to disposal	Impact Management		29			
			Nature		9-10			
<b>GRI 400: Social Topics</b>								
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	Human Strength		10-12, 29-30			
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Human Strength		26-27			
	401-3	Parental leave	Human Strength		29			
GRI 402: Labor/Management Relations 2016	402-1	Minimum notice periods regarding operational changes	Human Strength		31			
GRI 403: Occupational Health and Safety 2018	403-1	Occupational health and safety management system	Human Strength		28			
	403-2	Hazard identification, risk assessment, and incident investigation	Human Strength		28			
	403-3	Occupational health services	Human Strength		28			
	403-4	Worker participation, consultation, and communication on occupational health and safety	Human Strength		28			
	403-5	Worker training on occupational health and safety	Human Strength		28			
	403-6	Promotion of worker health	Human Strength		28			
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Human Strength		28			

# GRI Contents Index

Category	Disclosure Number	Disclosures	Section in AR	Page Reference		Omission		
				Book Page	Web Page	Requirements omitted	Reason	Explanation
	403-8	Workers covered by an occupational health and safety management system	Human Strength		28			
	403-9	Work-related injuries	Human Strength		28			
	403-10	Work-related ill health	Human Strength		28			
GRI 404: Training and Education 2016	404-1	Average hours of training per year per employee	Human Strength		14-16			
	404-2	Programs for upgrading employee skills and transition assistance programs	Human Strength		14-24			
	404-3	Percentage of employees receiving regular performance and career development reviews	Human Strength		25			
GRI 405: Diversity and Equal Opportunity 2016	405-1	Diversity of governance bodies and employees	Human Strength		3-10			
	405-2	Ratio of basic salary and remuneration of women to men	Human Strength		26-27			
GRI 406: Non-Discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	Human Strength		10			
GRI 410: Security Practices 2016	410-1	Security personnel trained in human rights policies or procedures	Human Strength		32			
GRI 413: Local Communities 2016	413-1	Operations with local community engagement, impact assessments, and development programs	Alliances		11-14			
			Impact Management		19-23			
	413-2	Operations with significant actual and potential negative impacts on local communities	Alliances		11			
GRI 417: Marketing and Labeling 2016	417-1	Requirements for product and service information and labeling	Alliances		4-5			
	417-2	Incidents of non-compliance concerning product and service information and labeling	Alliances		4-5			
	417-3	Incidents of non-compliance concerning marketing communications	Alliances		4-5			
GRI 418: Customer Privacy 2016	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	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

### Scope

We have been engaged by Mercantile Investments and Finance PLC (“the Entity”) to perform a ‘limited assurance engagement,’ as defined by Sri Lanka Standard on Assurance Engagements, here after referred to as the engagement, to report on the Economic, Environment, Social and Governance (EESG) indicators of the Entity’s Integrated Annual Report (the “Subject Matter”) as of 31st March 2023.

### Criteria Applied by Mercantile Investments and Finance PLC

In preparing the Subject Matter, Mercantile Investments and Finance PLC applied the following criteria (“Criteria”):

- The Global Reporting Initiative’s (GRI) Sustainability Reporting Guidelines, publicly available at GRI’s global website [www.globalreporting.org](http://www.globalreporting.org).

Such Criteria were specifically designed for purpose of assisting you in determining whether Entity’s Economic, Environment, Social and Governance (EESG) indicators of the Entity’s Integrated Annual Report FY 2022/23 is in accordance with the relevant criteria; As a result, the subject matter information may not be suitable for another purpose.

### Mercantile Investments and Finance PLC’s Responsibilities

Mercantile Investments and Finance PLC’s management is responsible for selecting the Criteria, and for presenting the EESG indicators contained in the Integrated Annual Report in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, 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 Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the *Sri Lanka Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information SLSAE 3000 (Revised)*, and the terms of reference for this engagement as agreed with the Mercantile Investments and Finance PLC on 8th June 2023. Those standards require that we plan and perform our engagement to obtain limited assurance about whether, in all material respects, the Subject Matter is presented 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 limited assurance conclusions.

### 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 CA Sri Lanka and have the required competencies and experience to conduct this assurance engagement.

EY also applies International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, 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.

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. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewari FCA, N M Subraman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagata ALA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Gaurdian ACMA, D L B Karunathilaka ACMA, Ms. P S Paranavithana ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

## Independent Assurance Report on Sustainability



### Description of Procedures Performed

Procedures performed in a limited assurance engagement 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. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

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.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the subject matter and related information and applying analytical and other appropriate procedures.

### Our Procedures Included:

- Validated the information presented and checked the calculations performed by the organisation through recalculation.
- Performed a comparison of the content given in the Report against the criteria given in the selected sustainability standards/frameworks.
- Conducted interviews with relevant organisation's personnel to understand the process for collection, analysis, aggregation and presentation of data. Interviews included selected key management personnel and relevant staff.

- Read the content presented in the Report for consistency with our overall knowledge obtained during the course of our assurance engagement and requested changes wherever required.
- Provided guidance, recommendations and feedback on the improvement of the sustainability reporting indicators to improve the presentation standard.

We also performed such other procedures as we considered necessary in the circumstances.

### Emphasis of Matter

Economic, Environment, Social management data/information are subject 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 Integrated Annual Report.

### Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to the Economic, Environment, Social and Governance (EESG) indicators of the Entity's Integrated Annual Report as of 31st March 2023 in order for it to be in accordance with the Criteria.

Chartered Accountant  
Colombo

23rd June 2023



# Navigating our Values



## STEWARDSHIP

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Board Integrated Risk Management  
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Board Remuneration

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Board Nomination

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Board Related Party Transactions

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# Board of Directors

GRI 2-11




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><b>Pandithasundara Dinuka Dilhan Perera</b> Director Acting Chairman (Independent Non-Executive)</p>	21st February 2020	30th June 2022	3 years	<ul style="list-style-type: none"> <li>➤ Related Party Transaction Review Committee</li> <li>➤ Nomination Committee</li> <li>➤ Audit Committee</li> <li>➤ Remuneration Committee</li> </ul>
 <p><b>Gerard George Ondaatje</b> Managing Director (Executive)</p>	2nd December 1993		30 years	<ul style="list-style-type: none"> <li>➤ Nomination Committee</li> <li>➤ Integrated Risk Management Committee</li> </ul>
 <p><b>Shermal Hemaka Jayasuriya</b> Finance Director (Executive)</p>	05th January 2001	28th July 2021	22 Years	<ul style="list-style-type: none"> <li>➤ Integrated Risk Management Committee</li> <li>➤ Related Party Transaction Review Committee</li> </ul>



## Board of Directors

	Competencies			Qualifications/ Experiences	Present Directorship/Position held with Other Companies	Number of Shares held in MI as at 31st March 2023
	Expertise	Sector	Qualities			
	<ul style="list-style-type: none"> <li>➤ Strategic Management</li> <li>➤ Financial Management</li> <li>➤ Governance</li> <li>➤ Treasury</li> <li>➤ Auditing</li> </ul>	<ul style="list-style-type: none"> <li>➤ Information Technology</li> <li>➤ Construction</li> <li>➤ Financial services</li> <li>➤ Trading</li> </ul>	<ul style="list-style-type: none"> <li>➤ Strategic Thinker</li> <li>➤ Visionary</li> <li>➤ Analytical</li> <li>➤ Idea Generator</li> <li>➤ Able to deal with ambiguity</li> <li>➤ Networking</li> </ul>	FCA, FCMA (SL), ACMA (UK), CGMA, MBA (PIM, Sri J'pura)	<ul style="list-style-type: none"> <li>➤ Chief Financial Officer/ Senior Vice President – Finance and Supply chain of Millennium IT ESP (Pvt) Ltd</li> <li>➤ Non-Executive Director of Infoseek (Pvt) Ltd</li> </ul>	Nil
	<ul style="list-style-type: none"> <li>➤ Strategic Management</li> <li>➤ Human Resource Management</li> <li>➤ Financial Management</li> <li>➤ Public Relation</li> <li>➤ Governance</li> <li>➤ Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>➤ Tourism and Hotels</li> <li>➤ Automobile</li> <li>➤ Financial Services</li> <li>➤ Trading Sector</li> </ul>	<ul style="list-style-type: none"> <li>➤ Strategic Thinker</li> <li>➤ Visionary</li> <li>➤ Analytical</li> <li>➤ Idea Generator</li> <li>➤ Able to deal with ambiguity</li> <li>➤ Networking</li> </ul>	B.Sc. (Accountancy) (Arizona State University – USA)	<ul style="list-style-type: none"> <li>➤ Chairman of Mercantile Fortunes (pvt) Limited, Security Ceylon (Pvt) Limited, Mercantile Orient (Pvt) Limited, Fair View Hotel (Pvt) Limited, Global Films Limited, International Fortunes (Pvt) Limited &amp; Mercantile Fortunes Insurance Brokers (Pvt) Ltd</li> <li>➤ Deputy Chairman of The Nuwara Eliya Hotels Co. PLC</li> <li>➤ Director of Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC, Tangerine Tours (Pvt) Limited, Tangerine Vacations (Pvt) Ltd, Nilaveli Beach Hotels (Pvt) Ltd &amp; Nilaveli Hotels (Pvt) Ltd</li> </ul>	484,615
	<ul style="list-style-type: none"> <li>➤ Strategic Management</li> <li>➤ Recoveries</li> <li>➤ Human Resource Management</li> <li>➤ Financial Management</li> <li>➤ Fundraising</li> <li>➤ Public Relation</li> <li>➤ Governance</li> <li>➤ Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>➤ Financial Services</li> <li>➤ Insurance</li> <li>➤ Manufacturing</li> <li>➤ Small Businesses</li> <li>➤ Trading</li> <li>➤ Automobile</li> </ul>	<ul style="list-style-type: none"> <li>➤ Strategic Thinker</li> <li>➤ Visionary</li> <li>➤ Analytical</li> <li>➤ Idea Generator</li> <li>➤ Able to deal with ambiguity</li> <li>➤ Networking</li> </ul>	FCA, FCMA (UK), CGMA, FCMA (SL), MBA (Sri.J.)	<ul style="list-style-type: none"> <li>➤ Director of Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited, Mercantile Fortunes Insurance Brokers (Pvt) Ltd</li> </ul>	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><b>Angeline Myrese Ondaatjie</b> Director (Executive)</p>	20th January 1992	30th June 2022	31 Years	
 <p><b>Travice John Ondaatjie</b> Director (Executive)</p>	13th July 1995	31st August 2020	28 Years	
 <p><b>Anil Lasantha Naomal Dias</b> Director (Independent Non-Executive)</p>	26th March 2021	28th July 2021	2 Years	<ul style="list-style-type: none"> <li>➤ Integrated Risk Management Committee</li> <li>➤ Audit Committee</li> <li>➤ Nominations Committee</li> <li>➤ Related Party Transaction Review Committee</li> <li>➤ Remuneration Committee</li> </ul>

## Board of Directors

	Competencies			Qualifications/ Experiences	Present Directorship/Position held with Other Companies	Number of Shares held in MI as at 31st March 2023
	Expertise	Sector	Qualities			
	<ul style="list-style-type: none"> <li>➤ Strategic Management</li> <li>➤ Human Resource Management</li> <li>➤ Financial Management</li> <li>➤ Public Relation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Tourism and Hotels</li> <li>➤ Financial Services</li> <li>➤ Manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>➤ Strategic Thinker</li> <li>➤ Visionary</li> <li>➤ Analytical</li> <li>➤ Idea Generator</li> <li>➤ Able to deal with ambiguity</li> <li>➤ Networking</li> </ul>	MBA (University of Texas in Austin) USA, BSc (Massachusetts Institute of Technology USA)	<ul style="list-style-type: none"> <li>➤ Chairperson of Tangerine Tours (Pvt) Limited, Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC &amp; Tangerine Vacations (Pvt) Ltd</li> <li>➤ 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</li> <li>➤ Vice President of Tourist Hotels Association</li> <li>➤ Former Director of Sri Lanka Tourism Promotion Bureau</li> <li>➤ Safety Advisor Princeton in Asia</li> <li>➤ Serves on the Education Council of MIT</li> </ul>	484,615
	<ul style="list-style-type: none"> <li>➤ Strategic Management</li> <li>➤ Human Resource Management</li> <li>➤ Financial</li> <li>➤ Public Relation</li> <li>➤ Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>➤ Tourism and Hotels</li> <li>➤ Automobile</li> <li>➤ Financial Services</li> </ul>	<ul style="list-style-type: none"> <li>➤ Strategic Thinker</li> <li>➤ Visionary</li> <li>➤ Analytical</li> <li>➤ Idea Generator</li> <li>➤ Networking</li> </ul>	BSc. (Arizona State University – USA)	<ul style="list-style-type: none"> <li>➤ Chairman of Nilaveli Beach Hotels (Pvt) Limited &amp; Nilaveli Hotels (Pvt) Limited</li> <li>➤ 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</li> </ul>	484,614
	<ul style="list-style-type: none"> <li>➤ Strategic Management</li> <li>➤ Financial Management</li> <li>➤ Auditing</li> <li>➤ Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>➤ Manufacturing</li> <li>➤ Trading</li> </ul>	<ul style="list-style-type: none"> <li>➤ Strategic Thinker</li> <li>➤ Idea Generator</li> <li>➤ Able to deal with ambiguity</li> <li>➤ Analytical</li> <li>➤ Visionary</li> <li>➤ Consensus Builder</li> </ul>	FCMA (UK), MBA (USJP)	<ul style="list-style-type: none"> <li>➤ Director of Ygro (Pvt) Ltd</li> </ul>	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><b>Eranjalie Deepthie Wickramasuriya</b> <i>Director (Independent Non-Executive)</i></p>	26th March 2021	28th July 2021	2 Years	<ul style="list-style-type: none"> <li>➤ Audit Committee</li> <li>➤ Related Party Transaction Review Committee</li> <li>➤ Nominations Committee</li> </ul>
 <p><b>Malwattage Kanchana Sujeewa Pieris</b> <i>Director (Independent Non-Executive)</i></p>	05th April 2021	28th July 2021	2 Years	<ul style="list-style-type: none"> <li>➤ Remuneration Committee</li> </ul>

## Board of Directors

	Competencies			Qualifications/ Experiences	Present Directorship/Position held with Other Companies	Number of Shares held in MI as at 31st March 2023
	Expertise	Sector	Qualities			
	<ul style="list-style-type: none"> <li>➤ Business process management</li> <li>➤ Auditing</li> <li>➤ Risk management</li> <li>➤ Financial Management</li> <li>➤ Strategic Management</li> <li>➤ Treasury</li> <li>➤ Business counselling</li> </ul>	<ul style="list-style-type: none"> <li>➤ Financial services</li> <li>➤ Trading</li> <li>➤ Manufacturing</li> <li>➤ Energy</li> <li>➤ Plantation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Strategic Thinker</li> <li>➤ Idea Generator</li> <li>➤ Analytical</li> <li>➤ Visionary</li> <li>➤ Listener</li> </ul>	FCMA (UK), MBA (USJP)	<ul style="list-style-type: none"> <li>➤ Director of Vidullanka PLC, Vidul Plantation (Pvt) Ltd, Amana Takaful PLC and Chitrasena Vajira Dance Foundation</li> </ul>	Nil
	<ul style="list-style-type: none"> <li>➤ Company Law</li> <li>➤ Strategic Management</li> <li>➤ Public Relation</li> <li>➤ Intellectual Property</li> </ul>	<ul style="list-style-type: none"> <li>➤ Legal</li> <li>➤ Banking and Financial services</li> </ul>	<ul style="list-style-type: none"> <li>➤ Strategic Thinker</li> <li>➤ Idea Generator</li> <li>➤ Visionary</li> <li>➤ Analytical</li> </ul>	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:**  
25 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



**DEVA ANTHONY**

Chief Financial Officer / Director (Non-Board)

*FCA, FCMA (UK), CGMA, FCMA (SL), ACIM*

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

**Directorships and memberships:**

Director of Mercantile Fortunes Insurance Brokers (Pvt) Ltd  
Member of Integrated Risk Management Committee



**SONALI PETHIYAGODA**

Company Secretary

*ACIS (UK), ACCS*

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



**RAVI EKANAYAKE**

General Manager – Motor Division

*Dipl. Engineering (UK)*

**Areas of expertise and contribution:**  
41 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:**  
21 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:**  
25 years experience in the Financial Service sector

## Corporate Management Team



**PRIYANTHA ATHUKORALA**

General Manager - HR

*MBA (Wales) –UK, MLRHRM –Colombo, ICF Certified Transformative Coach, NLP Business Practitioner*

**Areas of expertise and contribution:**

27 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:**

23 years experience in the Financial Service sector



**JAYANKA KAHAWEVITHANA**

General Manager – Legal

*LLM (KDU), MLRHRM (Colombo), LLB (Hons.), Attorney-at-law, Notary Public, Commissioner for Oaths*

**Areas of expertise and contribution:**

13 years experience in the Financial Service sector



**PRASAD INDIKA**

Assistant General Manager - IT

*FBCS, Dip. (NIBM)*

**Areas of expertise and contribution:**

20 years experience in the Financial Service sector



**ROSHINI INDURUWAGE**

Assistant General Manager – Deposits Marketing Sustainability And Service Quality

*MBA – Edith Cowan University (Australia)*

**Areas of expertise and contribution:**

25 years experience in the Banking and Financial Service sector

## Corporate Management Team



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

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



**THARANGA DEEPAL PEIRIS**  
Assistant General Manager - Microfinance  
*Dipl. Micro Finance (IBSL)*

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



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

**Areas of expertise and contribution:**  
23 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 and contribution:**  
23 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:**  
17 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:**  
20 years experience in the Financial Service sector



## Corporate Management Team



**WASANTHA PETIKIRI**

Chief Manager – Legal

*LLB (Hons.), Attorney-at-Law, Notary Public and Commissioner for Oaths*

**Areas of expertise and contribution:**

19 years experience in the Financial Services Sector



**DINESH PERERA**

Chief Manager – Regions

*MBA - Australian Institute of Business - Adelaide University (Australia), Member of MABE (UK)*

**Areas of expertise and contribution:**

25 years experience in the Financial Service sector



**NILUSHA PERERA**

Chief Manager - Regions

*MBA (UK)*

**Areas of expertise and contribution:**

17 years experience in the Financial Service sector



**MANEL BANDARA**

Chief Manager - Regions

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

**Areas of expertise and contribution:**

25 years experience in the Financial Service sector



**DINESH PRABHATH**

Chief Manager - Internal Audit

*FCA, ACMA (UK), CGMA, B.Sc.(Acc.Sp) Sri Jayawardenepura*

**Areas of expertise and contribution:**

11 years experience in the Financial Service sector

3 years experience in audit and assurance sector

## Corporate Management Team



**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

11 years experience in the Accounting and Financial Services Sector

**Directorships and memberships:**

Member of Integrated Risk Management Committee



**ANJULA GANEGODA**

Chief Manager - Recoveries

*CMA Passed Finalist*

**Areas of expertise and contribution:**

21 years experience in Financial Services Sector



**INDIKA GALAHITIYAWA**

Chief Manager – Corporate Leasing

**Areas of expertise and contribution:**

17 Years experience in the Financial Service sector



**ERANDA WITHANA**

Chief Manager – Legal & Recoveries

**Areas of expertise and contribution:**

19 years experience in Financial Services Sector



**SUMUDU JAYATHUNGA**

Chief Manager - Regions

*Nat. Dip (Sales Management) Sri Lanka Institute of Marketing, Associate Member of SLIM (AMSILM)*

**Areas of expertise and contribution:**

28 years experience in Banking and Financial Services Sector

# Corporate Governance Report

GRI 2-13

## CHAIRMAN'S STATEMENT

As Acting Chairman, I emphasize the importance of maintaining sound corporate governance across all functions as part of our commitment to safeguarding stakeholder interests in a vastly challenging operating context.

My fellow Directors and I exercise the principles of ethical, transparent and accountable leadership by formulating the requisite strategies to guide the Company to its desired aspirations. We consider effective corporate governance to be an uncompromising pursuit that delivers superior returns to our investors whilst meeting other stakeholder obligations.

## HOW GOOD GOVERNANCE IS FURTHER SOLIDIFIED

As a pioneer financial services provider in Sri Lanka, we continually review and update company-wide good governance processes to align with regulatory frameworks and best practices applicable to our core business.

During the year under review, the Board played a leading role in adopting the best practices contained in the Finance Business Act Direction No. 5 of 2021 on Corporate Governance initiated by Central Bank of Sri Lanka. It came into effect from 1st July 2022 and included several transitional provisions with implementation deadlines allowing NBFIs time till 1st July 2024 for full compliance. However, we implemented a considerable number of the said transitional requirements even before end of March 2023. Accordingly, we could review and amend MI's company-wide corporate governance framework by significantly enhancing the Board's scope of work, roles and responsibilities and oversight function.

As part of our ongoing effort to promote good governance at all levels of the organisation, we conducted a detailed review of our key internal policies and committee terms of reference (TORs) were enhanced to inculcate best practices to ensure prudent management and safety. Additionally, Anti-money laundering, human resources and information security-related policies and practices were reviewed. The latest revisions were uploaded to the recently launched intranet accessible to staff at all levels.

MI's compliance division provided detailed gap analyses on each new directive issued by regulatory bodies for the awareness of the company's Board of Directors and Senior Management. This allowed the Board to better focus on streamlining existing processes towards ensuring good governance. The company improved its capabilities in spheres such as cybersecurity and technology through proper engagement and adoption of latest technologies and

expert advice, thereby guaranteeing a comfortable level of assurance over data security, confidentiality, integrity and availability of computing resources. Further, MI is on a clear road to standardising its cybersecurity practices by aligning with the new Finance Business Act Direction No. 01 of 2022 on Technology Risk Management and Resilience.


In terms of transparency, we provided accurate and timely information, financial and non-financial, to our stakeholders. Assurance certificates were obtained for annual statutory financial publications, internal controls, sustainability and GRI indicators. The publication of this Integrated Annual Report, which includes extensive voluntary disclosures that go beyond compliance requirements, is a demonstration of our transparency and accountability to our stakeholders.

## FUTURE GOVERNANCE FOCUS

We will strive to safeguard the high standards already set within our corporate culture whilst driving towards our immediate strategic objectives. In a rapidly-evolving industry within a cascading economic and political landscape, we will nurture staff so they can face complexities and manage risk while reaping opportunities and potential through greater resilience, all the while staying committed to timely implementation of new regulatory requirements on good governance.

## DECLARATION

I declare that the Board of Directors and Management are geared and equipped to contribute towards achieving our corporate objectives while complying with regulatory and statutory requirements alongside established policies, procedures and standards covered by MI's Internal Code of Conduct.



**P.D.D. Perera**  
Acting Chairman  
23rd June 2023

# Corporate Governance Report

## OUR JOURNEY IN CORPORATE GOVERNANCE

### Governance Actions During the FY 2022/23

- Reviewed and amended the policies on anti-money laundering (AML), liquidity risk and related party transactions.
- Compliance with Finance Business Act Direction No.5 of 2021 set timelines on new corporate governance requirements.
- Completed AML risk profiling of the credit customer base.
- 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 due corporate depositor liabilities and statutory payments were paid on or before due dates.
- Deployed compliance dashboard for Board reporting.
- Performed gap analyses on major directives issued by the regulator for the period under review.



### Governance Goals Beyond the Year 2023

- Timely adoption of the transitional provision requirements of new Corporate Governance Direction No. 05 of 2021 issued by Central Bank.
- Complete migration to a full-fledged 360 degree IT system for enhanced digitalisation, operational efficiency and decentralisation.
- Widen scope of internal audit and compliance team to cope with business dynamics.
- Segregate risk management and compliance section with adoption of new governance directive by July 2024.
- Improve quality, relevance and timeliness of corporate information provided to the Board through better MIS dashboards.
- Full-fledged periodic appraisal and reward system to drive individual targets with greater flows and alignment.
- Planned branch rationalisation/concept broadening with minimal cost.



### Governance Objectives

- To carry out business operations based on the governing philosophy of prudence and in keeping with best practices in order to safeguard the company's assets, the investments of depositors and interests of stakeholders.
- To observe ethical and compliant corporate behaviour to minimise reputational risk and safeguard the company's brand.

## CORPORATE GOVERNANCE HIGHLIGHTS IN THE PAST DECADE

**Restructuring Board Composition (2012)**

**Setting up Six Board Subcommittees**

**Embracing the CA Sri Lanka and CSE Governance Codes**

**Setting up the Compliance Unit**

**Adaptation of the CA Sri Lanka Code of Governance (2017)**

**Retirement of Chairman & Appointment of New Acting Chairman (2021)**

**Adoption of New Corporate Governance Direction issued by Central Bank (2022)**

# Corporate Governance Report

## OUR GOVERNANCE FRAMEWORK

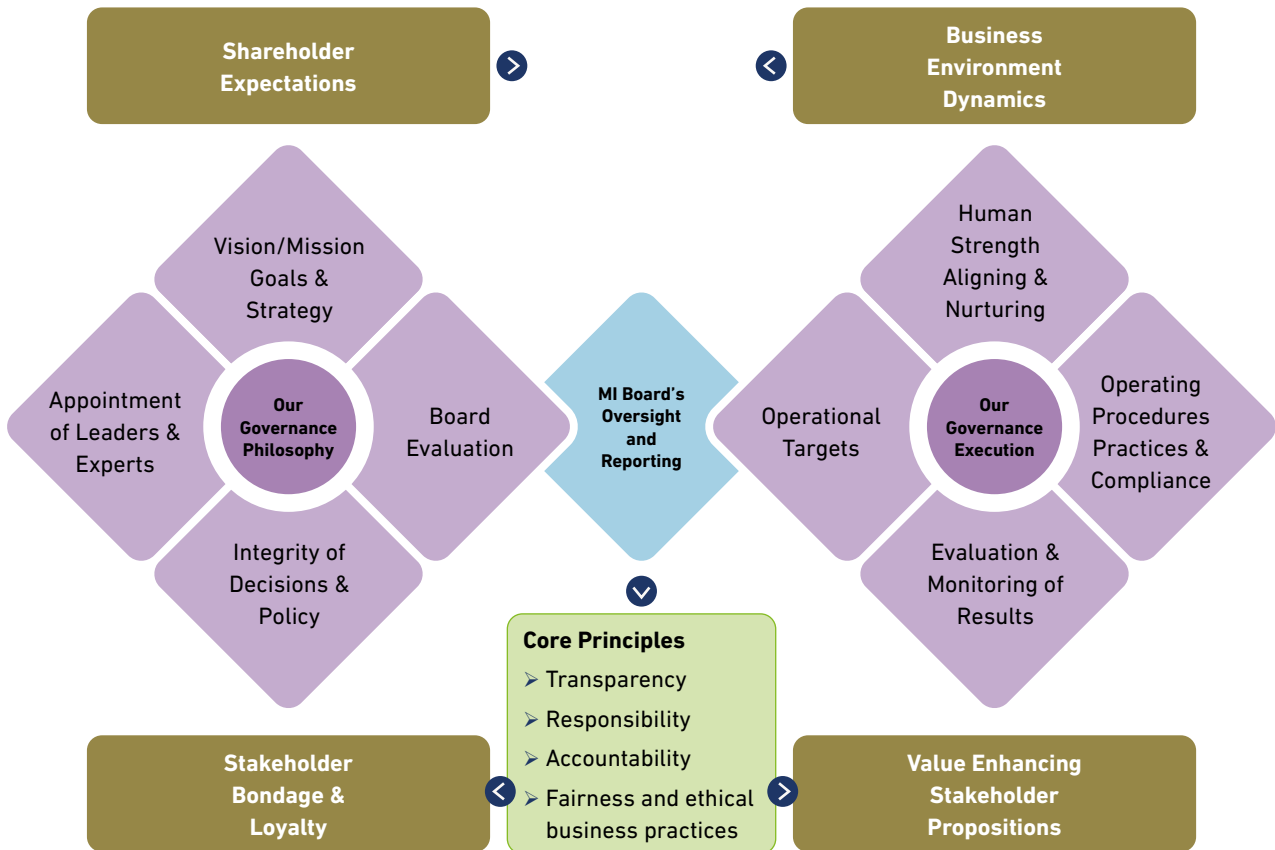
GRI 2-9

During the year under review, the governance framework was reviewed and amended to meet the requirements of the new Corporate Governance Direction issued by the Central Bank and the best practices recommended for corporates by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

In adherence with good governance prerogatives, existing policies and procedures relating to all company functions were amended to ensure regulatory requirements were fulfilled to regulator expectations.

MI's governance framework includes its unique corporate values and culture. It encompasses effective corporate policies and control procedures to direct company affairs prudently and in keeping with regulatory requirements. The MI Board and Management remain committed in improving this unique framework to reflect global best practices and periodic reviews are, thus, carried out. Developments in the economic, regulatory and technology sectors were also embraced to enhance the framework's effectiveness and, in turn, to generate high quality service standards for our stakeholders. The framework is assessed periodically to see that it captures evolving dynamics.

## 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 17)

➤ Appointment of Leaders and Experts

Considering the skills composition required to achieve the company's objectives, the Nomination Committee, after due assessment, recommends Members to the Board (Page 186). The Board then appoints subcommittees through which the Board exercises its oversight over the company's affairs. (Pages 98 to 100)

➤ Integrity of Decisions and Policy

The Board and subcommittees schedule regular meetings to allow for transparent information flows. After review and input from experts and amendments to practices (introduced at the behest of the regulator), a number of policies and procedures were adjusted, with new ones also developed during the year (Page 103). These policies and procedures laid the foundation for clear, consistent instructions to staff and internal controls while aligning with the company's strategic objectives.

# Corporate Governance Report

➤ Board Evaluation

The adequacy and effectiveness of the Board's decision and policymaking in achieving strategic objectives is periodically evaluated by the Remuneration Committee. (Page 185)

➤ 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 governance execution and is kept informed of the conduct of company operations. (Page 93)

➤ Operational Targets

Vision/mission, strategic goals and objectives are executed through effective strategy, supported by drilled down and operational targets, cascaded through all levels of hierarchy to the strategic business units and to support departments for execution. (Pages 42 to 43)

➤ Human Strength Alignment and Nurture

The ideal corporate culture is created through providing the staff with training and development skills in order to align human resources with culture and, ultimately, to achieve targets. (Pages 60 to 61).

➤ Operating Procedures, Practices and Compliance

Operations are governed through implementation of clear Board-approved operating procedures that guide staff to adhere to internal controls and external regulations. (Pages 92 to 94)

➤ Evaluation and Monitoring of Results

The performance of company operations is measured regularly and the Board and its subcommittees given constant feedback. These observations and communications are taken as input for future amendments in policies and to update strategy. (Page 16)

➤ Core Principles

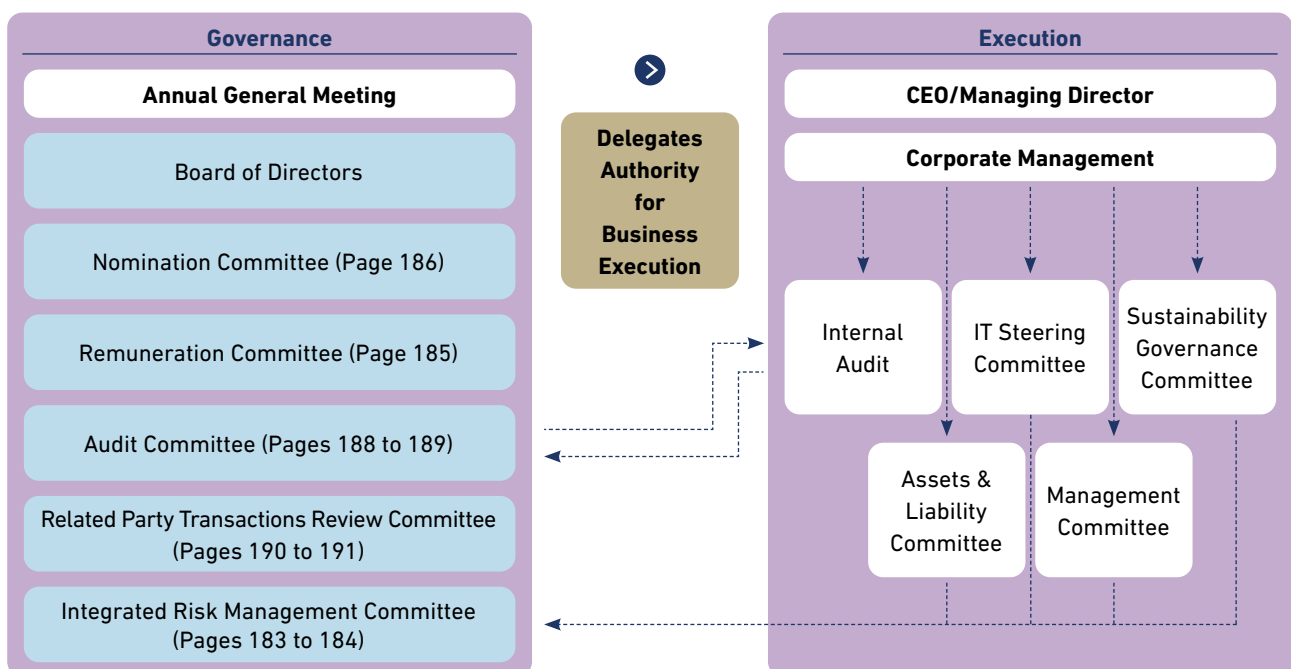
The company believes that the corporate governance we practise is guided by transparency, responsibility, accountability and fairness as well as ethical business practices which build trust, integrity and acceptance.

## OUR GOVERNANCE STRUCTURE

GRI 2-16

The scope and hierarchy of authority is clearly expressed via the company's governance structure with emphasis on the relationships among the Board, its subcommittees, managers, shareholders and other stakeholders. The Board of Directors at the highest level holds highest authority. It delegates powers of execution to the corporate management team and oversees their decisions through an effective monitoring process. The Board and its subcommittees ensure that ethical behaviour, transparency and good conduct are in place to build and maintain a sound governance structure.

The management team is required to report periodically to the Board through the BIRMC and Audit Committee of the company's progress and key concerns. Information routinely flows without inhibition from the Management team to the Board of Directors on critical matters. MI's governance structure upholds transparent information exchange, clear authority and reporting.



# Corporate Governance Report

## OUR ROBUST OVERSIGHT MECHANISM

### Internal Audit Function

MI's Internal Audit Division conducts frequent audits to ensure that the company's internal policies, procedures and regulatory requirements are complied with. It is headed by a qualified chartered accountant with appropriate knowledge of the business to conduct quality audits. Depending on the materiality level of said audit findings, they are presented to the Board through the Audit Committee along with required changes, suggestions and recommendations.

The severely challenging operating context and periodic directives introduced by the regulator resulted in the need to broaden the internal audit scope. During the year under consideration, wider review requirements, including system and branch audits and functional changes to the division, were implemented to streamline the internal audit function to suit the evolving business landscape and risk.

### Risk Management Function

MI's Risk Management Unit, which is directly under the Integrated Risk Management Committee (IRMC), makes recommendations to tackle risks and to strengthen contingency planning in order to raise corporate readiness against unexpected business interruptions. (Refer Risk Management Report from pages 164 to 182 for a comprehensive overview of MI's risk management process.)

### Compliance Function

Under the Head of Compliance and Risk Management, the company's divisions and other business units comply with the regulations imposed by the regulatory authorities. Through training and other formal communication, the heads of divisions and branches are notified of changes, developments or improvements to prevailing regulatory requirements.

It is Compliance Unit's responsibility to provide periodic feedback to the Board through the IRMC on the company's levels of compliance with key regulations. During the year under review, gap analyses on the compliance status of key directives were conducted and circulated to the Board.

## OUR BOARD'S ROLE IN GOVERNANCE

➤ One of the MI Board's core functions is to give direction to business growth by approving and overseeing implementation of the company's overall business strategy against measurable goals for the next three years. The plan is reviewed annually. The ongoing three-year strategic plan was approved in June 2022 with environmental and social requisites being incorporated to put into practice sustainability aspirations and provide wider societal support.

- The Board helps draw up succession plans for the entire organisation, especially key management personnel (KMPs). The performance of KMPs is reviewed bi-annually to ensure the best combination of expertise is retained to propel MI to reach its strategic priorities.
- The Board sets policy on risk management, ensuring it is robust across every business segment. The Board assesses the process and the risk appetite statement (RAS) through the IRMC. Apart from the quarterly updates, important concerns are flagged to the Board whenever necessary.
- Sound corporate culture and values are engraved within MI, encapsulated by the promotion of ethical, prudent and professional behaviour. By developing an effective code of conduct and carefully managing conflict of interest, the Board establishes the required corporate values. Towards this end, the Board approved a communication policy that facilitates in building an effective corporate culture through formal and informal dialogue among stakeholders.
- The Board encourages sustainable financing by embracing environmental, social and governance (ESG) aspects in the company's business strategies.
- The Board self-evaluates by completing a checklist for each Director, annually. This process considers whether economic, social and environmental substance is incorporated in decision-making.
- The Board acts with due care, prudence and integrity. It is aware of potential civil and criminal liabilities that may arise from its failure to discharge all duties diligently. Consequently, the company is committed not to act in a manner detrimental to the interests of, and its obligations towards depositors, shareholders and other stakeholders.

## THE BOARD'S ROLE IN MANAGING ENVIRONMENTAL AND SOCIAL IMPACTS

Amidst numerous economic challenges in the country, the Board strived to uphold sustainable business practices through its decisions on internal operations, resource management, policies and procedures. During the financial year under review, MI consistently extended its support services, especially through the call centre, payment gateways and broadened geographical presence.

MI's Board also focused on sustainable business and encouraged both the corporate management team and the Sustainability Governance Committee (SGC) to create value in the economy, society and environment. The Board held responsibility for the reporting of sustainability goals and actions and for sanctioning of the Sustainability Report for this financial year.

# Corporate Governance Report

## CHAIRMAN'S ROLE

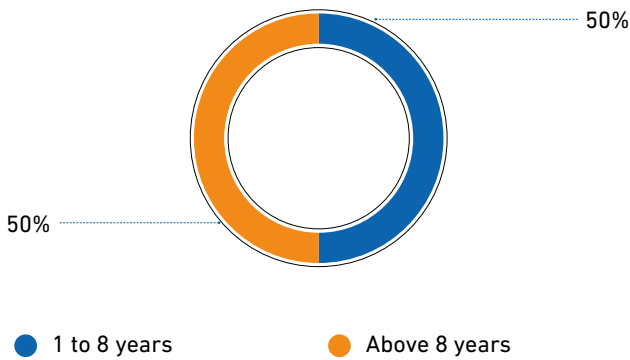
MI's Acting Chairman led the Board in line with the company's strategic objectives which were designed to create and achieve value to all MI stakeholders. He is an Independent Non-Executive Director and a qualified finance professional who continues to independently direct the affairs of the Board. (Refer the Chairman's role, duties and responsibilities stated in page 111 in this Annual Report).

## OUR BOARD DYNAMICS

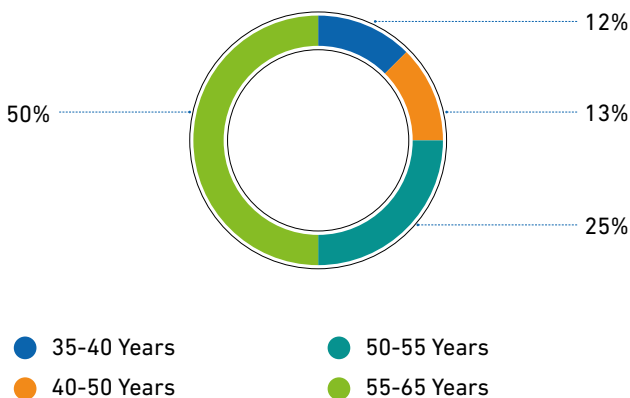
### Diversity, Skills and Composition

Our Board comprises eight Directors who have the right blend of skills and experience with representation from either gender. They are individuals who hold vast knowledge in the spheres of banking and finance, leisure and accounting.

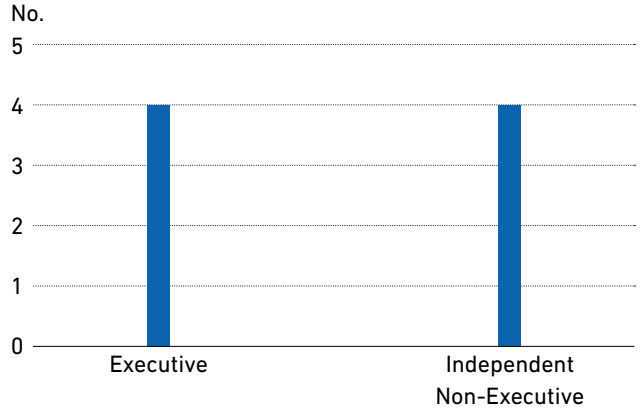
### Length of Service



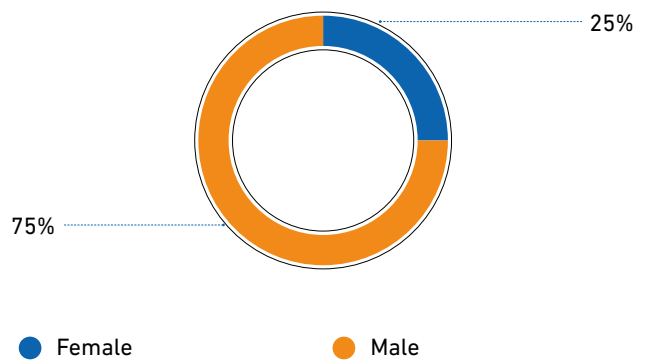
### Age Composition



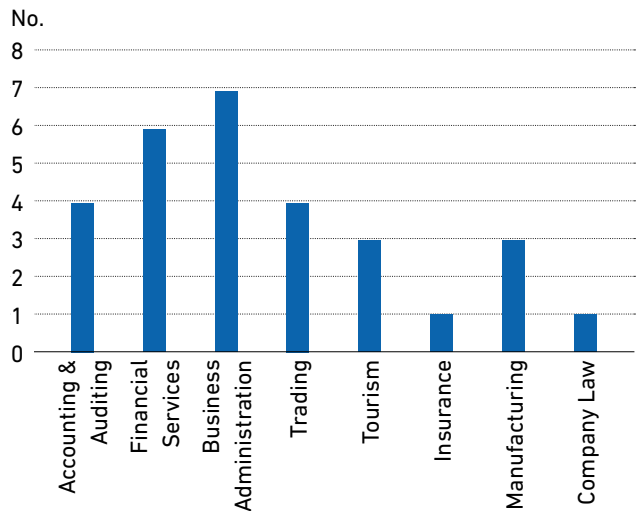
### Director Category



### Gender Composition



### Professional Background and Experience





# Corporate Governance Report

## MEMBERSHIPS IN ASSOCIATIONS & COUNCILS

GRI 2-28

- Member of the Finance Houses Association of Sri Lanka (FHA)
- Member of the Leasing Association of Sri Lanka
- Member of the Ceylon Chamber of Commerce
- Member of International Chamber of Commerce Sri Lanka

## BOARD MEETINGS

Board meetings are guided by a preset calendar and predetermined schedule and take up key matters which require the Board's attention and approval. They were held every month in order to diligently evaluate the results of the Company's business operations.

### Scheduling

- Twelve (12) monthly Board meetings were held to allow monitoring of performance, regulatory compliance and other key matters in a timely manner.



### Agenda

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



### Papers Compiled and Distributed

- Board Members were given the agenda and other relevant documents at least seven days in advance, allowing sufficient time for preparation.
- The agenda, relevant circulars and information packs, including monthly management accounts, key statistics and trends of the company's performance with recommendations for improvement, were distributed among Board Members.
- Directors were allowed to include significant matters in the agenda and were granted the services of external consultants for expert advice and support on any matter deemed vital to decision-making.



### Before the Meeting

- Regular management meetings were held ahead of all Board meetings to ensure matters being presented were thoroughly discussed before being escalated.
- Board subcommittee meetings were held prior to Board meetings, with the Chairman of each committee then reporting key matters discussed to the Board.



### Board Meeting

- The Managing Director/CEO and Finance Director apprise Board Directors of the company's operational, financial and non-financial performance, updates relevant to the LFC sector, external environment developments and matters pertaining to the company's sustainability agenda.
- 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 adopt appropriate resolutions.



### After the Meeting

- Minutes and matters arising from the meeting were circulated to the Directors for review.

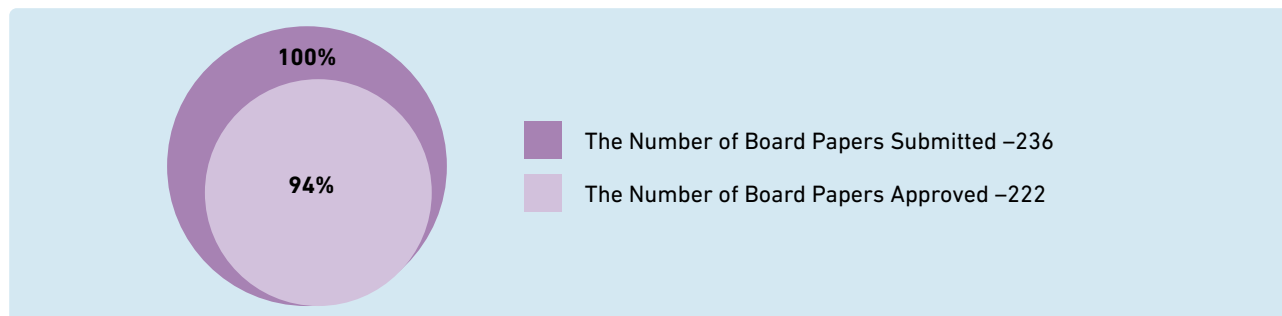
# Corporate Governance Report

## HIGHLIGHTS OF THE BOARD'S SPECIAL REPORTS TAKEN UP BY THE ANNUAL WORK CYCLE FY 2022/23

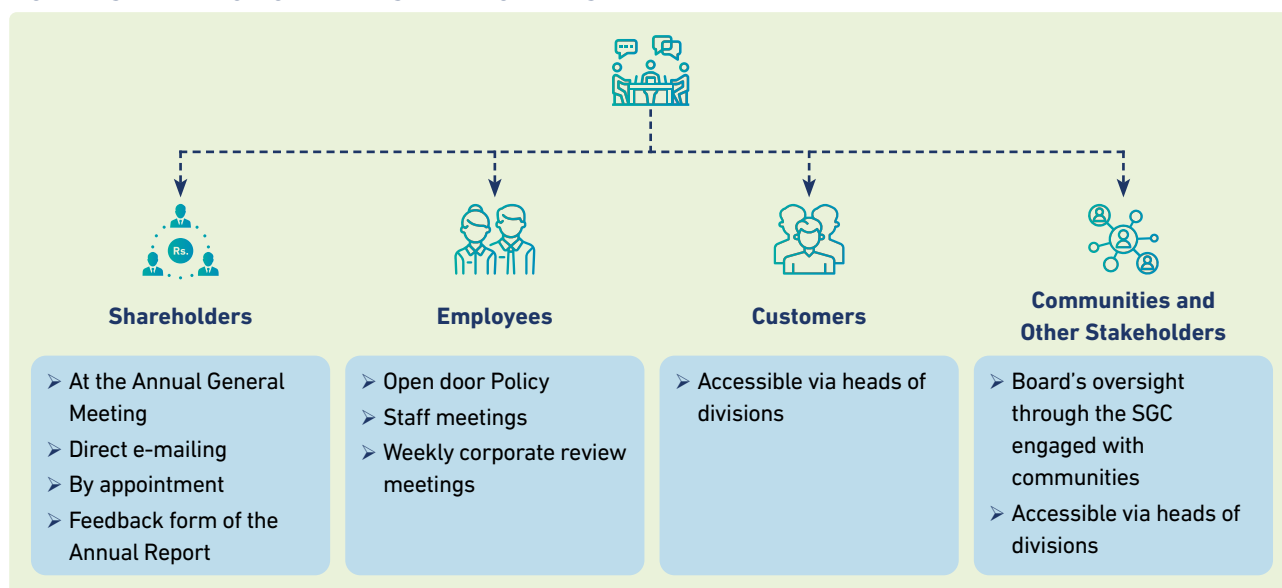


# Corporate Governance Report

## TOTAL NUMBER OF PAPERS APPROVED IN FY 2022/23



## BOARD'S INTERACTION WITH STAKEHOLDERS



## INDEPENDENT SELECTION OF BOARD MEMBERS

The Board's skills, capabilities and experience were evaluated to assess its capacity to meet demanding market conditions. It is proven over decades that the right blend of skilful individuals has been governing the company and that their diverse backgrounds, expertise and experience contribute towards the company's betterment.

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 pages 186 to 187).

## RESPONSIBILITIES OF THE BOARD SUBCOMMITTEES






The Board delegates its powers to its subcommittees in order to strengthen oversight over the core business functions. Key areas of the Board-appointed subcommittees' structure are:

- Committee responsibilities, interaction between the committee, the broader executive team and the Board of Directors.
- The scope and composition of the committee and attendance records of members.
- Report of the respective committee.
- Methods of escalating and reporting significant matters to the committee.
- Maintain records of the number of papers tabled and approved.

# Corporate Governance Report

## BOARD COMMITTEE OVERVIEW

GRI 2-17

 Board Audit Committee	 Board Remuneration Committee	 Board Integrated Risk Management Committee	 Board Nomination Committee	 Board Related Party Transaction Review Committee
<b>Members and FY 2022/23 Meeting Attendance</b>				
P. D. D. Perera 10/10	A.L.N. Dias 1/1	A.L.N. Dias 4/4	E.D. Wickramasuriya 1/1	P. D. D. Perera 4/4
A.L.N. Dias 10/10	P. D. D. Perera 1/1	G.G. Ondaatjie 2/4	P. D. D. Perera 1/1	E.D. Wickramasuriya 4/4
E.D. Wickramasuriya 10/10	M. K. S. Pieris 1/1	S.H. Jayasuriya 4/4	A.L.N. Dias 1/1	A.L.N. Dias 4/4
		D. Fonseka 4/4	G.G. Ondaatjie 1/1	S.H. Jayasuriya 4/4
		D. Anthony 4/4		
		T. I. Jayawardana 3/4		
S. Pethiyagoda	S. Pethiyagoda	M.R.S.K. Costa	S. Pethiyagoda	S. Pethiyagoda

• Independent Directors • Executive Directors • Secretary • Corporate Management

Board Audit Committee	Board Remuneration Committee	Board Integrated Risk Management Committee	Board Nomination Committee	Board Related Party Transaction Review Committee
<b>Key Responsibilities</b>				
<ul style="list-style-type: none"> <li>➤ Make recommendations on matters in connection with the appointment of the external auditors and service period, audit fee, resignation or dismissal of the auditor.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Decide on the remuneration levels of the Executive Directors and Non-Executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>➤ Oversee the Company's risk management function, identify risk and recommend risk mitigation strategies.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Nominate member to MI's Board with right mix of knowledge, skills and expertise.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Evaluation of significant acquisitions, disposals, investments, credit arrangements and related party transactions.</li> </ul>
<ul style="list-style-type: none"> <li>➤ The implementation of Central Bank guidelines issued to auditor from time to time and application of relevant accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Formulation and timely update of the remuneration strategy and policies.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Report key risk concerns to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Prepare evaluation forms for members of the Board and Subcommittees at least annually.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Assist the Board in reviewing material related party transactions and to provide feedback.</li> </ul>
<ul style="list-style-type: none"> <li>➤ Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process</li> </ul>	<ul style="list-style-type: none"> <li>➤ Engage with stakeholders to obtain input on remuneration-related matters where necessary.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Determine the appropriate risk appetite limits in addition to limits imposed by regulations</li> </ul>	<ul style="list-style-type: none"> <li>➤ Recommend ways in which the Board could improve its performance.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Adopting Related Party Transaction policies to uphold good governance for the best interest of the company and its stakeholders.</li> </ul>

# Corporate Governance Report

Board Audit Committee	Board Remuneration Committee	Board Integrated Risk Management Committee	Board Nomination Committee	Board Related Party Transaction Review Committee
<ul style="list-style-type: none"> <li>➤ 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</li> </ul>	<ul style="list-style-type: none"> <li>➤ Monitoring the implementation and effectiveness of such policies.</li> </ul>	<ul style="list-style-type: none"> <li>➤ 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.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Identify suitable individuals for future succession.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Updating the Board of Directors on the related party transactions of the Company on a quarterly basis.</li> </ul>
<ul style="list-style-type: none"> <li>➤ Reviewing the scope of work and engaging with External Auditors and Corporate Management to identify and resolve concerns.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Committee reviewed and obtained Board approval for the Board Remuneration Policy drawing due reference to industry best practices during the financial year.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Review MI's approach for risk management periodically and introduce changes to bridge any gaps.</li> </ul>		
<b>Key Actions During FY 2022/23</b>				
<ul style="list-style-type: none"> <li>➤ The Committee ensured that the company complies with all regulatory and legal requirements and closely scrutinised compliance with mandatory non-banking and other statutory requirements and the systems and procedures that are in place.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Committee determined the bonus payable and the annual increments to the staff.</li> </ul>	<ul style="list-style-type: none"> <li>➤ BIRMC approved new Governance Framework and Risk Appetite Statement were deployed during the period based on the guidance of new Corporate Governance Direction issued by Central Bank</li> </ul>	<ul style="list-style-type: none"> <li>➤ 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.</li> </ul>	<ul style="list-style-type: none"> <li>➤ During the year under review, as a part of the company's review of policies, the Related Party Transaction Policy was reviewed and updated in December 2022.</li> </ul>

# Corporate Governance Report

Board Audit Committee	Board Remuneration Committee	Board Integrated Risk Management Committee	Board Nomination Committee	Board Related Party Transaction Review Committee
<ul style="list-style-type: none"> <li>➤ The BAC 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.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Performance Evaluation of Directors and recommendation of Executive Director's Increments for the Year.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The committee recommended to incorporate new stress testing scenarios to existing stress testing framework by considering prevailed challenging operating environment.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Committee obtained declarations from all Directors through a prescribed format confirming their status of independence.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Reviewed and monitored related party Transactions of MI throughout the financial year.</li> </ul>
<ul style="list-style-type: none"> <li>➤ 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.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Committee discussed the effect of enhanced PAYE tax effective from January 2023 by the government and its effect on the employees.</li> </ul>	<ul style="list-style-type: none"> <li>➤ With the guidance of BIRMC, a summarised version of Risk Dashboard was presented to the monthly Board Meetings.</li> </ul>		<ul style="list-style-type: none"> <li>➤ Reviewed and updated the related party transaction committee Terms of Reference (TOR).</li> </ul>
<ul style="list-style-type: none"> <li>➤ 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.</li> </ul>		<ul style="list-style-type: none"> <li>➤ A snapshot of identified risks, assessments, and strategies employed to minimise risks and monitoring mechanisms were reviewed and monitored at each quarterly IRMC meetings.</li> </ul>		
<b>Submission Status of the Board Papers FY 2022/23</b>				
Papers submitted – 64	Papers submitted – 3	Papers submitted – 46	Papers submitted – 4	Papers submitted – 7

# Corporate Governance Report

## MANAGEMENT COMMITTEE OVERVIEW

 <p><b>Executive Committee</b></p>	 <p><b>Assets &amp; Liability Committee (ALCO)</b></p>	 <p><b>Sustainability Governance Committee</b></p>	 <p><b>IT Steering Committee</b></p>	 <p><b>Head Office Credit Committee</b></p>
<p><b>Key Responsibilities</b></p>				
<ul style="list-style-type: none"> <li>➤ Renew operational concerns to eliminate or manage risk.</li> <li>➤ Review management information on performance.</li> <li>➤ Identify early warning signals.</li> <li>➤ Asses gaps and variance reports between targets and actual performances</li> </ul>	<ul style="list-style-type: none"> <li>➤ Review and manage changes to the MI's balance sheet assets and liabilities, including structural changes and achievement of strategic objectives in relation to growth or shrinkage.</li> <li>➤ Conducting stress tests on liquidity risk by taking market specific scenarios.</li> <li>➤ Identify and assess the adequacy of financial resources (source of funds) for contingent needs.</li> <li>➤ Monitor, the use of interest rate sensitive products used in the management of interest rate sensitive risk including any periodic restructuring to the interest rate product portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Asses prevailing sustainability concerns.</li> <li>➤ Develop internal sustainability goals and measure progress.</li> <li>➤ Initiate sustainability projects, with social and environmental focus.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Ensure information security and safety from cyber threats.</li> <li>➤ Review the performance of IT systems and identify the gaps to develop/update the systems.</li> <li>➤ Review the effectiveness of existing IT controls and recommend on new controls to improve system security.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Determine the credit risk appetite of the Company.</li> <li>➤ Develop a positive credit culture at MI.</li> <li>➤ Identify lapses in credit evaluation with a view to overcome.</li> <li>➤ Proactively involve in recovery process to improve asset quality.</li> </ul>
<p><b>Actions during FY 2022/23</b></p>				
<ul style="list-style-type: none"> <li>➤ Strategic and operational decisions were taken based on Company performance and evolving industry and process changes.</li> <li>➤ 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.</li> </ul>	<ul style="list-style-type: none"> <li>➤ With the increasing trend of policy rates, ALCO monitored interest rate trends and advised the Treasury division on reprising risk.</li> <li>➤ Provided information to the Board on material risks related to liquidity levels and liquidity planning based on forecast and best practices.</li> <li>➤ Reviewed liquidity risk and interest rate sensitivity of the Company and made recommendations on maintaining liquidity levels within risk appetite limits.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Amidst the challenging environment, few CSR projects were carried out targeting social wellbeing and environmental protection.</li> <li>➤ Identified and reviewed key sustainability focus areas.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Reviewed and rectified the concerns raised on on-going system implementation of Scierter project.</li> <li>➤ 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.</li> <li>➤ Continuously focused on Cyber security related matters.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Streamlined the internal processes to improve a process-driven system in Credit Department.</li> <li>➤ Improved post disbursement follow up mechanism of the Company especially with the call center operation and Quality Assurance Team (QAT)</li> <li>➤ Identified skill gaps in terms of technical skills in credit analysis and initiated trainings.</li> </ul>

# Corporate Governance Report

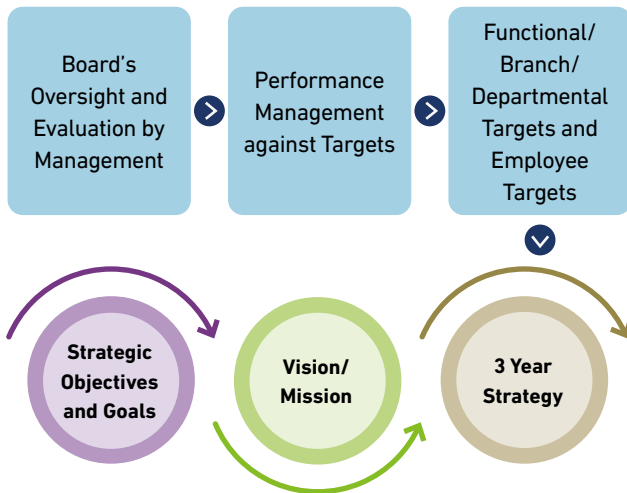
## GOVERNANCE BEYOND 2023

Sound governance in corporate culture is the hallmark of well-established companies. As a recognised financial establishment, we have built governance foundations that are appropriate and proportionate to the goals and ambitions of our business. We have significantly transformed our business in the process of sustainable value creation.

The requirement to establish new policies/procedures and amend the existing policies/procedures under the new Corporate Governance Direction No. 05 of 2021 was duly identified and the necessary changes will be in place during the transitional period in compliance.

The next chapter of our strategy is included in the 'Strategic Plan 2024-2026,' which describes our future responses to post-pandemic challenges, changing customer expectations, the advancing technology landscape, competitive environment and widening regulations. The plan includes precautionary action for extreme economic and social conditions and master plans for operational changes required by inconsistent market conditions.

## OUR STRATEGIC PLANNING PROCESS



## MANAGING DIRECTOR'S ROLE

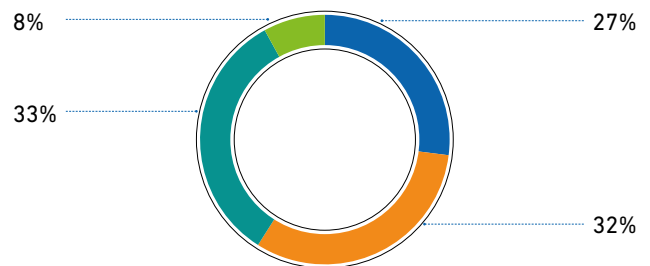
The Managing Director is the company's CEO. He holds authority over detailed planning and development of the corporate plan. He bears responsibility to guide the company's overall activities in alignment with external regulations and internal policies, while ensuring the workforce and all operations are geared towards the established long and medium-term strategic priorities.

## THE CORPORATE MANAGEMENT COMMITTEE'S ROLE IN GOVERNANCE

GRI 2-14

- Apart from Board subcommittees, there are committees to manage risks arising from day-to-day operations, namely the Head Office Credit Committee, IT Steering Committee, Asset and Liability Committee and the Sustainability Governance Committee. They are guided by the Managing Director/Senior Management members.
- It is the Management Committee's responsibility to enhance value creation to shareholders, whilst adopting sustainable business approaches. Towards this end, the Corporate Management Committee works closely with the Sustainability Governance Committee (SGC) to fulfil wider stakeholder obligations.
- As a service provider, we consider people to be the main resource in dealing with our many stakeholders who have distinct needs. People are managed by the Corporate Management Committee with authority delegated to the respective Directors, GMs, AGMs and Managers. The Senior Management conducts regular performance appraisals of their staff against key operational targets set out at the start of a financial year.

## Corporate Management Meeting Focus



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



# Corporate Governance Report

## EMPLOYEE TRAINING ON REGULATIONS AND ENRICHING INSTITUTIONAL KNOWLEDGE

Employees were educated on overall business aspects at the induction programme, covering corporate history, etiquette and expectations. Subsequently, they were given effective training on their job role and scope. Periodic training was also conducted to update the knowledge of employees on changing and reforming industrial practices.

Employees dealing directly with clients were trained semi-annually in the Customer Protection Framework (and compliance was ensured) by in-house resource personnel and external experts. Further, SGC members responsible for reporting the relevant matters to the Board through the BIRMC were trained in sustainability management.

## PERFORMANCE EVALUATION, REWARDS AND RECOGNITION

- The Remuneration Committee annually evaluated the performance of the Managing Director and other Board Members with due consideration to their roles and responsibilities.
- The Remuneration Committee decides a competitive remuneration package for each Executive Director as reward for their expertise and based on the extent of their personal contribution.

Performance targets were set in keeping with the company's objectives and the strategic plan. Staff performance was appraised against these predetermined targets and rewarded, accordingly.

## COMPLIANCE

GRI 2-27

Being a trustworthy financial services provider, MI stands committed and strived to comply with its regulatory requirements whilst achieving its objectives and stakeholder goals. The Company made all statutory payments to the government, regulatory institutions and employees in a timely manner during the financial year.

The Board of Directors executed a strong, 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 2022/23 requiring separate disclosure.

Key Internal Policies and Controls	Policy Reviewed/ Newly Issued During FY 2022/23
Credit Write-off Policy	✓
Policy on Anti-Money Laundering (AML) Combatting of Financing of Terrorism (CFT)	✓
Credit Operation Manual	✓
Outsourcing Policy	✓
Procedure for the Directors to have Access to Advice of the Company Secretary	✓
Policy on Related Party Transactions	✓
Investment Policy	✓
Remuneration Policy	✓
Procedure to Seek Independent Professional Advice	✓
Finance Procedure Manual	✓
Procedure for Holding Virtual Board Meetings	✓
Credit Policy	✓
Corporate Governance Framework	✓
Liquidity Risk Management Policy	✓
Risk Management Policy	✓

# Corporate Governance Report

GRI 2-27

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

## COMPLIANCE WITH BEST PRACTICES/REGULATIONS ON CORPORATE GOVERNANCE

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

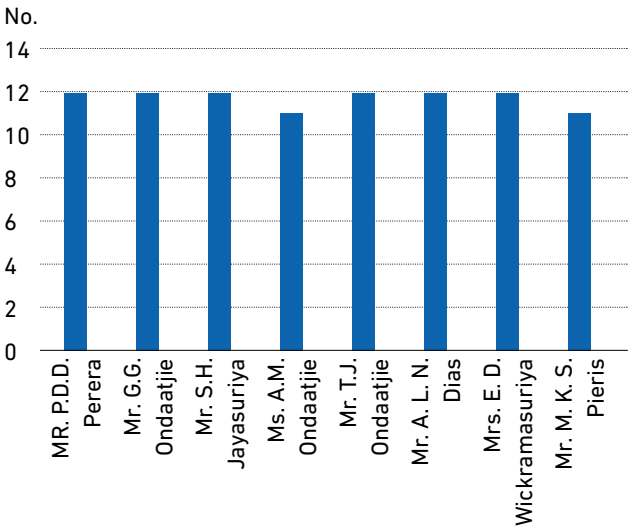
Part one provides disclosures on the Company's level of conformity with the recommended Code of Best Practice on Corporate Governance, issued to public companies by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) dated December 2017.

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. 05 of 2021.

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 (2022/23 Update)																		
Section 1 The Company: A. Directors A.1. The Board	Principle – A.1	Adopted	<p>The Company is given leadership by an effective Board of Directors comprises of skilled, qualified and experienced individuals with diverse backgrounds and expertise.</p> <p>The Board of Directors takes charge of steering the company towards its ambitious goals by establishing the roadmap for the organisation's future, maintaining a strong business model that incorporates efficient strategic planning and oversight, and ensuring that the company operates under sound governance practices. The profiles of the Board members with their qualifications, competencies, and experience are provided on pages 78 to 83.</p> <p>MI's Board comprises an Independent Non-Executive Acting 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. During the year under review, neither appointment nor resignation was reported to the Board at MI.</p>																		
Board meetings	Code – A. 1.1	Adopted	<p>The MI Board met 12 times during the financial year (FY) 2022/23, at monthly intervals, to review performance and take decisions for the prudent management of Company affairs. The Company Secretary provided a formal notice of meeting with agenda at least seven days prior to meetings, to all Directors. There were no special Board meetings held during the FY 2022/23.</p> <p><b>Attendance at Board Meetings</b></p>  <table border="1"> <caption>Attendance at Board Meetings</caption> <thead> <tr> <th>Director</th> <th>No. of Meetings Attended</th> </tr> </thead> <tbody> <tr> <td>MR. P.D.D. Perera</td> <td>12</td> </tr> <tr> <td>Mr. G.G. Ondaatje</td> <td>12</td> </tr> <tr> <td>Mr. S.H. Jayasuriya</td> <td>12</td> </tr> <tr> <td>Ms. A.M. Ondaatje</td> <td>11</td> </tr> <tr> <td>Mr. T.J. Ondaatje</td> <td>12</td> </tr> <tr> <td>Mr. A. L. N. Dias</td> <td>12</td> </tr> <tr> <td>Mrs. E. D. Wickramasuriya</td> <td>12</td> </tr> <tr> <td>Mr. M. K. S. Pieris</td> <td>11</td> </tr> </tbody> </table>	Director	No. of Meetings Attended	MR. P.D.D. Perera	12	Mr. G.G. Ondaatje	12	Mr. S.H. Jayasuriya	12	Ms. A.M. Ondaatje	11	Mr. T.J. Ondaatje	12	Mr. A. L. N. Dias	12	Mrs. E. D. Wickramasuriya	12	Mr. M. K. S. Pieris	11
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# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
Board responsibilities	Code – A. 1.2	Adopted	Ensuring the Company resources are efficiently applied in achieving corporate objectives, the Board of Directors discharged its responsibilities by setting 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. (Refer Approving Strategic Plan on pages 42 to 43). Through continuous meetings which review of financial performance, non-financial performance, critical business issues, and the annual strategy review process, the Board discharges its responsibilities.
<ul style="list-style-type: none"> <li>➤ Formulation and implementation of a sound business strategy</li> </ul>			<p>As at the reporting date, the Company's revised 'Strategic Plan' is underway to develop considering the economic volatility arising from the foreign exchange crisis covering financial periods 2023/24 to 2025/26. However, the guiding document in governing business activities during the financial period remained the medium-term (FY 2022/23 to 2024/25) Strategic Plan approved in June 2022.</p> <p>In keeping with MI's top-down 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 2022/23 is disclosed in the Financial Highlights section on page 18.</p>
<ul style="list-style-type: none"> <li>➤ Appointing the Chair and the Senior Independent Director if relevant</li> </ul>			N/A
<ul style="list-style-type: none"> <li>➤ The CEO and Management team possess the skills, experience, and knowledge to implement strategy</li> </ul>			<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 are equipped with the required skills, experience and knowledge to implement the business strategy of the Company and achieve organisational objectives. Brief biographical particulars of each member of the Corporate Management team are provided on pages 84 to 88.</p>
<ul style="list-style-type: none"> <li>➤ Adoption of an effective CEO and Senior Management succession plan</li> </ul>			<p>A comprehensive succession plan for the MD/CEO, executive directors and key management personnel has been Board-approved on 22nd December 2020, for a seamless operation. 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.</p>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
<ul style="list-style-type: none"> <li>➤ Approving budgets and major capital expenditure</li> </ul>			<p>The Board is responsible for carefully considering and making important financial decisions regarding funding, pricing, liquidity, and capital expenditures, as well as reviewing annual budgets. By approving three-year Strategic Plan, the budget, including capital expenditure, was established by the Board for the concluded FY 2022/23 and for FY 2023/24 once the revised three-year corporate plan is approved in the first quarter of FY 2023/24.</p>
<ul style="list-style-type: none"> <li>➤ Determining the matters expressly reserved to the Board and those delegated to the Management including limits of authority and financial delegation</li> </ul>			<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 103). The powers vested are governed by the corporate policy, procedures, and other instructions issued by the Board from time to time.</p>
<ul style="list-style-type: none"> <li>➤ Effective systems to secure integrity of information, risk management, and internal controls</li> </ul>			<p>MI Board is responsible for managing risks of the Company's finance business, and thus the Board Integrated Risk Management Committee and an Audit Committee was established in order 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.</p> <p>This internal control framework ultimately aims to safeguard stakeholder interest and 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"> <li>➤ Risk Management Report on pages 164 to 182</li> <li>➤ Board IRMC Report on pages 183 to 184</li> <li>➤ Board Audit Committee Report on pages 188 to 189</li> <li>➤ Directors' Statement on Internal Control on pages 209 to 210</li> <li>➤ Auditor's Assurance Report on adequacy of internal control on financial reporting on pages 211 to 212</li> <li>➤ Integrity of management information and its privacy on page 131</li> </ul>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
<p>➤ Compliance with laws, regulations, and ethical standards</p>			<p>The Board has established a sound compliance system within the Company through a competent Compliance Officer. The compliance status of the company is presented to the Board by the Head of Risk Management and Compliance, on a monthly basis, by highlighting important facts which requires attention of the Board.</p> <p>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>
<p>➤ All stakeholder interests are considered in corporate decisions</p>			<p>Through the Board-approved 'Communication Policy' of MI, the Board ensures that the 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 36 to 37) and Alliances (pages 58 to 59).</p>
<p>➤ Sustainable business development in corporate strategy, decisions, and activities and adopting 'Integrated Reporting'</p>			<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 34 to 35 highlight the sustainable value generated through the Company's business process.</p>
<p>➤ Ensuring the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations</p>			<p>The Board and Board Audit Committee reviewed MI's accounting policies on annual basis, to ensure that the latest regulatory requirement, international and local accounting standards and industry best practices are addressed. 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 213 to 216, 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 209 to 210.</p>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
<p>➤ Establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans, and related risks</p>			<p>The regular reviews were carried out by the Managing Director, Executive Directors and the Corporate Management Team to monitor the progress towards the Corporate objectives. The effects thrown out by the depleting economic conditions and the risks involved were addressed and reflected in strategic budgets, plans and related risks.</p> <p>Accordingly, the Corporate Management and other departmental heads reviewed their departmental plans and budgets aligning with the strategic targets and 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 46 to 57).</p>
<p>➤ Process of corporate reporting on annual and quarterly basis or more regularly</p>			<p>Meeting regulatory deadlines, the Company published interim financial accounts on a quarterly basis in three languages, complying with State Language Policy. Moreover, the annual reports are published for investors and other stakeholders who are interested of the Company and also updated Financial Statements on CSE website, complying regulatory requirements.</p> <p>More importantly, the Company prepared monthly financial reports and circulated among the Board to facilitate effective decision making.</p>
<p>➤ Fulfilling other Board functions are vital given the scale, nature, and complexity of the organisation</p>			<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 103).</p>
<p>Compliance with laws and access to independent professional advice</p>	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 201 by the Directors.</p> <p>The Board of Directors have full access to all relevant information and can obtain independent professional advice, if necessary, at the Company's expense. The quality and independency in decisions made by the Directors were high as expert opinions and advices are incorporated.</p>
<p>Company Secretary</p>	Code – A. 1.4	Adopted	<p>All Directors have access to the Board Secretary, Mrs. Pethiyagoda, who is a qualified Chartered Secretary with over 26 years of experience in a related field. Her services are 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>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)										
Independent judgement	Code – A. 1.5	Adopted	<p>All Directors including Non-executive Directors, in discharging their responsibilities and duties, bring to bear independent judgment and scrutiny on decisions taken by the Board on matters relating to strategy, performance, resources, risk management, internal controls and standards of business conduct.</p> <p>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 involved 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. 1.6	Adopted	<p>All Directors have been allocated sufficient time enabling them to discharge their responsibilities effectively for Board and Board sub-committee meetings, to fulfil their duties and obligations owed to the Company. Accordingly, the Directors have attended 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 98 to 100.</p> <p><b>Board Meeting Discussion Composition</b></p> <table border="1"> <caption>Board Meeting Discussion Composition</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Performance</td> <td>23%</td> </tr> <tr> <td>Strategic Planning</td> <td>25%</td> </tr> <tr> <td>Risk Management &amp; Compliance</td> <td>42%</td> </tr> <tr> <td>Other</td> <td>10%</td> </tr> </tbody> </table> <p>● Performance                      ● Strategic Planning ● Risk Management &amp; Compliance                      ● Other</p>	Category	Percentage	Performance	23%	Strategic Planning	25%	Risk Management & Compliance	42%	Other	10%
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One-third of Directors can call for resolution to be presented to the Board	Code – A. 1.7	Adopted	Not applicable as no such resolution was presented to the Board during FY 2022/23.										



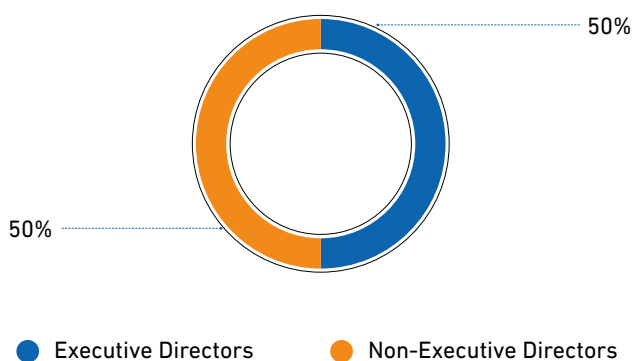
# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
Training needs of Directors	Code – A. 1.8	Adopted	<p>During the financial year under review, the Directors frequently kept themselves informed about the latest developments and changes in the operations and regulations of the Non-Banking Finance Sector.</p> <p>The Non-Executive Directors, who serves key committees, receive regular updates from the Corporate Management regarding matters that are specifically relevant to their respective committees. These updates likely aim to keep the Non-Executive Directors informed and help them make informed decisions and recommendations within their committees. A personalised approach to training and development of Directors was applied throughout this period.</p>
A.2 Chairman and Chief Executive Officer	Principle – A.2	Adopted	<p>The roles of the Chairman and CEO/MD are separated in line with best practices to ensure that no individual is vested with unfettered powers of decision making. 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 Acting Chairman leads and guides the Board to effectively discharge Board's responsibilities and the Managing Director (MD) Mr. Gerard Ondaatjie leads the Company's business operation effectively with the assistance of the Board of Management Team.</p> <p>As part of his role, he appraises the Board of the status of Company performance, proposes strategies, and advises Board on operational aspects on an on-going 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 Independent 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 responsible for:</p> <ul style="list-style-type: none"> <li>➤ Providing leadership to the Board to ensure the Directors and management effectively discharge their responsibilities</li> <li>➤ Ensuring that the Directors receive accurate, timely and clear information on the Company's performance, to enable the Board to take sound decisions and provide advice to ensure that the Board acts in the best interests of the Company</li> <li>➤ Maintain a high level of independence and impartiality in Board matters and ensure effectiveness of the Board</li> <li>➤ Prepare and circulate a formal agenda for the Board under his supervision</li> </ul>

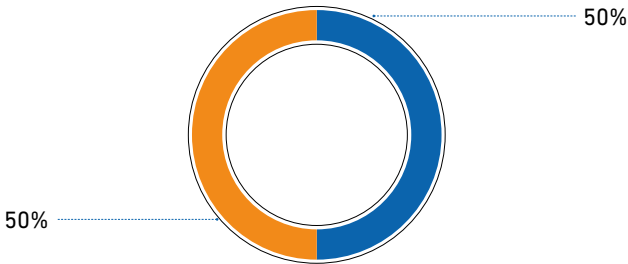
# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
			<ul style="list-style-type: none"> <li>➤ Obtain advice from across the Board and ensure critical issues were addressed in a timely manner</li> <li>➤ Conduct the AGM within the specified regulatory timeframe and ensure active communication with the shareholders</li> <li>➤ Ensure Director responsibilities and Board sub-committee terms and reference were clearly set forth</li> <li>➤ Ensuring the performance of the Board and directors is evaluated periodically and acting on the results of such evaluation by recognising the strength</li> <li>➤ Maintaining effective communication with shareholders and conveying their views to the Board</li> </ul>
A.4 Financial Acumen Availability of sufficient financial acumen and knowledge within the Board	Principle –A.4	Adopted	<p>The Board is equipped with qualified Directors in the field of finance and accountancy and possesses the necessary financial wisdom. The Finance Director Mr. S.H. Jayasuriya is a financial professional who advises the Board on matters of finance, since 2001. 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.</p> <p>Refer Directors' profiles on pages 78 to 83.</p>
A.5 Board Balance	Principle – A.5	Adopted	<p>As per Finance Companies Corporate Governance Direction No. 05 of 2021 and the respective transitional provisions issued by the Central Bank of Sri Lanka, the MI Board maintains the respective requirement, keeping proper checks and balance between Executive and Non-Executive Directors as at the reporting date, so that no individual or small group of individuals can dominate the Board's decision-making.</p>
Presence of Non-Executive Directors	Code – A. 5.1	Adopted	<p>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.</p>

### Executive Vs. Non-Executive Directors



# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
Independent Directors	Code – A. 5.2	Adopted	<p>All the Non-Executive Directors at MI's Board are independent as at 31st March 2023, in terms of the criteria defined by CSE Rule 7.10.4 on Corporate Governance.</p> <p><b>Independent Vs. Non- Independent Directors</b></p>  <p>50% (Independent Directors) 50% (Non-Independent Directors)</p> <p>● Non-Independent Directors      ● Independent Directors</p>
Criteria for evaluating the independence of Non-Executive Directors	Code – A. 5.3	Adopted	<p>All four Independent Non-Executive Directors maintain a separation 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 2022/23.</p>
Signed Independence Declaration by the Non-Executive Directors	Code – A. 5.4	Adopted	<p>During the FY 2022/23, each Non-Executive Director of the Company has made written submissions as to their independence as per schedule K of the Code.</p>
Determination of independence of Non-Executive Directors	Code – A. 5.5	Adopted	<p>Based on the written submissions made by the following Non-Executive Directors and taking into account the criteria specified in Section 4.4 of the Corporate Governance Direction issued by CBSL, the Board deems the said Directors 'Independent' as at 31st March 2023.</p> <ol style="list-style-type: none"> <li>1. Mr. P.D.D. Perera</li> <li>2. Mr. A.L.N. Dias</li> <li>3. Mrs. E.D. Wickramasuriya</li> <li>4. Mr. M.K.S. Pieris</li> </ol>
Appointment of an Alternate Director by a Non-Executive Director	Code – A. 5.6	Not Applicable	<p>Not applicable as no Alternate Director was appointed during FY 2022/23.</p>
Senior Independent Director (SID)	Code – A. 5.7	Adopted	<p>Chairman's/Acting Chairman's and Managing Director's roles remained separated throughout the financial year under review and therefore there was no requirement to appoint a Senior Independent Director.</p>
Confidential discussion with SID	Code – A. 5.8		<p>Refer Code – A. 5.7 above.</p>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
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 2 times during FY 2022/23.
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	The Board is provided appropriate and timely information in a form and of a quality appropriate to enable them to discharge their duties effectively. Financial and non-financial information are analysed and presented to the Board for accurate and effective decision making.
Information to the Board by Management	Code – A. 6.1	Adopted	<p>The Management provides timely and appropriate information to the Board by way of Board Papers, reports and Proposals in relation to business lines, geographical areas, overall plans and performance. The Directors are free to raise queries for additional information as and when necessary.</p> <p>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. The Board Directors were given sufficient time to examine circumstances and potential risks, allowing them to prepare for discussions and request further details from the Management, if required.</p>
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 enough time to review and examine the relevant documents and adequately prepare for Board meetings.
A.7. Appointments to the Board	Principle – A.7	Adopted	MI has established a Nomination Committee since year 2013 to streamline new Director appointments and re-election process of Directors. The Chairperson of the said Committee is Ms. E.D. Wickramasuriya who is an Independent Non-Executive Director.
Nomination Committee	Code – A. 7.1	Adopted	<p>The Nomination Committee conducts a thorough assessment and thorough screening to identify suitable candidates who meet the eligibility criteria for new appointments to the Board, and subsequently put forward their recommendations. Based on such recommendations final decisions on appointment/re-election are made by the Board in an objective and transparent manner.</p> <p>Refer Board Committee table on Page 98 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 2022/23 is given on Pages 186 to 187.</p>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
Assessment of Board Composition by the Nomination Committee	Code – A. 7.2	Adopted	<p>The committee carries out continuous reviews of the structure, size, composition, skills and knowledge of the Board, to ascertain whether the combined knowledge and experience of the Board meets the strategic demands and key risks faced by the Company. The findings of these assessments are taken into consideration in the appointment of future Directors. Also a process has been established to determine that the proposed Board appointees are fit and proper for the requirement.</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.</p>
Disclosure of new Director appointments to shareholders	Code – A.7.3	Adopted	<p>Appointments of a new Director are announced to the shareholders with a brief resume of each such Director including their expertise in relevant functional areas and names of companies in which the Director holds directorships, through Colombo Stock Exchange (CSE).</p>
A.8 Re-election	Principle – A.8	Adopted	<p>The Nomination Committee provides recommendations on Directors who are retiring by rotation for shareholder approval at the AGM.</p> <p>All 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	As explained in Principle A.8 above
Election of Directors by shareholders	Code – A. 8.2	Adopted	As explained in Principle A.8 above
Resignation of Directors	Code – A. 8.3	Not Applicable	Not applicable as no Board member resigned during FY 2022/23.
A.9 Appraisal of Board Performance	Principle – A.9	Adopted	<p>The Board appraised its own performance periodically to ensure that its responsibilities are satisfactorily discharged. The Board has periodically reviewed its performance against the pre-set criteria ensuring adherence to the code.</p> <p>The established self-assessment procedure motivates all Directors to actively participate and contribute in significant business areas, including meeting shareholders' expectations, strategic focus, financial performance, regulations, corporate governance issues, and other crucial matters within the reviewed financial period.</p>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
Appraisal of Board performance	Code A. 9.1	Adopted	The Board carried out a comprehensive self-assessment of its performance and its committees for the FY 2022/23. 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.
Annual self-assessment of the Board and its committees	Code – A. 9.2	Adopted	<p>The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily. This process requires each Director to fill Board Performance Evaluation Forms in line with this Section of the Code.</p> <p>A formal process is in place for Sub Committee to carry out its self-evaluations to determine the effectiveness of their performance. All Sub Committees have performed self-evaluations of their performance during 2022/23 and areas identified for improvements are also discussed at their respective meetings and updated the Board.</p>
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.</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.

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)																
Director information	Code – A. 10.1	Adopted	<p>The following information pertaining to Directors is provided in the Annual Report:</p> <table border="1"> <thead> <tr> <th>Information</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Brief Profile with Qualification, Experience, and Expertise</td> <td>78 to 83</td> </tr> <tr> <td>Composition of the Board Sub-Committees</td> <td>98</td> </tr> <tr> <td>Directors' Interest in Transactions</td> <td>203 to 205</td> </tr> <tr> <td>Directors' Shareholdings</td> <td>318</td> </tr> <tr> <td>Directors' Remuneration</td> <td>237</td> </tr> <tr> <td>Directors' Attendance at Board Meetings</td> <td>105</td> </tr> <tr> <td>Directors' Attendance at Sub-Committee Meetings</td> <td>98</td> </tr> </tbody> </table>	Information	Pages	Brief Profile with Qualification, Experience, and Expertise	78 to 83	Composition of the Board Sub-Committees	98	Directors' Interest in Transactions	203 to 205	Directors' Shareholdings	318	Directors' Remuneration	237	Directors' Attendance at Board Meetings	105	Directors' Attendance at Sub-Committee Meetings	98
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A. 11 Appraisal of the Chief Executive Officer	Principle – A. 11	Adopted	<p>The performance of the Managing Director was reviewed by the Acting Chairman through a formal appraisal process. Also his remuneration package was decided by the Remuneration Committee through a formal evaluation process.</p>																
Targets for the Managing Director	Code – A. 11.1	Adopted	<p>In consultation with the Managing Director, strategic goals including reasonable financial and non-financial targets towards the Company objectives are set by the Board for Managing Director.</p> <p>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 the set targets after giving necessary consideration to market reality and changes in relevant variables. Performance of the Managing Director is reviewed on an on-going basis by the Board, evaluating the extent to which organisational objectives have been achieved from an overall perspective.</p>																
Evaluation of MD's Performance	Code – A. 11.2	Adopted	<p>The performance of MD is evaluated by the Board Chairman and the remuneration committee 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.</p>																
B. Directors' Remuneration	Principle – B.1	Adopted	<p>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.</p>																
B.1 Remuneration Procedure Remuneration Committee	Code – B. 1.1	Adopted	<p>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.</p> <p>Refer the Remuneration Committee Report on page 185.</p>																

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
Remuneration Committee composition	Code – B. 1.2, 1.3	Adopted	<p>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.</p> <p>The report of the Remuneration Committee is given on page 185.</p>
Remuneration of Non-Executive Directors	Code – B. 1.4	Adopted	<p>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.</p>
Remuneration Committee's access to Managing Director and professional advice	Code – B. 1.5	Adopted	<p>Based on the Remuneration Committee's composition, the advice of the Chairman of the Company is already available since he represents the Committee. Managing Directors' advice is also obtained when deciding the remunerations of other Executive Directors.</p> <p>The Remuneration Committee was not required to seek external professional advice to expedite its duties for the FY 2022/23.</p>
B.2 The level and makeup of remuneration structure	Principle – B.2	Adopted	<p>The remuneration levels of MI for both Executive and Non-executive Directors are sufficient to attract and retain the Directors needed to manage the Company successfully. A proportion of the Executive Directors remuneration is structured in a way that the rewards are linked to individual performances.</p> <p>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.</p>
Managing Director's remuneration	Code – B. 2.1	Adopted	<p>The Remuneration Committee ensured that the remuneration packages offered to Executive Directors including the Managing Director reflect the market expectation and adequate to entice and retain high-calibre Directors who are necessary to accomplish the Company's goals. The Remuneration Committee ensured the alignment of Executive Director remunerations with MI's business strategy.</p>
Executive Directors' remuneration should be designed to promote the long-term success of the Company	Code – B. 2.2	Adopted	Refer B.2.1 above.



# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
Comparison of remuneration with other Institutions	Code – B. 2.3	Adopted	<p>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. Upholding the competitiveness in the remuneration packages, the remuneration structure of the Company is reviewed periodically.</p> <p>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.</p>
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 was no executive share option schemes offered to any Director during the financial year 2022/23.
Deciding Executive Director remuneration	Code – B. 2.7	Adopted	<p>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).</p> <p>There were no long-term incentive schemes or share option schemes proposed for Executive Directors during this period.</p>
Early terminations clauses in service contract of Directors	Code – B. 2.8	Adopted	Executive Directors' early termination compensation commitment clauses are in accordance with their service contracts.
Early terminations of Directors	Code – B. 2.9	Not applicable	There were no early terminations carried out during FY 2022/23.
Level of remuneration of Non-Executive Directors	Code – B. 2.10	Adopted	<p>The Non-Executive Directors are paid a fee for attending main Board meetings and Board sub-committee meetings, taking into consideration the time commitments and responsibilities of their roles.</p> <p>No share option schemes were afforded to Non-Executive Directors during FY 2022/23.</p>
B.3 Disclosure of Remuneration	Principle – B.3	Adopted	<p>The MI Remuneration Policy is fair, competitive, and reflects the performance of the business.</p> <p>A statement on MI's Remuneration Policy is provided on page 185 and the details related to the basis on which Executive and Non-Executive Directors' remuneration is decided has been given in the same statement. Details of remuneration of the Board as a whole are mentioned in Code B.3.1 below.</p>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
Names of members in the Remuneration Committee and remuneration paid to Directors	Code – B. 3.1	Adopted	<p>Details of the Remuneration Committee composition with meetings held and participation status of members is provided on page 98.</p> <p>Details relating to remuneration paid to Executive and Non-Executive Directors in aggregate is in Financial Statement notes under 'Related Party Disclosure' on page 281.</p>
C. Relations with shareholders C.1 Constructive use of AGM	Principle – C.1	Adopted	The Board considers it is important to have a positive and productive connection with the shareholders as they are the foremost stakeholder of the Company. MI's policy encourages shareholders to participate at Annual General Meetings where the shareholders are free to share their views and recommendations. In order to achieve this purpose, the notices of meetings are dispatched to the shareholders within the prescribed time periods. (Refer page 332 for further information in this regard).
Notice of the AGM and related papers	C.1.1	Adopted	Improving stewardship and transparency of MI's activities and performance, and complying with the Companies Act No. 07 of 2007 the annual report including Financial Statements and notice of meeting are sent to shareholders at least 15 working days prior to the date of the AGM by the Company Secretary. The Annual Report of FY 2021/22 was submitted to the CSE and was released to all shareholders on the same day providing opportunity for shareholders to review progress early and present views and seek clarifications at the AGM.
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 withhold 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 2021/22, the Chairpersons of all the Board sub-committees were presented 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 2022/23 which contained the procedures governing voting will be sent to the shareholders 15 working days prior to the date of the AGM.

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
C.2 Communication with shareholders	Principle – C.2	Adopted	The Board recognises that engaging with all stakeholders in a meaningful way is of utmost importance, and therefore, it maintains an effective and continuous communication with all key parties through direct interaction or various corporate communication channels as given on pages 36 to 37. 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 in year 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	The Board-approved 'Communication Policy' outlines the methods and channels for communication 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	<p>The Communication policy clearly specified the authorised individuals who are responsible for communication with different stakeholders.</p> <p>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.</p>
Process to raise awareness of major issues and concerns of shareholders	Code – C. 2.5	Adopted	<p>According to the Communication Policy documents, the shareholders were made aware of any key major issues and concerns which impact them.</p> <p>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.</p>
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. Shareholders are free to contact any Executive Director or Corporate Management Team member in obtaining information as per the Open Door Policy.
The process in responding to shareholder matters	Code – C. 2.7	Adopted	Refer comment on Principle C.2.5 above.

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
C.3 Major transactions	Principle – C.3	Adopted	The MI Board has established a process to capture and disclose any material transactions proposed that would alter or vary the net asset position of Company. This will be enforced when necessary either through the Audited Financial Statements or in an interim publication of the Company or by making an announcement to the Colombo Stock Exchange. MI's Board has established a Related Party Transaction Review Committee to further consolidate this critical area 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	MI has published a comprehensive Annual Report, including Audited financial statements along with a broad management commentary on the performance, ensuring balanced, complete and understandable assessment of MI's business performance, financial position, 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 2023, 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 2022/23, the interim accounts and Annual Financial Statements were published on a timely basis and regulatory reports were filed by the due dates. Information disclosed to the CSE was also submitted promptly during this period.
Balanced and understandable assessment of the Company	Code – D. 1.2	Adopted	<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 195 to 202).</p> <p>The Company's prevailing status is unbiased and accurately reflected in our interim financial reports and other public reports to regulators, as well as in the reports submitted to furnish statutory requirements.</p>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
CEO (Managing Director's) and Chief Financial Officer's declaration on Financial Statements	Code – D. 1.3	Adopted	Managing Director and Finance Director/CFO submitted a declaration statement, confirming that the Financial Statements give a true and fair view and have 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. (Refer page 208)
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 195 to 202).
Directors' and Auditors' responsibility statement	Code – D. 1.5	Adopted	<p>The Statement of Directors' Responsibilities is given on pages 206 to 207, while Auditors' Responsibility is clearly specified in the Auditors' Report of the Financial Statements issued by Messrs Ernst &amp; Young, Chartered Accountants, given on pages 213 to 216. The responsibility of Directors over internal controls is given in the Directors' Statement on Internal Control on pages 209 to 210.</p> <p>In keeping to this section, the statement on Internal Control issued by the Board provided 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 34 to 64 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. 11 billion and was well above the mentioned requirement for the financial year 2022/23 and the likelihood of such an adverse situation is remote. However, if such a situation was 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. Steps have been taken by the Board to avoid any conflict of interest that may arise, in transacting with related parties. The Board ensured that the financial transactions between the Company and the related parties were dealt at arm's length in the ordinary course of business.</p> <p>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 pages 190 to 191 for detailed committee information and the Financial Statements, given on page 281 for details on related party transactions during FY 2022/23).</p>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 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 determining the nature and extent of the key risks which are affecting the strategic objectives. This involves a process which identifies, evaluates and manages risks faced by the Company. 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 along with PricewaterhouseCoopers (Private) Ltd relating to ITGC audits. 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 209 to 210 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 BIRMC worked simultaneously, in line with its objectives, continued to oversee MI's risk management procedures and assess MI's readiness to handle potential risks, with the aim of reducing any potential losses. The Integrated Risk Management Committee Report on pages 183 to 184 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 164 to 182 in the Risk Management Report.
Internal Audit function	Code – D. 2.3	Adopted	<p>The Internal Audit function is carried out by the Internal Audit Department of the Company, which is headed by a Chartered Accountant. The Head of the Internal Audit division ensured that the audits were conducted in Head office and branches are independent and are focus on the operations and processes which involve high level of 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>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
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>MI's Internal Audit Division carried out regular reviews on the internal control system including internal control over financial reporting. The Audit Committee monitors and reviews the Internal Control issues and risk management measures identified by the Internal Audit Division and evaluate the adequacy and effectiveness of risk management and internal control system of the Company.</p> <p>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>
Statement of Internal Control	Code – D. 2.5	Adopted	<p>The Board Statement on Internal Controls given on pages 209 to 210 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"> <li>➤ 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</li> <li>➤ Internal control linkage to financial reporting</li> <li>➤ Audit Committee's role in reviewing internal controls</li> <li>➤ Mechanism to identify, evaluate, and manage risk</li> <li>➤ Maintaining the accuracy of financial reporting</li> </ul>
D.3 Audit Committee – A Committee to review financial reporting aspects, internal controls and maintaining relationships with Company Auditors	Principle – D.3	Adopted	<p>The Audit Committee assisted the Board of Directors in its general oversight of financial reporting, internal controls, risk management, and functions relating to internal and external audits. MI's Board Audit Committee guided the Board to select and apply accounting policies for financial reporting, determine the structure and content of the corporate reporting, implementing internal control and risk management principles and maintaining an appropriate relationship with the Company's Auditor.</p>
Audit Committee composition	Code – D. 3.1	Adopted	<p>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 page 98.</p>
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 and Securities and Exchange Commission of Sri Lanka.</p> <p>Refer Audit Committee Report pages 188 to 189.</p>

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
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 10.2 of this supplement on pages 143 to 147.</p> <p>The names of Directors forming the Audit Committee and their participation level at meetings are disclosed on page 98.</p> <p>Report of the Audit Committee is given on pages 188 to 189. 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 <b>GRI 2-15</b>	D.4	Adopted	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.
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"> <li>➤ Related parties including KMPs, refer page 281.</li> <li>➤ Directors' Interest in Contract, refer pages 203 to 205.</li> </ul> <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 2022/23 are set out in the Committee Report on pages 190 to 191.
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 2022/23. The updated terms of reference and Related Party Transaction Review Policy approved by the Board in August 2020 govern all future activities of the Related Party Transaction Review Committee covering additional best practices recommended by the CA Sri Lanka Corporate Governance Code.
D.5 Code of Business Conduct and Ethics	Principle – D.5	Adopted	A thorough Human Resource Policy document has been created and approved by the Board. This document outlines the policies and procedures that all employees must follow. It promotes the best practices in managing human resources and expects employees to behave in an ethical and professional manner that upholds the reputation of the organisation. The ethical approach taken by the document takes into account the impact that employee actions may have on a wide range of stakeholders and on the overall reputation of the organisation.



# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
Compliance with requirements on business conduct and ethics	Code – D. 5.1	Adopted	<p>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.</p> <p>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.</p> <p>The Board made a declaration in this year's Director's Report on pages 195 to 202 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."</p>
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 pages 121 to 122.
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 89.
D.5 Corporate Governance Disclosure	Principle – D.6	Adopted	The MI Board of Directors remains committed to enhancing their efficiency, adapting to changing circumstances in the business world, and implementing relevant adjustments to raise the bar on governance practices.
Disclosure on Corporate Governance	Code – D. 6.1	Adopted	The Corporate Governance report from pages 89 to 163 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).
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.

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
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	It is recommended that individual shareholders conduct their own research or consult with a professional before making any investment or selling decisions. MI's annual report provides enough data for potential investors to perform a thorough 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 on-going 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 cyber security G.1 Process of identifying cyber security risks within the organisational network and from outside	Principle – G.1	Adopted	The recent incidents of cyber-attacks on banks worldwide and the increased cyber threat due to the COVID-19 pandemic have highlighted the urgent need for financial institutions to strengthen their security measures and be flexible enough to adapt to changing cyber security risks. MI has identified the significance of cyber security 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 cyber security risks.
G.2 Appointment of a Chief Information Security Officer (CISO) and implementation of Cyber security 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 20 years' experience in a related field. An IT Security Policy is in place which covers cyber security 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 cyber security	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 2022/23. The IT Steering Committee through the Finance Director, who is the Chairman of the Committee, reports to the Board on any cyber security-related threat or potential risk through BIRMC.
G.4 Effectiveness of cyber security risk management process	Principle – G.4	Adopted	During the financial year under review, a Vulnerability Assessment and Penetration Testing (VAPT) was conducted through an independent service provider to ensure appropriate cyber security controls are available and also to ensure the company is in line with the required technology improvements. Further, the annual internal audit plans have given prominence to the importance of having an IT audit for the Company. The Company conducted an ITGC audit through PricewaterhouseCoopers (Private) Ltd.
G.5 Annual Report disclosure on process of cyber security risk identification	Principle – G.5	Adopted	Refer risk management report on pages 164 to 182.

# Corporate Governance Report

Corporate Governance Principles	Reference to SEC and ICASL Code	Adoption Status	MI's Extent of Adoption (2022/23 Update)
H. Environment, Society, and Governance (ESG) H.1 ESG Reporting	Principle – H.1	Adopted	<p>ESG factors contribute to the creation of sustainable value for stakeholders by embracing opportunities and mitigating risks that stem from economic, environmental, and social trends, and by influencing the business operations. 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 is committed to fulfilling its obligations to its key stakeholders it serves, including shareholders, customers, employees, suppliers, and the community, by carrying out its business operations in the most effective manner. We have adopted an appropriate plan for sustainability that aims to improve the influence of MI on the economy, society, and environment, in accordance with MI's vision, objectives, and principles for sustainability, as explained on pages 16 to 17.</p> <p>MI's annual performance and progress for FY 2022/23 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 pages 68 to 73, 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 34 to 35.
H 1.2 – Environmental Factors	Code – H. 1.2.1	Adopted	Refer Nature on pages 66 to 67.
H 1.3 – Social Factors	Code – H. 1.3.1	Adopted	Refer Overview and Stakeholder Engagement on pages 36 to 37, Alliances on pages 58 to 59, and Human Strength on page 61.
H 1.4 – Governance	Code – H. 1.4.1	Adopted	Refer Business model on pages 34 to 35, Overview, Stakeholder Engagement and Material Topics and its reference to approach and monitoring on pages 36 to 37, and Corporate Governance Report on pages 89 to 163.
H 1.5 – Board's role on ESG factors	Code – G. 1.5.1	Adopted	Refer Management Discussion and Analysis Strategy on pages 34 to 64, and Overview on pages 8 to 11.

# Corporate Governance Report

## MERCANTILE INVESTMENTS AND FINANCE PLC'S COMPLIANCE STATUS WITH FINANCE BUSINESS ACT DIRECTIONS NO. 05 OF 2021 (CORPORATE GOVERNANCE) – Transitional provisions remain applicable to sections 3.2, 3.5 (a), 3.7, 8.1 (b), 10 and 12.1 (a) till 01st July 2024.

Section Reference	Requirement of the Direction	Extent of Compliance
1.	Board's overall responsibilities	
1.1	The Board shall assume overall responsibility and accountability for the operations of the Finance Company (FC), by setting up the strategic direction, governance framework, establishing corporate culture and ensuring compliance with regulatory requirements. The Board shall carry out the functions listed in Direction 1.2 to 1.7 below;	
1.2	Business strategy and Governance Framework	
a)	Availability of Board approved Strategic Plan with overall business strategy and measurable goals.  GRI 2-12	MI's Strategic Plan covering three-year period from FY 2022/23 to 2024/25 was reviewed and approved by the Board on 30th June 2022. Further, by duly considering the challenging operating landscape, a revised Strategic Plan covering the period from FY 2023/24 to 2025/26 is being developed, as of 31st March 2023 to be finalised before 31st May 2023.
b) & c)	Approving and implementing the company's Governance Framework and assessing the effectiveness of the same on periodical basis.	The Board at MI ensures that the effectiveness of its governance practices is periodically assessed. By duly considering the requirements of section 2.1 of this direction, the Board has reviewed and approved MI's Governance Framework in September 2022.
d)	Appointing the Chairperson and the Chief Executive Officer (CEO)	The roles of Acting Chairman and Chief Executive Officer (Managing Director) are separated and the Board has defined and approved the functions and responsibilities of both in line with section 6.4 and 6.5 of this direction.
1.3	Corporate Culture and Values	
a) & b)	Establishing the company's corporate culture and values, including developing a code of conduct and managing conflicts of interest.	MI has developed a 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 programs, guiding staff on expected values. Conflict of interest is managed through a balanced Board of Directors and through a Board appointed Related Party Transactions Review Committee (RPTRC) comprising of Non-Executive Directors.
c)	Promoting sustainable finance through appropriate environmental, social and governance considerations	When developing the company's three year Strategic Plan, proper allocation of resources have been made towards financial inclusive products for social empowerment. In this regard, the Board ensures that the Company's actions contribute to sustainable growth and long-term value creation.  Further, MI is currently working towards the mid-term action plan (2021-2025) of Road Map for Sustainable Finance in Sri Lanka issued in April 2019 by Central Bank of Sri Lanka.

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
d)	Approving the policy of communication with all stakeholders	<p>A Board-approved Communication Policy is in place and reviewed, every 3 years or earlier if deemed necessary. The communication policy was last reviewed and approved by the Board of Directors in 2021.</p> <p>The Annual General Meeting (AGM) is held with the participation of the Directors, Shareholders, and other interested parties, facilitating effective discussions among the shareholders and the Board on key matters which are relevant and of concern to the general membership.</p>
1.4	Risk Appetites, Risk Management and Internal Controls	
a)	Establishing and reviewing the Risk Appetite Statement (RAS)	In line with MI's three year Strategic Plan and industry standards, Risk Appetite Limits were established and approved by the Board in August 2022. By considering the challenges on prevailed operating context, same RAS was reviewed and amended on 27th February 2023.
b)	Prudent systems on managing risks	<p>Prudent policies and procedures with appropriate checks and balances have been established under each functional head under regular review of audits and compliance and legal unit guidance.</p> <p>Assets and Liabilities Management Committee (ALCO), Executive management Committee (EXCO) and the Board Integrated Risk Management Committee (IRMC) review risks and systems that have been developed to manage and mitigate risks. ALCO and EXCO review performances monthly basis 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.</p> <p>Board Integrated Risk Management Committee Report on page 183 provide further insights in this regard.</p>
c)	Internal Control System and Management Information System	<p>Continuous and ongoing reviews are performed in order to assess the adequacy and integrity of available Internal Control and Management Information Systems by Board Sub-committees especially the Board Audit Committee (BAC) and due recommendations are made to the Board where necessary.</p> <p>The Audit Committee minutes are submitted to the Board. Where necessary Audit Committee reports are also submitted to the Board for further action. Periodic External expert reviews are also commissioned as and when necessary, on specific areas .</p>
d)	Business continuity and disaster recovery	<p>In light of severely challenging operating context, MI's Business Continuity Planning (BCP) mechanism aided to ensure the Company's ability to serve its stakeholders with minimum disruptions.</p> <p>During the financial year under review, MI's existing BCP was reviewed and amendments made to align to the newly approved BCP template by the Board in December 2022.</p>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
1.5	Board Commitment and Competency	
a)	Devoting sufficient time on dealing with the matters relating to affairs of the company	<p>MI's Directors devote sufficient time for the fulfillment of their duties and responsibilities as Directors of the Company. In addition to attending Board Meetings, they attend Sub-committee Meetings and contribute effectively to decision making process.</p> <p>Information pertaining to Directors' participation levels at Board meetings and Board sub-committee meetings are given on page 98.</p> <p>Refer the Composition of MI's Board Meeting Discussion Areas available on page 110 (Code A 1.6- ICASL Code of Best Practice on Corporate Governance )</p>
b)	Possessing necessary qualifications, adequate skills, knowledge, and experience by the Board	Pages 78 to 83 provide brief profiles of MI's Directors, outlining their qualifications, experience and the positions they hold in other institutions.
c)	Regularly reviewing and agreeing the training and development needs of all members of the Board	<p>All Directors at MI have recognised the need for continuous training and expansion of knowledge for professional development which would assist them in the discharge of their duties.</p> <p>During the year under review, all Directors regularly updated themselves on evolving Non-Banking Finance Sector operations and regulatory aspects.</p> <p>Moreover, Non-Executive Directors serving on key committees were updated continuously on matters particularly related to the respective committee's they reside as members by the Corporate Management .</p>
d)	Adopting a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Board as a whole and that of its committees.	Refer the commentary given on section A 9.2 on page 116 of CA Sri Lanka Code of Best Practice on Corporate Governance in this Annual Report.
e)	Obtaining external independent professional advice to the Board of Directors	<p>The Company has a formal 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 year 2013 and was last reviewed and approved in December 2022 .</p>
1.6	Oversight of Senior Management	
a)	Identifying and designating senior management, who are in a position to significantly influence policy, direct activities and exercise control over business operations and risk management	<p>Identification and designation of Senior Management is in place in accordance with these corporate governance guidelines and periodically reviewed and updated by the Board.</p> <p>Head of Compliance and Risk Management, Chief Manager-Internal Audit, Head of IT, Company Secretary and AGM and above levels have specifically been identified and designated as the Senior Management 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.</p>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
b)	Areas of authority and key responsibilities for the senior management	Senior Management carry out their duties and responsibilities based on the delegated authority of the Board and in line with their formal job descriptions designed for each of the top managerial positions and in keeping with limits of authority prescribed for the carrying out of business operations.
c)	Ensuring the senior management possess the necessary qualifications, skills, experience and knowledge	<p>Senior Management is duly recruited by the Executive Directors under the delegated Board authority and supervision of the Managing Director and involve a streamlined recruitment process.</p> <p>Additionally, each and every member of Senior Management is appointed based on the approval given by the regulator on Fit and Proper criteria.</p> <p>Refer summary Senior Management related brief on pages 84 to 88, with their qualification and experience gained.</p>
d)	Ensuring an appropriate oversight of the affairs of the company by Senior Management.	<p>The performance and key areas of the business are reviewed by the Executive Directors at periodic departmental meetings and at the monthly Management meetings. With relevant 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 the 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 delegates 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.</p> <p>The Directors either directly or through the Board sub-committees initiate periodic meetings with the Senior Management. Department specific meetings were held and including Credit, Deposit, and Recoveries meetings that enabled the Senior Management to stay focused during these challenging times to attain respective immediate goals and targets.</p>
e)	Availability of an appropriate Succession Plan for senior management	A Board-approved Succession Plan is in place for all Senior Management positions and Career Development programmes are being continuously reviewed, formulated, and conducted to ensure that there is adequate succession capacity at all levels.
f)	Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives	<p>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.</p> <p>In addition, members of the corporate management make presentations to the Board and its sub-committees or to individual Directors on matters of interest.</p>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
1.7	Adherence to the Existing Legal Framework	
a)	Ensuring that the company does not act in a manner that is detrimental to the interests of and obligations to, depositors, shareholders and other stakeholders.	Amidst the challenging operating context prevailed during the year under review, MI was able to especially manage its solid capital and liquidity buffers well above the minimum regulatory requirements.  Further, early adoptions of certain provisions of this directive as well as voluntary adoption of CA Sri Lanka Code of Best Practice and their respective disclosure requirements are clear reflection of the prudent governance procedures adopted with accountability towards best interest of its all stakeholders.
b)	Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards	The Compliance Officer and Company Secretary update the Board Members on changes to the regulatory environment. Regular discussions, training, and seminars are arranged for Directors and Senior management to facilitate understanding of the regulatory environment and key challenges.
c)	Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently	As commented in 1.7 a), MI Board prudently governed activities, protecting stakeholder interest.
2	Governance Framework	
2.1	Developing and implementing a governance framework in line with these directions	
a) to n)	Availability of Board approved Governance Framework	Refer commentary given in section 1.2 (b) & (c) on page 130 of this direction.
3	Composition of the Board	
3.1	Ensuring a balance of skills and experience of the Board members	Refer commentary given in section 1.5 (b) on page 132 of this direction.
3.2	The number of directors on the Board shall not be less than seven (07) and not more than thirteen (13).	The Board comprised of eight (8) Directors in keeping with the provisions of this section.  <b>Composition of MI Board Last 3 Years</b>

Year	Executive Directors	Independent Non-Executive Directors
20/21	4	4
21/22	4	4
22/23	4	4



# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance															
3.3	The total period of service of a director other than a director who holds the position of CEO/Executive Director shall not exceed nine years	<p>Non-executive Directors serving on the Board have not served on the Board for more than nine years.</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 2023</th> </tr> </thead> <tbody> <tr> <td>Mr. P.D.D. Perera</td> <td>Independent Non-Executive Director</td> <td>3 Years and 1 month completed.</td> </tr> <tr> <td>Mr. A.L.N. Dias</td> <td>Independent Non-Executive Director</td> <td>2 Years completed.</td> </tr> <tr> <td>Ms.E.D. Wickramasuriya</td> <td>Independent Non-Executive Director</td> <td>2 Years completed.</td> </tr> <tr> <td>Mr. M. K.S. Pieris</td> <td>Independent Non-Executive Director</td> <td>1 Years and 11 months completed .</td> </tr> </tbody> </table>	Name of Director	Directorship Status	Number of years in position as at 31st March 2023	Mr. P.D.D. Perera	Independent Non-Executive Director	3 Years and 1 month completed.	Mr. A.L.N. Dias	Independent Non-Executive Director	2 Years completed.	Ms.E.D. Wickramasuriya	Independent Non-Executive Director	2 Years completed.	Mr. M. K.S. Pieris	Independent Non-Executive Director	1 Years and 11 months completed .
Name of Director	Directorship Status	Number of years in position as at 31st March 2023															
Mr. P.D.D. Perera	Independent Non-Executive Director	3 Years and 1 month completed.															
Mr. A.L.N. Dias	Independent Non-Executive Director	2 Years completed.															
Ms.E.D. Wickramasuriya	Independent Non-Executive Director	2 Years completed.															
Mr. M. K.S. Pieris	Independent Non-Executive Director	1 Years and 11 months completed .															
3.4	Non-executive directors, who directly or indirectly holds more than 10% of the voting rights	As of the reporting date, neither direct nor indirect shareholding for Non-executive directors at MI.															
3.5	Executive Directors																
a)	Only an employee of the company shall be nominated, elected and appointed, as an executive director, provided that the number of executive directors shall not exceed one-third (1/3) of the total number of directors of the Board	<p>During the year under review, four (4) Directors served as the Executive Directors of the company out of the total Board membership of eight (8) Directors.</p> <p>Required measures will be undertaken to comply with this requirement, which will be effective from 1st July 2024.</p>															
b)	Existing Executive Directors who holds more than 10% the voting rights of the company with a contract of employment and functional reporting line	Even though three (3) Executive Directors of the company hold more than 10% of the voting rights as at 31st March 2023, all of them are having clearly defined functional reporting lines in the organisational structure at MI and contracts of employment.															
c)	The company's CEO shall be one of the executive directors and may be designated as the Managing Director (MD).	Mr. Gerard Ondaatjie who is an Executive Director and serves as the CEO/MD at MI as at the reporting date.															
d)	All Executive Directors shall have a functional reporting lines	According to the latest Board approved Organisational Structure in July 2022, all Executive Directors at MI have been given clearly defined functional reporting lines .															
e)	The Executive Directors are required to report to the Board through CEO/MD	According to the Board approved Organisational Structure, reporting flows to the Board of all three Executive Directors (except CEO) at MI route through the CEO/MD.															
f)	Executive Directors shall refrain from holding Executive Directorships or Senior Management positions in any other entity	As at 31st March 2023, none of the Executive Directors at MI held Executive Directorships or Senior Management positions in any other entity/s.															

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
3.6	Non-Executive Directors	
a)	Non-executive directors shall possess credible track records, and have necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct	<p>All Non-Executive Directors at MI are selected objectively based on their qualification and experience in their respective fields.</p> <p>Pages 78 to 83 provide brief profiles of the Non-Executive Directors, outlining their qualifications and experience and the positions they hold in other institutions.</p> <p>Respective Directors also hold senior positions in various other organisations and attend MI Board meetings, sub-committee meetings and other special meetings as and when necessary</p>
b)	A Non-Executive Director cannot be appointed or function as the CEO/Executive Director of the company	Mr. Gerard Ondaatjie is an Executive Director and functions as the CEO/MD of the company as well.
3.7	Independent Directors	
a)	The number of independent directors of the Board shall be at least three (03) or one-third (1/3) of the total number of directors, whichever is higher	The Board consists of four (4) Independent Non-Executive Directors as against a total of eight (8) Directors and hence is within the requirement.
b)	Independent directors appointed shall be of highest caliber, with professional qualifications, proven track record and sufficient experience	Pages 78 to 83 provide brief profiles of the Independent Non-Executive Directors, outlining their qualifications and experience and the positions they hold in other institutions.
c) ,d) & e)	Requirements to be satisfied for an Independent Non-Executive Director	<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> <p>The Board reviews the independence of Non-executive Directors on an annual basis and as and when circumstances change, based on the self-declaration and as a part of each Director's performance assessment .</p>
3.8	Alternate Directors	
a), b), c), d) & e)	Procedure for an Alternate Director is appointed to represent an Independent Non-Executive Director	There were no such instances of appointing Alternate Directors for Independent Non-Executive Directors during the year under review.
3.9	Cooling off Periods	
a)	Directors or the CEO who have been appointed prior to the expiration of cooling off period of six months who was previously employed as a CEO or Director , of another Finance company	There were no Director appointments during the year under review .
b)	Non- Independent director appointed as an independent Director prior to expiration of the cooling off period of one year	There were no Director appointments during the year under review .
3.10	Common Directorships	
3.10	Director or a senior management at MI shall not be nominated, elected or appointed as a director of another finance company except where such company is a parent company, subsidiary company or an associate company or has a joint arrangement with MI subject to conditions stipulated in Direction 3.5(f)	As of the reporting date, none of the Directors or Senior Management at MI holds directorships at any other finance company .

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
3.11	A Director of the company shall not hold office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the company	As given in the Board profiles on pages 78 to 83 detailing Directorships held by each Director on the Board of Mercantile Investments in other companies as at 31 March 2023, none of Directors holds office in over 20 companies contravening the provisions of this section.
4	Assessment Fitness Propriety Criteria	
4.1	No person shall be nominated, elected or appointed as a director of the company or continue as a director of such company unless that person is a fit and proper person to hold the office as a director of such company	All the directors at MI were duly nominated and appointed as per the Finance Business Act Directions No.06 of 2021 (Assessment of Fitness and Propriety of Key Responsible Persons ).
4.2 & 4.3	A person over the age of 70 years shall not serve as a director of the company subject to the provisions of section 4.3	All members of the Board presently are below the Age of 70 years and none will reach the age of 70 years by 31/03/2023
5	Appointment and resignation of directors and senior management	
5.1	The appointments, resignations or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction	All appointments to the Board need to be recommended by the Nomination Committee. Refer page 114 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 at MI for orderly succession of appointments to the Board.  Further, a Board approved succession plan is in place for the appointments of Senior management.  Resignations/ removals are 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.
6	Chairperson and the CEO	
6.1	There shall be a clear division of responsibilities between the chairperson and CEO and responsibilities of each person shall be set out in writing	Refer commentary given in section 1.2 d). on page 130 of this direction.
6.2 & 6.3	The chairperson shall be an independent director, subject to section 6.3	MI's acting chairman is an Independent Non-Executive Director.  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 Ondaatjie and Mr. Travice Ondaatjie are members of the same family.

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
6.4	Responsibilities of the Chairperson	
a) to j)	Role of the Chairman	<p>MI's Acting Chairman performs following roles and responsibilities on behalf of the Board;</p> <ul style="list-style-type: none"> <li>a) Providing leadership to the Board</li> <li>b) Maintaining and ensuring a balance of power between executive and non- executive directors</li> <li>c) Securing effective participation of both executive and non- executive directors</li> <li>d) Ensuring the Board works effectively and discharges its responsibilities</li> <li>e) Ensuring all key issues are discussed by the Board in a timely manner</li> <li>f) Implementing decisions/directions of the regulator.</li> <li>g) Preparing the agenda for each Board Meeting and delegating the function of preparing the agenda and maintaining minutes in an orderly manner to the company secretary</li> <li>h) Not engaging in activities involving direct supervision of senior management or any other day to day operational activities.</li> <li>i) Ensuring appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board</li> <li>j) Making Annual assessment on the Performance and the contribution during the past 12 months of the Board and the CEO</li> </ul> <p>Further detail on the role of the Independent Non-executive Acting Chairman is given in the CA Sri Lanka Code of best practice section A.2 and A.3 on pages 111 to 112.</p>
6.5	Responsibilities of CEO	
a) to g)	The CEO/MD shall function as the apex executive-in-charge of the day-to-day-management of the company's operations and business	<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 CEO/MD are clearly defined and approved by the Board as follows;</p> <ul style="list-style-type: none"> <li>a) Implementing business and risk strategies in order to achieve the company's strategic objectives</li> <li>b) Establishing a management structure that promotes accountability and transparency throughout the company's operations and preserves the effectiveness and independence of control functions</li> <li>c) Promoting, together with the Board, a sound corporate culture within the company, which reinforces ethical, prudent and professional behavior</li> <li>d) Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator</li> <li>e) Strengthening the regulatory and supervisory compliance framework</li> </ul>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance																																																				
		<p>f) Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner</p> <p>g) Devoting the whole of the professional time to the service of the company. He does not carry on any other business, except as non-executive director of other company's he has Directorships.</p>																																																				
7	Meetings of the Board																																																					
7.1	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible	<p>Twelve (12) Board meetings were held for the financial period 2022/23.</p> <p>Refer section A.1.1 of the CA Sri Lanka code given on page 105 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 were obtained via circulation by the Company Secretary</p>																																																				
7.2	The Board shall ensure that arrangements are in place to enable matters and proposals by all directors of the Board to be represented in the agenda for scheduled Board Meetings	The agenda is prepared by the Company Secretary under the guidance of the Acting Chairman and incorporated all proposals submitted by Directors. All Directors are provided an equal opportunity to submit proposals with regard to all key areas of the business .																																																				
7.3	A notice of at least 3 days shall be given for a scheduled Board meeting. For all other Board meetings, a reasonable notice shall be given	Generally, at least 7 days' notice is given to all Directors relating to scheduled Board meetings. The Company Secretary also ensures reasonable notice is given for any other meetings held by the Board other than regular Board meetings .																																																				
7.4	A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	As specified in section 7.3 of this direction, Directors are given adequate notice period for Board Meetings to study the relevant papers and proposals towards effective discussions. Further, Directors have access to KMPs to clarify matters and to external specialists for independent advice, when required .																																																				
7.5	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 fourth (1/4) of the number of directors that constitute the quorum at such meeting are independent directors	<p>As per the attendance of the Board Meetings during the financial year 2022/23, the required quorum has been maintained at all Board Meetings.</p> <p><b>Monthly Quorum Status of the Board Meetings</b></p> <table border="1"> <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-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>May-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Jun-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Jul-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Aug-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Sep-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Oct-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Nov-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Dec-22</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Jan-23</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Feb-23</td><td>3</td><td>1</td><td>4</td></tr> <tr><td>Mar-23</td><td>3</td><td>1</td><td>4</td></tr> </tbody> </table>	Month	Executive Directors	Independent Non-Executive Directors	Total	Apr-22	3	1	4	May-22	3	1	4	Jun-22	3	1	4	Jul-22	3	1	4	Aug-22	3	1	4	Sep-22	3	1	4	Oct-22	3	1	4	Nov-22	3	1	4	Dec-22	3	1	4	Jan-23	3	1	4	Feb-23	3	1	4	Mar-23	3	1	4
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# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
7.6	The chairperson shall hold meetings with the non-executive directors only, without the executive directors being present, as necessary and at least twice a year	The Acting Chairman attended meetings with Non-Executive Directors without the presence of the Executive Directors two times during the financial year 2022/23 .
7.7	A director shall abstain from voting on any Board resolution in relation to a matter in which such director or relative or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item in the Board meeting  <b>GRI 2-15</b>	The Board is mindful 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.  In keeping to the best practices on the identification of related party transactions, a separate 'Related Party Transaction Review Committee (RPTC)' was set up in 2015 and continued to review all related party transactions and report any concerns to the Board. Related Parties as a practice are disclosed by Directors at the time of on-boarding and when a conflict of interest is identified. These related parties are recorded by the Company Secretary and informed to the Finance Department. Information pertaining to the related transactions are compiled by Finance Department and submitted on a quarterly basis to the Committee. The Committee in turn reviews the objectivity maintained in conducting such transactions.
7.8	A director who has not attended at least two-thirds (2/3) of the meetings in the period of 12 months immediately preceding or has not attended three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall be acceptable as attendance, subject to applicable directions for alternate directors.	All Directors have attended over the minimum participation requirement of attending at least two-thirds of the meetings held for the financial year 2022/23. Further, none of the Directors were absent for three consecutive Board meetings during the same period as well.  Attendance status of each Director at Board meetings is given on Page 105.
7.9	For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where director cannot attend on a short notice, participation through electronic means is acceptable.	With relevant to scheduled Board meetings, the company encourages physical participation of all Directors. However, the procedure for virtual Board meetings has too been approved and adopted by the Board since year 2021 at times when lockdowns and mobility issues persisted.
8	Company Secretary	
8.1 a)	The Board shall appoint a company secretary considered to be a senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings, and to carry out other functions specified in the statutes and other regulations	Mrs. Pethiyagoda, who is a senior management level employee at MI and a qualified Chartered Secretary with over 26 years of experience in the related field. Her services are 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 .
8.1 b)	The Company Secretary shall possess such qualifications as may be prescribed for a secretary of a company under section 222 of the Companies Act, No. 07 of 2007, on being appointed the company secretary, such person shall become an employee of FC and shall not become an employee of any other institution	Refer commentary given in section 8.1 a) page 140 of this direction.

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
8.2	All directors shall have access to advice and services of the company secretary with a view to ensuring the Board procedures laws, directions, rules and regulations are followed.	The Company Secretary attended all Board meetings during the financial year 2022/23 and she is readily accessible to all Directors who require her advice and services.  Mrs. Pethiyagoda has over 26 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.
8.3	The company secretary shall be responsible for preparing the agenda in the event of chairperson has delegated carrying out such function.	The responsibility for the preparation of the agenda for Board meetings has been delegated to the Company Secretary under the supervision of the Acting Chairman. She takes a coordinating role to circulate the agenda, dealing with Directors and Corporate Management to incorporate key matters to be taken up.
8.4 & 8.5	The company secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.	Minutes of all Board meetings are duly maintained and stored in safe custody by the Company Secretary as per this direction.
8.6 a) to f)	Minutes of the Board meetings shall be recorded in sufficient detail so that it is possible to ascertain whether the Board acted with due care and prudence in performing its duties	Minutes of the Board Meetings are maintained in sufficient detail by the Board Secretary as defined in the direction .
8.7	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director	The Board of Directors has access to the minutes and can inspect Board minutes at any reasonable time, at short notice .
9	Delegation of Functions by the Board	
9.1	The Board shall approve a Delegation of Authority (DA) and give clear directions to the senior management, as to the matters that shall be approved by the Board before decisions are made by senior management, on behalf of the company	The Board at MI has clearly defined and approved the levels of Delegation of Authority (DA) with relevant to the functions of approving credit facilities, approving deposits, signing cheques for payments etc .
9.2	In the absence of any of the sub-committees mentioned in section 10 of this Direction, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.	MI Board has established five Board appointed subcommittees namely Audit Committee, IRMC, Remuneration Committee, Nomination Committee and RPTC. Refer the individual committee reports on pages 183 to 191.
9.3	The Board may establish appropriate senior management level sub- committees with appropriate Delegation of Authority to assist in Board decisions	In order to assist the Board level subcommittees, MI's Board has also established Senior Management level committees with proper DA limits to perform their relevant scope of tasks.  Page 101 elaborates the tasks performed by those management level committees during the financial year under review.

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
9.4	The Board shall not delegate any matters to a Board sub-committee, executive directors or senior management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	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.
9.5	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the company	The Board reviews the delegated powers vested with Directors, Corporate Management and other employees to ensure relevance to the needs of the Company. Refer commentary given on section 9.4.
10	Board Sub-Committees	
10.1	Requirements on Board subcommittees (Asset base more than Rs. 20 Billion)	
a)	The company shall establish a Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Nomination Committee, Human Resource and Remuneration Committee and Related Party Transactions Review Committee. Further, meetings of those committees shall be held at least once in two months for BAC and BIRMC. Other committees shall meet at least annually.	By 31st March 2023, all required Board subcommittees have been established and adopted at MI. Refer pages 183 to 191 for Board subcommittee reports.  When considering committee meetings, currently, BIRMC holds meetings on quarterly basis. However, Terms of Reference (TOR) of BIRMC will be amended during the transitional period and will be complied with this Direction from 1st July 2024.
b)	Each Board sub-committee shall have a board approved written terms of reference specifying clearly its authority and duties	All Board subcommittees established at MI have Board approved written Terms of References (TORs) with clear coverage on scope, their authorities and duties. TORs are subject to periodic reviews and amendments as specified in the respective committee TOR's.
c)	The Board shall present a report on the performance of duties and functions of each Board sub-committee, at the annual general meeting of the company.	Refer the Board subcommittee reports on pages 183 to 191 in this Annual Report, that clearly specify the performance, duties and responsibilities of each subcommittee during the financial year under review, to be tabled at the AGM as well.
d)	Each sub-committee shall appoint a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records and carry out such other secretarial functions under the supervision of the chairperson of the committee.	Each Board subcommittee at MI has appointed a secretary to perform its secretarial functions under the direct supervision of respective subcommittee chairman/chairperson. (Refer Board subcommittee reports on pages 183 to 191 for its respective secretaries)
e)	Each Board sub-committee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge and experience relevant to the responsibilities of the committee.	Refer Board subcommittee composition on page 98 in this Annual Report.



# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
f)	The Board may consider occasional rotation of members and of the chairperson of Board sub-committees, as to avoid undue concentration of power and promote new perspectives	Occasional rotation of members and Chairpersons of the Board Sub Committees are considered as and when required. During the year under review, there were no changes in the composition of the members of Board Sub-committees.
10.2	Board Audit Committee (BAC )	
a)	The chairperson of BAC shall be an independent director who possesses qualifications and experience in accountancy and/or audit	Chairman of MI's 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 .
b)	The Board members appointed to the BAC shall be non-executive directors and majority shall be independent directors with necessary qualifications and experience relevant to the scope of the BAC.	The Committee comprises of three Independent Non-Executive Directors. The Committee operates in an independent and objective manner to ensure impartiality of the Committee.
c)	The secretary to the BAC shall preferably be the Chief Internal Auditor (CIA).	As at the reporting date, the Company Secretary, Mrs. S. Pethiyagoda, acts as the Secretary to the Board Audit Committee, keeping record of the meeting proceedings.
d)	External Audit Function	
i.	The BAC shall make recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor	i) The BAC made recommendations for the re-appointment of External Auditor Ernst & Young, Chartered Accountants, for the financial year 2022/23. Further, BAC approved the audit fee at the audit committee meeting held on 13th February 2023 for the financial year 2022/23.
ii.	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. Further, the company shall not use the service of the same external audit firm for not more than ten years consecutively	ii) Since this is the 6th consecutive undertaking of External Auditors within the given timespan of ten (10) undertakings, a new audit partner was appointed at the meeting held on 13th February 2023.
iii.	Audit partner of the company shall not be a substantial shareholder, director, senior management or employee of any finance company.	iii) & iv) The External Auditor's independence, objectivity, and the effectiveness of the audit process, was monitored and reviewed by MI's BAC, 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 13th February 2023 for the FY 2022/23.
iv.	The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
	v. Audit partner shall not be assigned to any non-audit services with the company during the same financial year in which the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework.	v) During the financial year under review, the audit partner has not been assigned to any non-audit services with the company. However, the BAC 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 2022/23, tax advisory services have been obtained from Ernst & Young, Chartered Accountants.
	vi. The BAC shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit.	vi) The BAC met the External Auditor, two times during the financial year 2022/23. 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.
	vii. The BAC shall review the financial information of the company, in order to monitor the integrity of the financial statements of the company in its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.	vii) 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 judgmental areas and material audit judgments.
	viii. The BAC 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 senior management, if necessary.	viii) The Committee met the External Auditors one time 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.
	ix. The BAC shall review the external auditor's management letter and the management's response thereto within 3 months of submission of such, and report to the Board.	ix. The Committee reviewed the FY 2021/22 Management Letter issued by the External Auditors together with Management responses at the BAC meeting held on 22nd September 2022 (within three months of submission such) to ascertain existing material concerns that require their immediate attention for resolution, in the presence of the Finance Director.
e)	The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.	<p>The Committee reviewed the Independent Auditor's assurance report on the internal control mechanism referred to in the Director's Statement on Internal Control.</p> <p>During each financial year, the management letter by the external auditors being reviewed by the Audit Committee giving special focus on system and control weaknesses which have come across by the external auditors during their audit.</p> <p>The Committee reviewed the Independent Auditor's assurance report on the internal control mechanism referred to in the Director's Statement on Internal Control.</p>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
		<p>During each financial year, the management letter by the external auditors being reviewed by the Audit Committee giving special focus on system and control weaknesses which have come across by the external auditors during their audit.</p> <p>Further, a comprehensive review of the effectiveness of the system of internal controls at MI is carried out by the company's internal audit division through the annual internal audit programme. The same audit program of financial year 2023/24 was already affirmed by the BAC on 13th March 2023.</p>
f)	The BAC shall ensure that the senior management is taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to internal audit function of the company.	Based on the reports submitted by the supervisory bodies, the BAC reviews and considers the respective findings on internal control weaknesses, non-compliance with policies, laws and regulations and the Management's responses thereto and ensures that the recommendations are implemented with relevant to the Internal Audit function.
g)	<p>Internal Audit Function</p> <p>i. The committee shall establish an independent internal audit function (either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations)</p> <p>ii. The internal audit function shall have a clear mandate, be accountable to the BAC, be independent and shall have sufficient expertise and authority within the company to carry out their assignments effectively and objectively.</p> <p>iii. The BAC shall take the following steps with regard to the internal audit function of the company;</p>	<p>i) MI has established an in house Internal Audit Function with clear reporting hierarchy to the BAC.</p> <p>ii) Board approved Internal Audit Charter has given clear mandate and authority to the internal audit division to carry out their duties independently and has been made accountable to the BAC. The BAC reviews the information provided in the risk-based internal audit plan and concluded that scope. Further the committee ensures the internal audit function is independent of the activities it audits and performed duties with due professional care.</p>
	I. Review the adequacy of the scope, functions and skills and resources of the internal audit department and ensure the internal audit department has the necessary authority to carry out its work	<p>I. The Committee has already been submitted with the annual audit program by the Internal Audit Division of the Company for the financial year 2023/24.</p> <p>The committee has continuously reviewed the adequacy of the resources of the internal Audit department especially relating to this Direction. Internal resource requirements have been timely fulfilled and outsourcing arrangement also considered where necessary in compliance with all applicable directions.</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 also invited and their related observations were taken up, to ensure corrective action is initiated in a firm and effective manner.</p>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
	II. Review the internal audit program and results of the internal audit process and, where necessary, ensure appropriate actions are taken on the recommendations of the internal audit	II. The Audit Committee reviewed the findings of the Internal Audit team for the financial year 2022/23 which included the evaluations made by the Internal Audit Department on the adequacy of the Company's internal controls and compliances. The committee met nine times with the Internal Auditors and reviewed the full audit/special review reports. Further, the committee ensured that the necessary corrective actions were taken by MI Management on the internal audit findings and recommendations that were made.
	III. Assess the performance of the head and senior staff members of the internal audit department	III. The 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 finalizing audits as key performance goals for the team.
	IV. Ensure the internal audit function is independent and activities are performed with impartiality, proficiency and due professional care	IV. The Company's Internal Audit Function is positioned independently, not conflicting with the activities it performs. In order to strengthen the independence of the Internal Audit Department, the Audit division submits its reports directly to the BAC. 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.
	V. Ensure internal audit function carry out periodic review of compliance function and regulatory reporting to regulatory bodies.	V. MI's Annual Internal Audit Plan of 2023/24 which was affirmed by the BAC on 13th March 2023 has due provisions to carry out periodic reviews on compliance function and regulatory reporting.
	VI. Examine the major findings of internal investigations and management's responses thereto.	VI. 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 2022/23.
h)	The BAC shall review the statutory examination reports of the Central Bank of Sri Lanka (CBSL) and ensure necessary corrective actions are taken in a timely manner and monitor the progress of implementing the time bound action plan quarterly	The BAC reviewed all statutory concerns raised by Central Bank of Sri Lanka (CBSL) with relevant to the Audit Committee and ensured timely rectification of concerns through monthly status updates which is obtained from the management for the on-site concerns raised as per 2023 review.
i)	Meetings of the Committee i. The BAC shall meet as specified in 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities ii. Other Board members, senior management or any other employee may attend meetings upon the invitation of the committee when discussing matters under their purview	i) The BAC met ten times during the financial year under review. The Secretary to the committee keeps duly perfected minutes in a manner that captures the essence of the meeting discussions and conclusions ii) 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 under review

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
	iii. BAC shall meet at least twice a year with the external auditors without any other directors/senior management/employees being present	iii) The committee met with External Auditors two times this year without the presence of the other Directors or senior management in keeping to this section.
10.3	Board Integrated Risk Management Committee (BIRMC)	
a)	The BIRMC shall be chaired by an independent director. The Board members appointed to BIRMC shall be non-executive directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with senior management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	MI's BIRMC comprises of an Independent Non-Executive Director acting as the Chairman, whilst two Executive Directors including the Managing Director, Corporate Management including the COO, CFO, Head of Risk and Compliance, and AGM – Credit Risk comprises the full Committee.  The members of BIRMC work closely with the senior management 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.
b)	The secretary to the committee may preferably be the CRO.	Currently, the Head of Risk and Compliance bears the position of secretary to the BIRMC.
c)	The committee shall assess the impact of risks, including credit, market, liquidity, operational, strategic, compliance and technology, to the company at least on once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board.	BIRMC at MI 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 committee takes prompt corrective actions to mitigate the negative effects of specific risks.  Refer the Board Committee overview on pages 98 to 100 and Risk Management Report on pages 164 to 182 on wider explanation on the company's risk management approach.
d)	Developing the company's risk appetite through a Risk Appetite Statement (RAS), this articulates the individual and aggregate level and types of risk that the company will accept, or avoid, in order to achieve its strategic business objectives.	MI's Board approved Risk Appetites Statement (RAS) has been reviewed and amended by the BIRMC in February 2023.
e)	The BIRMC shall review the company's risk policies including RAS, at least annually	MI's risk policies and procedures including RAS have been reviewed by the Board during the financial year under review.
f)	The BIRMC shall review the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity, investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee	The BIRMC attends to review the effectiveness of senior management level committees including Assets and Liabilities management Committee (ALCO), Credit Committee, Treasury Committee, Sustainability Committee and IT Steering committee. Refer BIRMC Report on pages 183 to 184 for the scope of the Committee, a wider explanation on the Company's Risk Management Framework and its activities during the financial year 2022/23.
g)	The committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.	Refer commentary given in section 1.4 d) on page 131 of this direction.

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
h)	BIRMC shall annually assess the performance of the compliance officer and the CRO.	Annual performance assessment of Head of Compliance & Risk Management was carried out by the Chairman of BIRMC.
i)	Compliance Function i. BIRMC shall establish an independent compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations. ii. For finance companies with asset base of more than Rs. 20 billion, a dedicated compliance officer considered to be senior management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. iii. For finance companies with asset base of less than Rs. 20bn, an officer with adequate seniority considered to be senior management shall be appointed as compliance officer avoiding any conflict of interest. iv. The BIRMC shall ensure responsibilities of the compliance officer	i) 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 BIRMC on the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and internal controls. ii) As at the reporting date, plans are underway to separate the Compliance Function from Risk Function and appoint a dedicated compliance officer to comply with the requirements of new governance directive no. 5 of 2021 by 01st July 2024. iii) N/A iv) Roles and responsibilities of the company's compliance officer have been clearly defined in the compliance policy which was last reviewed and approved by the Board in March 2022.
j)	Risk Management Function i. BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the company ii. For finance companies with asset base of more than Rs.20 bn, it is expected to have a separate risk management department and a dedicated Chief Risk Officer (CRO) considered to be senior management iii. The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including Risk Appetite Statement (RAS) in order to ensure the company's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.	i) A separate risk unit has been established, directing reporting to the BIRMC to assess and recommend solutions to various risks, i.e., credit, market, liquidity, operational and strategic risks through appropriate risk indicators. Risk reports are submitted by the Head of Risk and Compliance on a quarterly basis and in the event of such risks exceed the established risk tolerance levels such instances are highlighted in the reports submitted to the BIRMC. ii) Refer the commentary given in section 10.3 (i). (ii) on page 148 of this direction. iii) By considering the economic volatilities that prevailed during the financial year under review and the company's short and long term strategic priorities, MI's policy on Risk management was reviewed and approved by the Board in December 2022. Further, RAS was last reviewed and approved by the Board in February 2023.

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
	iv. The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management Framework	iv) MI's Integrated Risk management framework is laid down in the company's Internal Risk Management policy and same was subject to amendment and update as per the requirements of new governance directive during the transitional period provided till 1st July 2024.
	v. The CRO shall also participate in key decision-making processes such as capital and liquidity planning, new product or service development, etc., and make recommendations on risk management	v) CRO participates for ALCO meetings where capital and liquidity is planned. Further, new products and services are reviewed by CRO in order to identify and mitigate the risks.
	vi. The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC on a quarterly basis	vi) The updated Risk Register for the financial year 2022/23 has been submitted to the BIRMC on 23rd November 2022.
	vii. The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.	vii) As per the Internal Risk Policy of the Company an 'activity report' is circulated by the BIRMC 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 circulated to the Board for the 2022/23 financial year.
10.4	Nomination Committee	
a)	The committee shall be constituted with non-executive directors and preferably the majority may be independent directors. An independent director shall chair the committee. The CEO may be present at meetings by invitation of the committee.	As at the reporting date, Board established Nominations committee constitutes with four Directors (Three Independent Non-Executive Directors and one Executive Director-CEO). Mrs. E.D. Wickramasuriya (Independent Director) holds the position of Chairperson of the committee.  Refer the Nomination Committee report on pages 186 to 187.
b)	Secretary to the nomination committee may preferably be the company secretary.	During the financial year under review, Mrs. S. Pethiyagoda (Company Secretary) continued as the secretary to the Nomination committee .
c)	The committee shall implement a formal and transparent procedure to appoint new directors and senior management . Senior management are to be appointed with the recommendation of CEO, excluding CIA, CRO and compliance officer	MI's appointments of Directors to the Board are governed by the policy on Orderly Succession for the Appointments to the Board.  The Senior management excluding CIA, CRO and compliance officer is duly recruited by the Executive Directors under the delegated Board authority and supervision of the Managing Director, encompassing a streamlined recruitment process.
d)	The committee shall ensure that directors and senior management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction	During the year under review, all key management persons at MI which include Directors and Corporate Management have obtained the approval form Director NBFIs in keeping to Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.
e)	The selection process shall include reviewing whether the proposed directors (i) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities	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 A.7 and A7.1 of CA Sri Lanka code of best practice for further details.

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
f)	The committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the company as a whole.	The Nomination Committee reviews the new appointments and re-elections to the Board with strategic direction of the Company to attract and retain Board members with relevant experience and qualifications .
g)	The committee shall set the criteria, such as qualifications, experience and key attributes required for eligibility, to be considered for appointment to the post of CEO and senior management.	<p>MI's Nomination Committee conducts a thorough assessment and screening to identify suitable candidates who meet the eligibility criteria for new appointments to the Board and the Senior management. Moreover, a process has been established to determine that the proposed appointees are fit and proper for the requirement.</p> <p>Based on such recommendations final decisions on appointments are made by the Board in an objective and transparent manner .</p>
h)	Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the company secretary to disclose to shareholders: (i) a brief resume of the director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the director holds directorships or memberships in Board committees; and (iv) whether such director can be considered as independent	Upon an appointment of a new Director to the Board, MI's Company Secretary is authorised to announce to the shareholders with a brief resume of such Director including his/her expertise in relevant functional areas and names of companies in which the Director holds Directorships, through Colombo Stock Exchange .
i)	The committee shall consider and recommend (or not recommend) the re- election of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the company and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.	<p>MI's Nomination Committee provides recommendations on Directors who are retiring by rotation for shareholder approval at the AGM.</p> <p>When providing recommendations, the Nomination Committee has a robust process to review the participation, contribution, and engagement of each Director at the time of re-election Based on above, following Directors are subject to retire by rotation in the financial year 2022/23 and are eligible for re-election;</p> <p>Mr. T. J. Ondaatjie Mr. S. H. Jayasuriya</p>
j)	The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management	<p>Due to the complexities associated with the LFC sector in terms of business dynamics, regulatory changes, and other relevant factors, there may be a necessity for the appointment of additional/new expertise.</p> <p>However, there were no new appointments/ additions to the MI's Board during the financial year under review .</p>
k)	A member of the nomination committee shall not participate in decision making relating to own appointment/ reappointment and the Chairperson of the board should not chair the committee when it is dealing with the appointment of the successor.	There were no such instances happened during the financial year under review.



# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
10.5	Human Resource and Remuneration Committee	
a)	The committee shall be chaired by a non-executive director and the majority of the members shall consist of non-executive directors.	Refer the Board committee overview on pages 98 to 100 for the composition of the Remuneration Committee. The Committee is chaired by Mr. A. L. N. Dias who is an Independent Director .
b)	The secretary to the human resource and remuneration committee may preferably be the company secretary.	Mrs. S. Pethiyagoda (Company Secretary) acts as the secretary to the committee .
c)	The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the company and fees and allowances structure for non-executive directors.	<p>The Company's remuneration policy has been devised in a way that considers retention requirements. Individual's performance based on respective officers' targets and goals are appraised annually. Bonuses, increments, and career advancement opportunities are linked to appraisals.</p> <p>The Committee ensures that the remuneration packages offered to Executive Directors including the Managing Director reflect the market expectation and adequate enough to entice and retain high-caliber Directors who are necessary to accomplish the Company's goals. Further, the Remuneration Committee ensured the alignment of Executive Director remunerations with MI's business strategy.</p> <p>The Board as a whole decides the remuneration of the Non-Executive Directors, including the members of the Remuneration and Nomination Committees. The Non-Executive Directors receive a fee for attending meetings of the main Board and Board Committees. Fees paid to the Non-Executive Directors are neither performance related nor pensionable .</p>
d)	There shall be a formal and transparent procedure in developing the remuneration policy.	<p>When developing the remuneration policy for the company, the Committee considered the level of remuneration paid by other comparable in the market in order to attract, motivate, and retain individuals and be mindful of the performance and risk factors entailed.</p> <p>This mechanism ensured that the remuneration packages offered for the Executive Directors/ Senior Management stay on par with the industry/market while ensuring alignment of rewards with strategic and short-term objectives of the Company</p>
e)	The committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the company. The policy shall be subject to periodic review of the Board, including when material changes are made.	<p>The Remuneration Policy is reviewed periodically and recommended by the Committee for the approval of the Board on paying salaries, allowances and other financial incentives for employees of the Company.</p> <p>MI's detailed Remuneration policy was last reviewed and approved by the Board on 23rd December 2022 .</p>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
f)	The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests and cost structure of the company. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take excessive risk or to act in self-interest.	Refer commentary given in section 10.5 d) on page 151 of this direction.
g)	The committee shall review the performance of the senior management (excluding chief internal auditor, compliance officer, chief risk officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives	As per the current practice at MI, the performance of the Senior Management (excluding chief internal auditor, compliance officer, chief risk officer) is evaluated by the Executive Directors 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.  However, CEO/ MD's performance assessment is carried out by the Acting Chairman.
h)	The committee shall ensure that the senior management shall abstain from attending committee meetings, when matters relating to them are being discussed.	According to the approved Terms of reference (TOR) of the committee, only committee members shall have the right to attend the meetings. Other members of the Board who are not members of the committee and senior management may be invited to attend for all or part of any meeting, as and when appropriate.  In keeping to the TOR, no Director was involved in any discussions as to their own remuneration .
11	<b>Internal Controls</b>	
11.1	The company shall adopt well-established internal control systems, which include the organisational structure, segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks	Refer the commentary given in section D.2 of the CA Sri Lanka Code of Best practice on page 124.
11.2	A proper internal control system shall: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimise the operating risk of losses from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions and internal policies.	The company's internal control framework ultimately directed at safeguarding stakeholder interest and 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; <ul style="list-style-type: none"> <li>➤ Risk Management Report on pages 164 to 182</li> <li>➤ Board IRMC Report on pages 183 to 184</li> <li>➤ Board Audit Committee Report on pages 188 to 189</li> <li>➤ Directors' Statement on Internal Control on pages 209 to 210</li> <li>➤ Auditor's Assurance Report on adequacy of internal control on financial reporting on pages 211 to 212</li> <li>➤ Integrity of management information and its privacy on page 131</li> </ul>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
11.3	All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.	Clear organisational procedures with controls have been formally issued to each function, Board approved for all employees to follow. There is regular review of staff via the performance management process and audit to ensure staff remain compliant and accountable to set control processors.
12	Related Party Transactions	
12.1	Board shall establish a policy and procedures	for related party transactions
a)	The company shall establish a Related Party Transactions Review Committee (RPTRC) and the chairperson shall be an independent director and the members shall consist of non-executive directors.  <b>GRI 2-15</b>	Refer below composition of the RPTC as at 31st March 2023; <ul style="list-style-type: none"> <li>➤ Mr. P. D. D. Perera- Independent Non-Executive Director (Chairman of the committee)</li> <li>➤ Mrs. E D Wickramasuriya- Independent Non-Executive Director</li> <li>➤ Mr. S. H. Jayasuriya- Executive Director</li> <li>➤ Mr. A L N Dias- Independent Non-Executive Director</li> </ul>
b)	All related party transactions shall be prior reviewed and recommended by the RPTRC	All related party transactions at MI are submitted to the RPTC on a quarterly basis for review and recommendations. However, material related party transactions (as per RPT policy) are subjected to prior review and approval of the committee.
c)	The business transactions with a related party that are covered in this Direction shall be following; <ul style="list-style-type: none"> <li>i. Granting accommodation.</li> <li>ii. Creating liabilities to the company in the form of deposits, borrowings and any other payable.</li> <li>iii. Providing financial or non-financial services to the company or obtaining those services from the company.</li> <li>iv. Creating or maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party.</li> </ul>	Particulars relating to Related Party Transactions have been disclosed in the Notes to the Financial Statements. Further, pages 203 to 205 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.

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
12.2	<p>The committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the company with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction.</p> <p>a) Directors and senior management.</p> <p>b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the company</p> <p>c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the company exert control over or vice versa</p> <p>d) Directors and senior management of legal persons in paragraph (b) or (c)</p> <p>e) Relatives of a natural person described in paragraph (a), (b) or (d).</p> <p>f) Any concern in which any of the company’s directors, senior management or a relative of any of the company’s director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.</p>	<p>No favorable 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. Transactions entered into by the Company with any such related party has been carried out on an arm’s length basis depending on the risk profile of the entity and MI’s pricing structure.</p> <p>During the period under review, the process of capturing Related Party Transaction information was further streamlined in accordance with the provisions of this section and Sri Lanka Accounting Standard (LKAS - 24) on ‘Related Party Transactions’ for purpose of internal and external reporting.</p>
12.3	<p>The committee shall ensure that the company does not engage in business transactions with a related party in a manner that would grant such party “more favorable treatment” than that is accorded to other similar constituents of the company.</p>	<p>MI has not entered into any transaction in a manner that would grant the related party ‘more favorable treatment’ than if dealt with an unrelated customer.</p> <p>Refer section 12.1 c) above that refer to ‘Related Party Transactions’ and ‘Directors’ Interests in Contracts’ disclosures.</p>
13	Group Governance	
13.1	Responsibilities of the company as a Holding Company	
a)	<p>The company is responsible for exercising adequate oversight over its subsidiaries and associates while complying with the independent legal, regulatory and governance responsibilities that apply to them</p>	<p>MI’s associate company “The Nuwaraeliya Hotels PLC” with common Directorships is considered as an independent establishment with separate legal, regulatory and governance responsibilities.</p>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
b)	<p>The Board of the company shall;</p> <p>i. Ensure that the group governance framework clearly defines the roles and responsibilities for the oversight and implementation of group- wide policies</p> <p>ii. Ensure that the differences in the operating environment, including the legal and regulatory requirements for each company, are properly understood and reflected in the group governance framework.</p> <p>iii. Have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the holding company and its subsidiaries</p> <p>iv. Assess whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions</p> <p>v. Ensure that there are adequate resources to effectively monitor compliance of the company and its subsidiaries with all applicable legal and regulatory requirements.</p>	N/A
c)	<p>The company, as the apex entity, shall ensure that the group structure does not undermine its ability to exercise effective oversight. The Board shall establish a clearly defined process of approving the creation of new legal entities under its management and identifying and managing all material group-wide risks through adequate and effective policies and controls</p>	N/A
d)	<p>The Board and senior management of the company shall validate that the objectives, strategies, policies and governance framework set at the group level are fully consistent with the regulatory obligations of the FC and ensure that company-specific risks are adequately addressed</p>	N/A
e)	<p>The company shall avoid setting up complicated structures that lack economic substance or business purpose that can considerably increase the complexity of the operations.</p>	N/A
13.2	Responsibilities as a Subsidiary	
13.2	<p>If the company is a subsidiary of another financial institution subject to prudential regulation, the company shall discharge its own legal and governance responsibilities</p>	<p>This section of the Direction is not applicable to MI as the company is not a subsidiary any Group Company.</p>

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
14	Corporate Culture	
14.1	The company shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of company assets and fair treatment of customers.	Refer the commentary given in section D 5.1 of the CA Sri Lanka Code of Best Practice on page 127.
14.2	The company shall maintain records of breaches of code of conduct and address such breaches in a manner that upholds high standards of integrity	Refer the commentary given in section D 5.4 of the CA Sri Lanka Code of Best Practice on page 127.
14.3	The company shall establish a Whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal. The BAC shall review the policy periodically	MI's whistle-blowing procedures form part of the Human Resource Management Policy, 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 Audit 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.
15	Conflicts of Interest	
a)	Relationships between the directors shall not exercise undue influence or coercion. A director shall abstain from voting on any Board resolution in relation to a matter in which such director or any of the relatives or a concern in which such director has substantial interest, is interested, and such director shall not be counted in the quorum for the relevant agenda item in the Board meeting.	Refer the commentary given in section 7.7 on page 140 of this Direction.
b)	The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties.	MI's detailed Related party Transaction Policy specifically elaborates to address potential conflicts of interest with related parties.  Refer the commentary given in section 12.2 on page 154 of this Direction with relevant to avoid conflicts of interest that may arise from any transaction of the company with the "related parties".
16	Disclosures	
16.1	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 Sinhala, Tamil and English.	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.

# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance																
	<p>The Board shall ensure that at least following disclosures are made in the Annual Report of the company;</p> <ul style="list-style-type: none"> <li>i. Financial statements</li> <li>ii. Chairperson, CEO and Board related disclosures</li> <li>iii. Appraisal of board performance</li> <li>iv. Remuneration</li> <li>v. Related party transactions</li> <li>vi. Board appointed committees</li> <li>vii. Group Structure</li> <li>viii. Director's report</li> <li>ix. Statement on Internal Control</li> <li>x. Corporate governance report</li> <li>xi. Code of Conduct</li> <li>xii. Management Report</li> <li>xiii. Communication with Shareholders</li> </ul>	<p>i) Responsibility of the Board in preparation and presentation of financial statements</p> <p>The Statement on Director's Responsibility given on pages 206 to 207 provides an affirmation that the Annual Audited Financial Statements and respective disclosures have been prepared in line with applicable accounting standards and applicable regulatory requirements.</p> <p>ii) Chairperson, CEO and Board related disclosures</p> <p>Director information including their names and profiles are given on pages 78 to 83 while their transaction details are disclosed under the Directors' Interest in Contracts on pages 203 to 205 and in Related Party Disclosures in the Notes to the Financial Statements on pages 281 to 283.</p> <p>Attendance of Board Meetings and Sub-Committee meetings are given on pages 105 and 98, respectively.</p> <p>iii) Method of appraisal of the Board and its sub committees</p> <p>The detail procedure for conducting the performance evaluations of the MI's Board and its committees have been disclosed in the section A 9.4 (page 116) of CA Sri Lanka Code of Best Practice in this Annual Report.</p> <p>iv) Remuneration paid to Directors and Senior Management</p> <p>Refer the section B.3 on "Disclosure of Remuneration" given in CA Sri Lanka Code of Best Practice on page 119.</p> <p>Further, details of Director and Senior management remuneration in aggregate are disclosed on page 237 in Notes to the Financial Statements.</p> <p>v) Relationship between chairman and MD/CEO and the relationships among the members of the Board</p> <p>Refer the Annual report of the Board of Directors of the Company on pages 195 to 202</p> <p><b>Net accommodation granted to related parties</b></p> <p>The net accommodation granted during the financial year 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>Net Accommodation granted (Rs. 000)</th> <th>Net Accommodation Outstanding as of 31 March 2023 (Rs. 000)</th> <th>% Against Company's Capital Funds</th> </tr> </thead> <tbody> <tr> <td>Senior management including Executive Directors</td> <td>4,891</td> <td>28,543</td> <td>0.06%</td> </tr> <tr> <td>Associate company</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Other related companies</td> <td>70,416</td> <td>70,416</td> <td>0.75%</td> </tr> </tbody> </table>	Category of Related Party	Net Accommodation granted (Rs. 000)	Net Accommodation Outstanding as of 31 March 2023 (Rs. 000)	% Against Company's Capital Funds	Senior management including Executive Directors	4,891	28,543	0.06%	Associate company	-	-	-	Other related companies	70,416	70,416	0.75%
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# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance										
		<p><b>Aggregate value of transaction with senior management</b></p> <p>The aggregated value of remuneration paid and transactions carried out by the Senior Management and their close family members during financial year 2022/23 are discussed below;</p> <table border="1"> <thead> <tr> <th>Transaction type</th> <th>Amount (Rs. 000)</th> </tr> </thead> <tbody> <tr> <td>Accommodations granted</td> <td>4,918</td> </tr> <tr> <td>Deposits made</td> <td>746,151</td> </tr> <tr> <td>Remuneration paid</td> <td>374,250</td> </tr> <tr> <td>Borrowing</td> <td>340,000</td> </tr> </tbody> </table> <p>vi) Board appointed committees</p> <p>Details of the chairperson and members of the board committees and attendance at such meetings have been disclosed in pages 98 to 100 of this annual report.</p> <p>vii) Group Structure</p> <p>The Corporate Structure of the Company is stated on pages 34 to 35.</p> <p>viii) Annual report of the Board of Directors</p> <p>The report, which contains the following declarations by the Board, is provided on pages 195 to 202 of this Annual Report.</p> <ul style="list-style-type: none"> <li>➤ Declaration on not engaging in any activity, which contravenes laws and regulations</li> <li>➤ All related party transactions with the company and abstained from voting on matters in which they were materially interested.</li> <li>➤ Fair treatments to all stakeholders</li> <li>➤ The business is a going concern with supporting assumptions</li> <li>➤ Review of internal controls covering material risks to the Company and have obtained reasonable assurance</li> </ul> <p>ix) Statement on Internal Control</p> <p>A report by the Board on the MI's internal control mechanism is given on pages 209 to 210 in this Annual Report.</p> <p>The external auditor's assurance statement</p> <p>Independent Assurance Report on the Directors' Statement on Internal Control is disclosed on pages 211 to 212 in this Annual Report.</p> <p>Report on compliance with prudential requirements, regulations, laws and internal controls</p> <p>The Annual Report of the Board of Directors signed by the Directors given on pages 195 to 202 gives a collective confirmation on MI's compliance status with applicable laws and regulations.</p> <p>A statement of the regulatory and supervisory concerns on lapses</p> <p>No public disclosures were instructed by the regulator in relation to regulatory lapses or supervisory concerns.</p>	Transaction type	Amount (Rs. 000)	Accommodations granted	4,918	Deposits made	746,151	Remuneration paid	374,250	Borrowing	340,000
Transaction type	Amount (Rs. 000)											
Accommodations granted	4,918											
Deposits made	746,151											
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# Corporate Governance Report

Section Reference	Requirement of the Direction	Extent of Compliance
		<p>x) External auditor's assurance statement of the compliance with the Corporate Governance Direction.</p> <p>External Auditors Ernst &amp; 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 2022/23.</p> <p>xi) Business conduct and ethics for directors, senior management and employees</p> <p>Refer the commentary given in section D 5.1 of CA Sri Lanka Code of Best Practice on Corporate Governance given on page 127 of this Annual Report.</p> <p>Chairperson's declaration on governance</p> <p>Refer chairman's Statement on Corporate Governance on page 89 given in this Annual Report.</p> <p>xii) Management Report</p> <p>'Management Discussion and Analysis' given on pages 34 to 64 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.</p> <p>xiii) Policy and methodology for communication with shareholders</p> <p>Board approved Communication Policy is in place which covers all stakeholders including depositors, creditors, shareholders, and borrowers. The Board of Directors, officers, and employees comply with the policy in order to ensure effective communication for the best interests of all stakeholders.</p> <p>The Company Secretary engages in communication with the shareholders through the annual report, quarterly reports, and by notices issued to the shareholders.</p> <p>More details on communications with shareholders are stated Corporate Governance section of this Annual Report.</p>

# Corporate Governance Report

## MI COMPLIANCE STATUS WITH THE LISTING RULES OF SECTION 7.6 AND 7.10 OF COLOMBO STOCK EXCHANGE

### Listing Rule No. 7.6 – Contents of the Annual Report at Glance

Rule No	Disclosure Requirement	Section Reference	Status of Compliance	Page Reference
7.6 (i)	Names of persons who during the financial year were directors of the Entity	Annual Report to the Board of Directors on the Affairs of the Company	Complied	195 to 202
7.6 (ii)	Principal activities of the Entity during the year and any changes therein	Significant Accounting Policies	Complied	222
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Investor Relations	Complied	317
7.6 (iv)	The Public Holding percentage, number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement	Investor Relations	Partially complied	317
7.6 (v)	The statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of financial year	Annual Report to the Board of Directors on the Affairs of the Company	Complied	195 to 202
7.6 (vi)	Information pertaining to material foreseeable risk factor	Risk Management	Complied	164 to 182
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	Human Strength	Complied	61
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties as at end of the year.	Notes to the Financial Statements	Complied	260 to 269
7.6 (ix)	Number of shares representing the Entity's stated capital	Notes to the Financial Statement	Complied	277
		Investor Relations		316 to 317
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Investor Relations	Complied	316
7.6 (xi)	Equity ratios	Investor Relations	Complied	316 to 318
7.6 (xii)	Significant changes in the entity's fixed assets and the market value of land, if the value differs substantially from the book value	Notes to the Financial Statements	Complied	262 to 269
7.6 (xiii)	Details of funds raised through Public Issues, Rights Issues and Private Placements during the year	Investor Relations	Complied	316 to 319
7.6 (xiv)	Information in respect of Employee Share Option Plan and Employee Share Ownership Plan	Notes to the Financial Statements	Complied	200
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules	Corporate Governance Report	Complied	89 to 163
7.6 (xvi)	Disclosure on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	Investor Relations	Complied	319

# 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 2022/23 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 130 to 159</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 2023 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 declaration of independence to the Company as per the format provided in the CSE Code on corporate governance for the 2022/23 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 113 of the Corporate Governance Section A5.5 of the CA code of best practice.
	(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 2022/23.
	(c) Disclosure of a brief resume of Directors in Annual Report	Complied	Refer pages 78 to 83 for Director Profiles.
	(d) Upon appointment of a new Director to its Board, the Entity shall forthwith provide to the Colombo Stock Exchange a brief resume of such Director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above	Complied	All new appointments of Directors to the Board were duly informed to CSE.
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 at MI

# Corporate Governance Report

CSE Rule No.	Requirement	Compliance Status	Extent of adoption (FY 2022/23 update)
7.10.5	Remuneration Committee		
	A listed entity should have a Remuneration Committee.		Details of the Remuneration Committee are provided on page 185.
	(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 also an Independent Non-Executive Director.
	(b) The Remuneration Committee shall recommend the remuneration of the Managing Director of the Company	Complied	Page 118 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 185.
	➤ Statement of Remuneration Policy		Refer page 185 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 237.
7.10.6	Audit Committee		
	A listed entity should have an Audit Committee		
	(a) Composition of the Audit Committee	Complied	Particulars relating to MI's Audit Committee are provided on pages 188 to 189.
	➤ 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 2022/23, the Finance Director and CFO attended Audit Committee meetings by invitation. Calling the Managing Director was not required in 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 by profession, with years of experience in the financial and auditing fields.
	(b) Functions of the Audit Committee	Complied	Functions of the Audit Committee are disclosed on page 126 in section D.3.3 of the CA Sri Lanka Code.
	(c) Disclosures in Annual Report	Complied	
	The names of Directors of the Audit Committee		Composition of the Audit Committee is provided on page 188.
	➤ The Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination		Refer page 125 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 188 to 189 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 CBSL directions is reported by the Head of Compliance and Risk Management to the Board.

## SUBMISSION OF CENTRAL BANK OF SRI LANKA WEB RETURNS

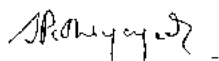
All required CBSL web returns were submitted by the Company on or before the due dates for submission. The information table is uploaded on the website of the company under the Corporate Governance section. (Refer QR code below)

## RETURNS SUBMITTED AS PER PREVAILING REGULATIONS FOR THE LFC SECTOR

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

## EXTERNAL AUDITORS' CERTIFICATION

The services of external auditors Messrs. Ernst and Young affirmed the contents stated in the Corporate Governance Report in relation to the Finance Companies (Corporate Governance) Direction No.05 of 2021. The external auditors confirmed that the disclosures given are in order, according to their report prepared on agreed upon procedures dated on 23rd June 2023.



**S. Pethiyagoda**  
Company Secretary



**Ramidu Costa**  
Head of Compliance and Risk Management



**P.D.D. Perera**  
Acting Chairman

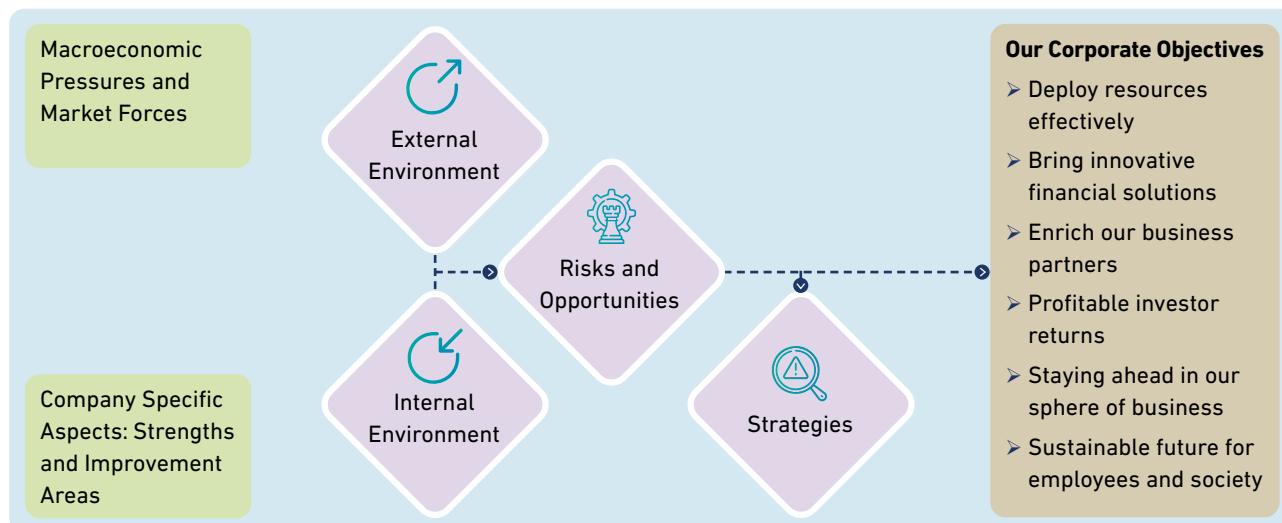
Colombo  
23rd June 2023



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

# Risk Management Report

## OUR OPERATING CONTEXT



At the beginning of the financial year under review, the economy started recovering from fragilities induced by the COVID-19 pandemic. However, escalated foreign currency and sovereign debt distresses amplified by fiscal and external sector imbalances again caused unprecedented challenges to the economy, including the licensed finance companies (LFCs) sector.

### Recorded Highlights In Our Operating Context FY 2022/23

- Actual asset quality of the sector remained deteriorated; this was further amplified by new Days Past Due (DPD) methodology introduced by the regulator.
- The sector's margins and profits declined mainly due to the drop in net interest income (NII) as a result of a significant increase in interest expenses.
- Overshooting of Treasury bill yields during period provided greater flexibility to the LFCs to offer competitively higher interest rates for deposits.
- The sector's growth of borrowings decelerated, reflecting the higher borrowing cost.
- Higher sector liquidity levels were maintained as a result of increased mobilisation of deposits triggered by high interest rates.
- LFCs diverted their funds predominantly to the gold loan portfolio as an alternative to low demand for leasing and other vehicle based financing. People showed a propensity to borrow heavily through gold loans as higher inflation affected household disposable incomes.
- The equity market recorded a dismal performance throughout the period under review, reflecting the negative market sentiments against the backdrop of adverse macroeconomic conditions.
- New tax reforms in the latter part of financial year withered the disposable income of sector customers and entities.

# Risk Management Report

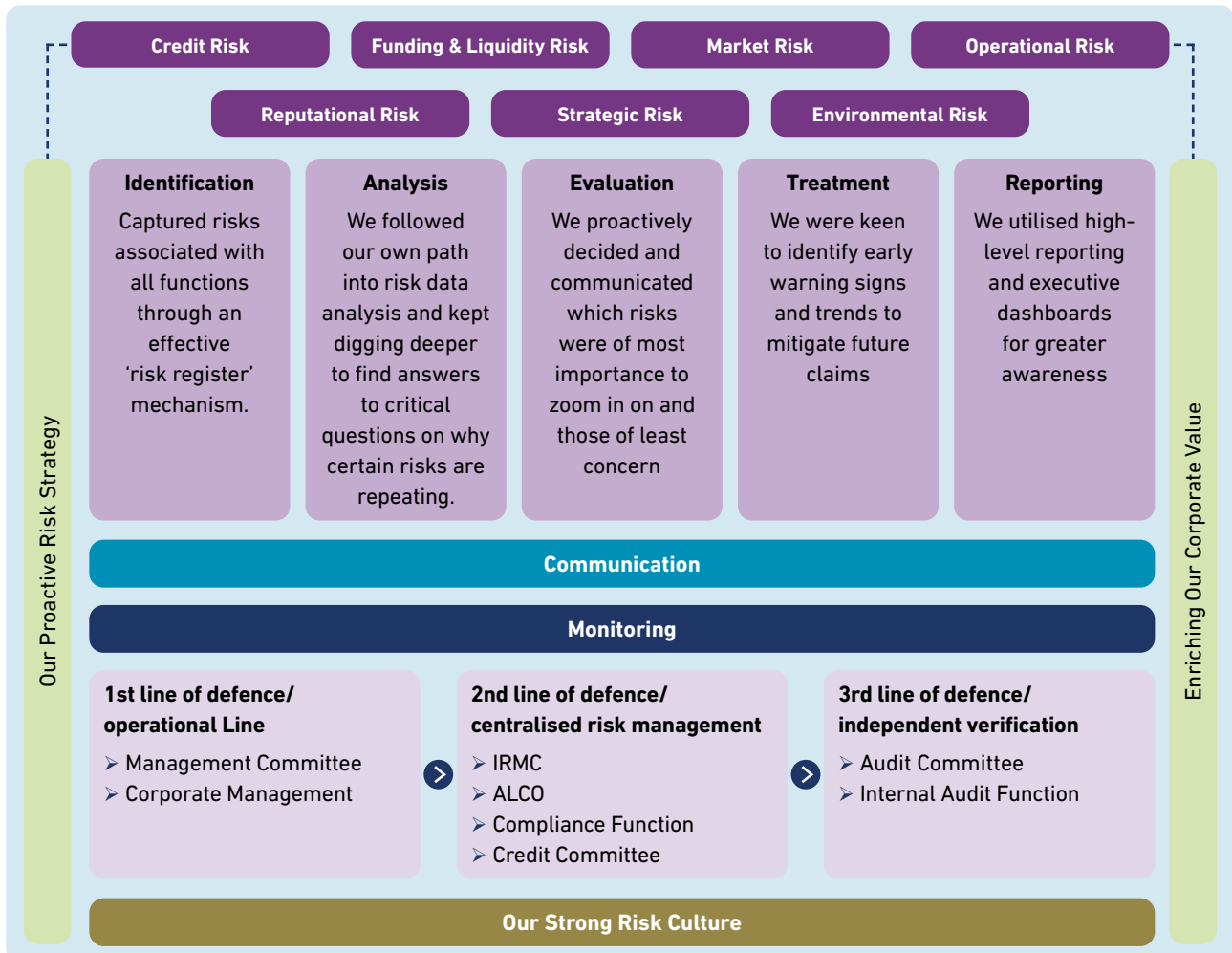
## STATEMENT ON RISK MANAGEMENT

Our unique risk mitigation techniques allowed us to navigate through yet another year of severe operating conditions, to stay resilient and geared for the future. We consolidated our own strengths as well as areas of improvement, alongside focused strategies introduced to effectively tackle key risks and constraints.

### Highlights of Risk management FY 2022/23

- The Board-approved new Governance Framework and Risk Appetite Statement were deployed during the period based on the guidance of a new corporate governance direction issued by the Central Bank of Sri Lanka (CBSL).
- The Risk Management Unit was further strengthened through new recruits.
- Risk appetite limits were regularly revisited and tightened by the Board Integrated Risk Management Committee (BIRMC) by duly considering macroeconomic challenges in the market.
- A snapshot of identified risks, assessments and strategies employed to minimise risks and monitoring mechanisms were tabled at each quarterly BIRMC meeting.
- With the guidance of BIRMC, a summarised version of the risk dashboard was presented to the monthly Board Meetings.
- New stress testing scenarios were embedded to the existing stress testing framework in view of the challenging operating environment.
- New branch openings in the North helped achieving MI's strategic priorities and minimise credit concentration risk.
- Started reporting threshold transactions through the new goAML website of the Central Bank of Sri Lanka's (CBSL) Financial Intelligence Unit (FIU).
- The Company's financial performance and liquidity levels were regularly monitored through rolling financial cash flows and budgets.

## OUR INTEGRATED RISK MANAGEMENT FRAMEWORK



# Risk Management Report

## OUR RISK STRATEGY

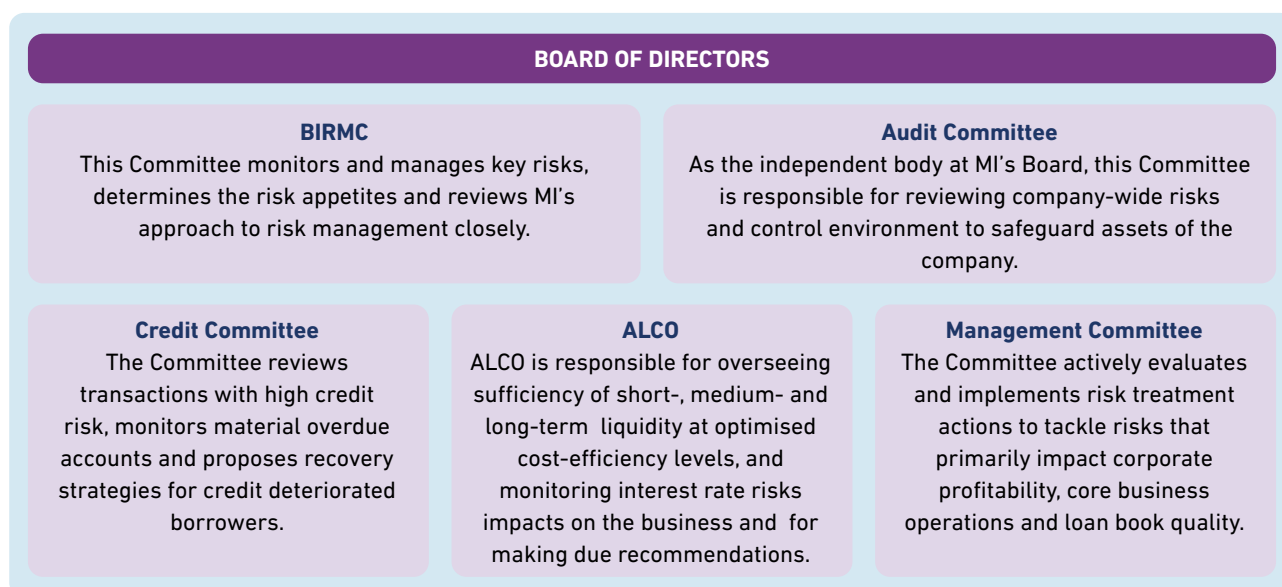
In order to aid our risk strategy, the company devoted significant resources, established a dedicated Risk Unit and formed a number of committees for effective governance. We also promoted a strong risk culture and integrated all aspects of risk management into decision-making and strategy setting. We considered the inputs and feedback of all business units when devising our proactive risk strategy. This helped us design the most appropriate risk strategy to maintain a healthy balance between risks and returns without hindering business opportunities.

## OUR STRONG RISK CULTURE

We provided for all staff members to manage risks at each level. We believe MI's risk culture is dependent on risk awareness, experience, curiosity and the ability to make sound judgments. Therefore, we enriched our risk culture with numerous training events, especially on staff health and safety, industry changes, anti-money laundering (AML), countering financial crime, corruption, etc., throughout the year under review.

## OUR APPROACH TO GOVERNING RISK

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





# Risk Management Report

## OUR RISK TAXONOMY

According to the table below, risks with likelihood of high impact (red and orange circles) were analysed for continuous management and monitoring. Similarly, if impact and likelihood of risks were at a 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				Continuous Monitoring
Market Risk	Interest Rate Risk			Continuous Monitoring
	Equity Price Risk			Accept and Manage
	Commodity Price Risk			Accept and Manage
Operational Risk	People Risk and Workplace Safety			Accept and Manage
	Business Disruptions, System Failures and Information Security Risk			Continuous Monitoring
	Legal and Compliance Risk			Accept and Manage
Strategic Risk				Continuous Monitoring
Reputational Risk				Accept and Manage
Environmental Risk				Accept and Manage

Low Moderate High Extreme Increasing Decreasing

## SALIENT FEATURES OF TACKLING OUR KEY RISKS

### CREDIT RISK



Credit risk unfolds due to failure of a customer or counterparty to honor their financial or contractual obligations to the company. It could result in the loss of the principal amount and interest with adverse implications on MI's profits due to loan book impairment provisions or write-offs arising from non-performing facilities.

### Highlights on Credit Risk Management FY 2022/23

- Continued focus on short-term smaller ticket lending product growth including gold loan product.
- Regular collections were boosted through recovery and quality assurance teams and call centre operations.
- New branch openings aided diversification of the geographical concentration of credit portfolio.
- Legal and recovery team's collective efforts helped reverse several large ticket non-performing facilities.

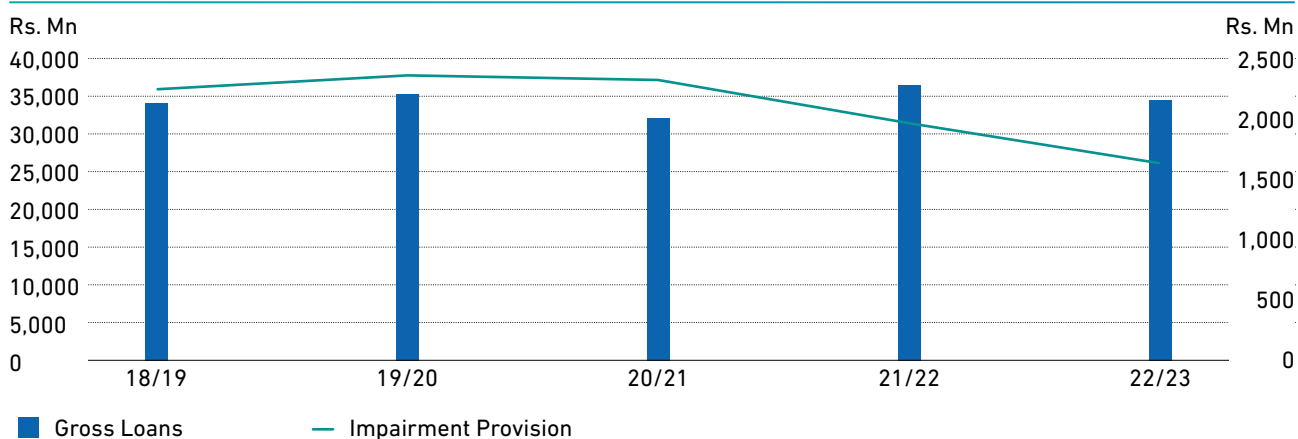
# Risk Management Report

## STATEMENT ON CREDIT RISK APPETITES

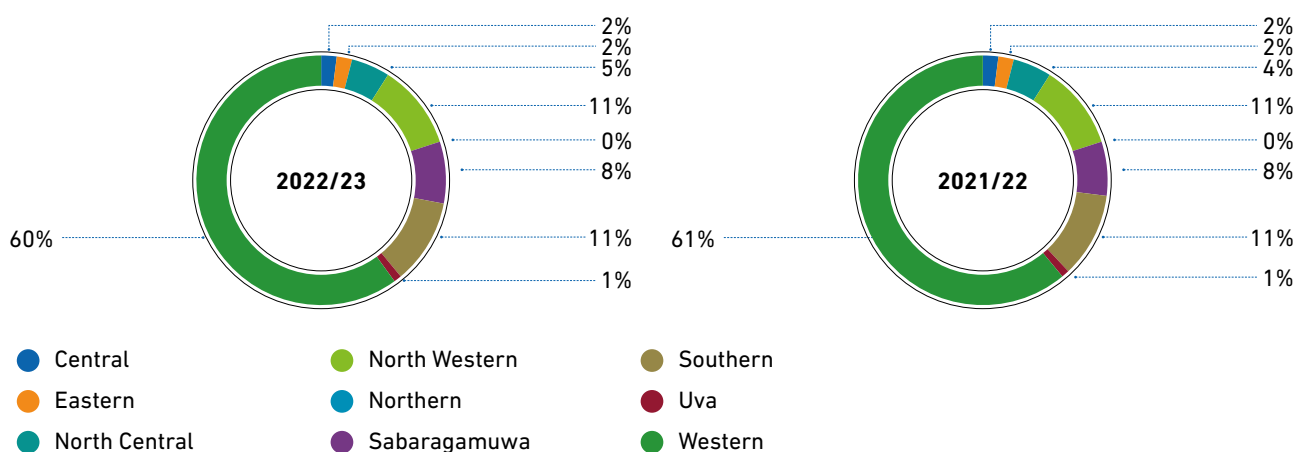
Key Risk Indicators	Approved Appetites/ Tolerance	Regulatory Limit	Actual Figure FY 2022/23	Actual Figure FY 2021/22
Gross Non-Performing Advances Ratio (120-day)	<15%	NA	10.74%	8.91%
Cumulative Collection Ratio	>80%	NA	74%	73%
Single Borrower Limit	< 15% of Capital Funds	< 15% of Capital Funds	9.40%	9.35%
Credit Exposure to Western Province	< 60% of Total Portfolio		60%	61%

## TRENDS OF OUR KEY CREDIT RISK METRICS

### Gross Loans and Impairment Provision

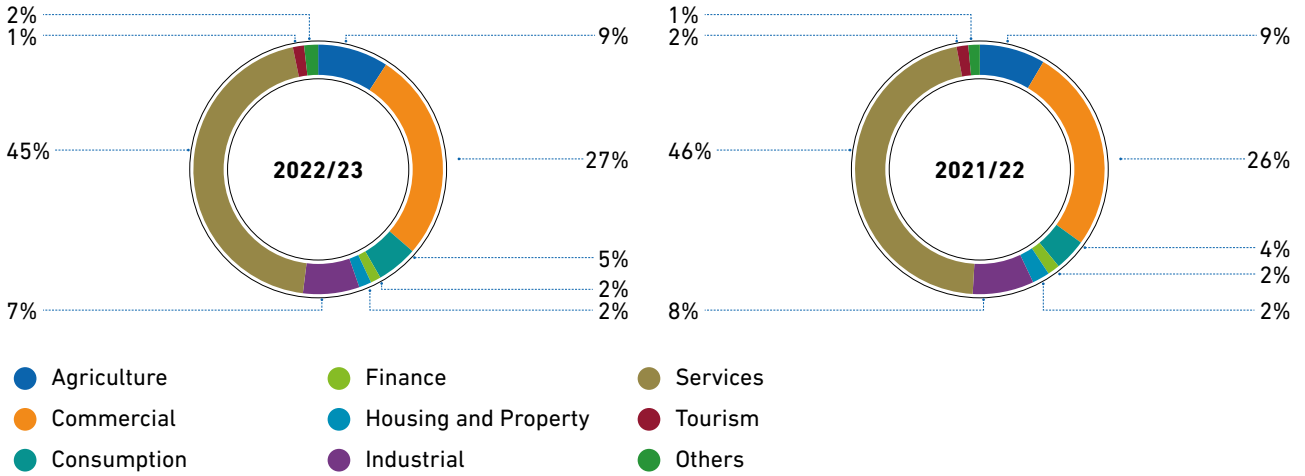


### Geographical Concentration of Lending

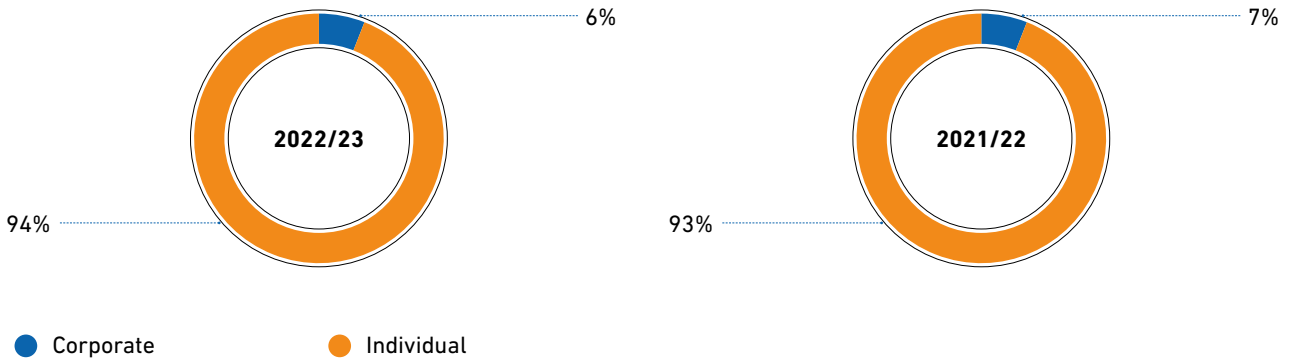


# Risk Management Report

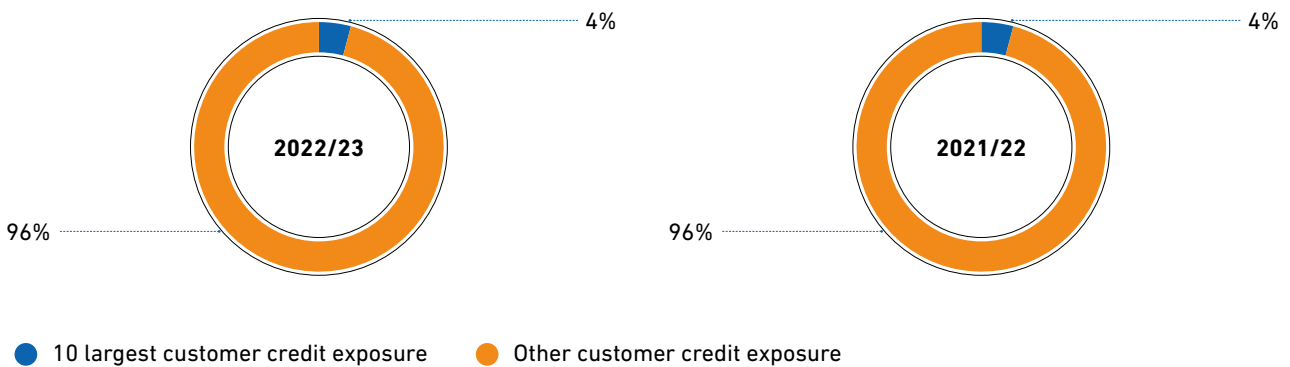
## Concentration of Credit – Sector Wise



## Credit Exposure by Counterparty





## Exposure of 10 Largest Customers




# Risk Management Report

## HOW WE TACKLED CREDIT RISK

Risk	Risk Description	Risk Severity	Situational Analysis FY 2022/23	Our Strategies
Default Risk	Risk of failure of certain customers to settle their debt obligations.	 High	<p>Due to the inherent nature of the LFC's business model, the sector is exposed to a higher default risk compared to the banking sector.</p> <p>On the other hand, migration to a new classification of non performing facilities on SLFRS basis, on-going economic contraction and expiration of debt moratoria have collectively accelerated the sector's non-performing ratios to record 15.98% (120 day basis).</p> <p>However, MI was able to manage the same ratio at 10.74% level by taking more prudent approach towards default risk management.</p> <p><b>What We Can Expect Going Forward:</b> We expect the gold loan product to pose an additional default risk to the sector as world market gold prices are highly volatile.</p> <p>MI's modest gold loan book of just above Rs.1 Billion and proactive LTVs pose minimal risk despite the price drops.</p>	<ul style="list-style-type: none"> <li>➤ Stringent recovery measures initiated by the recovery and legal team helped reverse several long outstanding facilities.</li> <li>➤ A prudent approach was deployed when maintaining LTV ratio of the gold loan portfolio.</li> <li>➤ A fully-fledged call centre and quality assurance team was geared with digital and physical facilities for arrears with bucket-specific recovery measures.</li> <li>➤ BIRMC assessed credit portfolio performance against approved policy limits to maintain credit risk indicators within tolerable limits.</li> <li>➤ Continuous revision and review of credit evaluation criteria based on evolving external market environment variables.</li> </ul>
Credit Concentration Risk	Risk of unbalanced distribution of MI's advances among business sectors, geographical regions and counterparties.	 Moderate	<p>During the year under review, concentration towards core products (leasing and hire purchases) of the LFC sector declined amidst prolonged restrictions on vehicle imports and low household purchasing power.</p> <p>In contrast, the LFC sector's gold loan exposure surged, recording 57% YoY growth as at 31st March 2023. (Total gold loan composition remained at 18% out of the sector's gross total loan portfolio).</p> <p>Even though MI showed 512% YoY growth of the gold loan portfolio as at year-end, the total gold loan composition remained at 3.65% of MI's total loan portfolio. (0.56% as at last year-end).</p> <p>On the other hand, New branch opening in the Northern Province allowed MI to diversify the geographical concentration of credit outside the Western Province.</p> <p><b>What We Can Expect Going Forward:</b> With the pricing drop of core product lending and possible relaxation of vehicle import restrictions alongside with IMF support, we expect the core product demand to mount again.</p>	<ul style="list-style-type: none"> <li>➤ Considering the country's vehicle import restrictions, we focused on the registered vehicle segment coupled with gold loans.</li> <li>➤ MI was cautious and applied strict guidelines when granting credit to high-risk sectors and placed faith in the company's core competencies.</li> <li>➤ Product caps, sectorial caps and regulator limits were effectively monitored and reviewed by the credit risk team and respective management committees.</li> </ul>

# Risk Management Report

Risk	Risk Description	Risk Severity	Situational Analysis FY 2022/23	Our Strategies
Recovery Risk	Risk of MI's loan advances requiring a longer period to recover.	 High	<p>All-time high inflation, additional tax burden on disposable income, high borrowing costs and supply side shortages of essentials, the post-Covid pandemic and escalating energy costs have collectively impaired the credit worthiness of the country's people and corporates.</p> <p>On the other hand, capital losses from repossessions are inevitable, with the gradual drop in vehicle market prices due to low demand and inflated spare part prices.</p> <p>Amidst the above challenges, MI satisfactorily managed the collections ratio at 74% level. (Last financial year's collections ratio was 73 %).</p> <p><b>What We Can Expect Going Forward:</b> With the IMF's Extended Fund Facility (EFF), we expect the forex crisis to ease gradually; and also an acceleration of and improvement of credit worthiness of people and business organisations.</p>	<ul style="list-style-type: none"> <li>➤ Broadened collection channels, enhancing customer convenience, in addition to conventional methods of cash collection.</li> <li>➤ Continuously monitored NPL percentage, provision coverage, NPL portfolio and focused on arrears recovery, targeting the 90-day bucket to keep impairment charges minimal.</li> <li>➤ Negotiations and legal strategy to fast track long overdue arrears.</li> <li>➤ Continuous dialogue maintained with customers to provide best solutions regarding repayment and settlement-related concerns.</li> </ul>

## STRESS TESTING ON CREDIT RISK

### Stress Testing on Overall Asset Downgrade

#### Stress Scenario:

Increasing the Gross Non-performing facilities (NPL) over the performing facilities for the entire credit portfolio.

Scenario	Magnitude of Shock %	Stressed NPA (120 day) (%)
1	5	11.28
2	10	11.81
3	15	12.35

#### Commentary:

Under the given stress cases MI's NPL level remain below the industry average. However, considering the prevailing economic turbulence, continuous monitoring of asset quality is recommended.

# Risk Management Report

## 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	17.84
2	10	17.66
3	15	17.48

### Commentary:

Under the given stress case even, MI's Total Risk Weighted Capital Adequacy ratio is well above the prudential capital adequacy requirement of 12.5%.

## FUNDING AND LIQUIDITY RISK



Funding and liquidity risk is the risk arising from a potential inability to meet financial liabilities on time, as and when they become due, mainly owing to mismatches between the maturities of the company's assets and liabilities.

### Highlights on Funding and Liquidity Risk Management FY 2022/23

- Liquidity buffers were maintained well above the minimum requirement in light of the volatile high interest rate market.
- Maturity mismatch between assets and liabilities were maintained within Board-approved tolerance limits.
- Well-maintained contingency funding lines as a solid buffer to fund core business lines whilst possessing enough liquidity to withstand volatile market liquidity conditions.
- Active branch mobilizing enabled growing of retail deposits customer base.
- Different liquidity base stress testing scenarios were developed and presented at ALCO and BIRMC meetings to forecast and plan future funding.

## STATEMENT ON FUNDING & LIQUIDITY RISK APPETITES

Key Risk Indicators	Approved Appetites/ Tolerance	Regulatory Limit	Actual Figure FY 2022/23	Actual Figure FY 2021/22
Statutory Liquid Assets Ratio (%)	>15% of Deposit Liabilities	10% of Deposit Liabilities	18.82%	13.57%
Deposits Renewal Ratio (%)	>65%	NA	77%	84%
Maximum single Depositor Exposure (%)	<10%	NA	3%	4%
Net Advances to Deposit (%)	<140%	NA	105%	132%
Cumulative 1 year Maturity Mismatch (Rs. Mn)	<5,000 Mn	NA	-2,046 Mn	-6,890 Mn

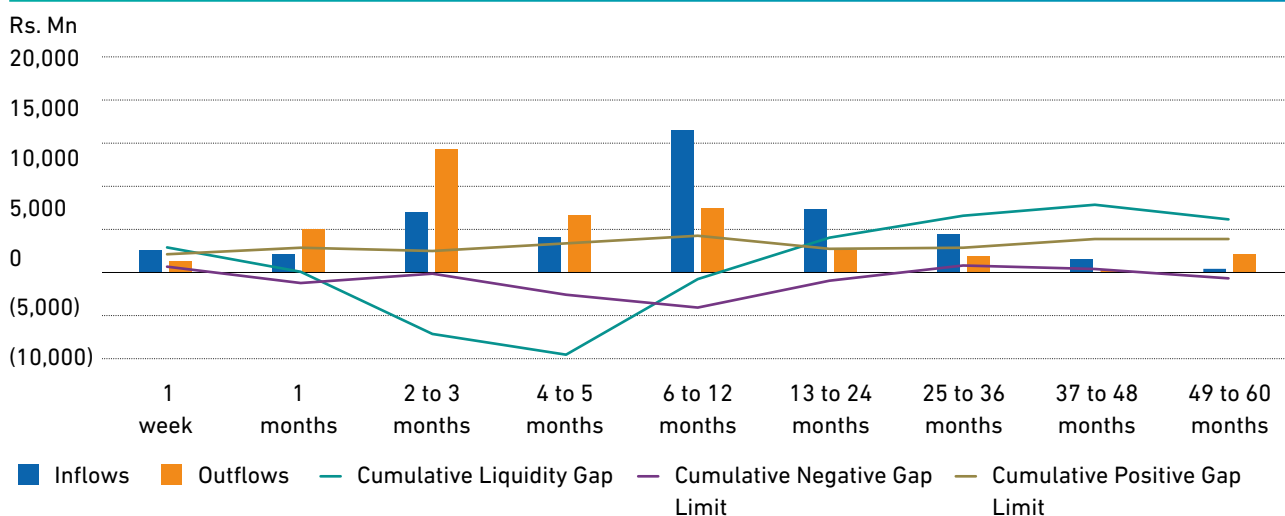


Additional disclosures about Credit Risk Management is made available on our website.

# Risk Management Report

## TREND OF FUNDING & LIQUIDITY RISK METRICS

### Liquidity Gap Analysis



## HOW WE TACKLED FUNDING & LIQUIDITY RISK

Risk	Risk Severity	Situational Analysis FY 2022/23	Our Strategies
Funding and Liquidity Risk	Moderate	<p>During the financial year under review, the financial services sector strived to maintain sufficient liquidity buffers well above the minimum requirement, to be able to withstand any market shocks arising from economic downsizing and negative investor sentiments.</p> <p>In keeping to the sector’s momentum, MI also maintained adequate liquid assets throughout the year and the statutory liquidity ratio stood at 18.82% as of financial year-end (last financial year-end 13.57%).</p> <p>Amidst a skyrocketing borrowing cost, MI’s Treasury was prudent to negotiate optimal funding, enabling the company to maintain liquidity buffers while keeping asset and liability mismatches intact within the Board-approved tolerance levels throughout the year. Additionally, timely injections through the gold loan portfolio helped moderate the asset-liability mismatches in the later part of the year.</p> <p><b>What We Can Expect Going Forward:</b></p> <p>It is prudent to envisage that the sector’s excess liquidity buffers will deplete gradually with the acceleration in credit disbursement amidst melting investment capacity of depositors owing to high tax rate application from 2023.</p>	<ul style="list-style-type: none"> <li>➤ Liquidity stress testing was carried out by deploying different worst-case scenarios to identify and assess possible liquidity shocks at MI.</li> <li>➤ Continuous cash flow predictions were carried out to ensure that all the short-term obligations were met.</li> <li>➤ New branch opening in the North enabled penetration into untapped client retail base.</li> <li>➤ Continuous improvement in cash flow predictions, forecasts and development of contingency funding mechanism.</li> <li>➤ All liquidity ratios were strictly monitored to ensure they remained within Board-approved appetite limits.</li> </ul>

# Risk Management Report

## 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	18.24
2	10	17.28
3	15	16.32

**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 for the company lending products, deposit products, investment in Government bills and bonds and institutional borrowings. Further, against the backdrop of numerous economic shocks and volatility, our equity investment portfolio and growing gold loan base are also exposed to changes in prices.

### Highlights on Market Risk Management FY 2022/23

- Despite the high interest market regime and continued repricing towards high cost funding, the Treasury Unit took steps to lower the cost of funding through active negotiations.
- Optimum and prudent pricing decisions aided to protect our revenue and margins.
- Gold loan exposure was managed prudently within the Board-approved risk appetite limits.
- Improved internal forecasts and stress testing analyses facilitated to ALCO and respective senior management to make prudent decisions.
- Well-managed maturity mismatches between rate-sensitive assets and liabilities helped to absorb increased repricing risk on margins.

## STATEMENT ON MARKET RISK APPETITES

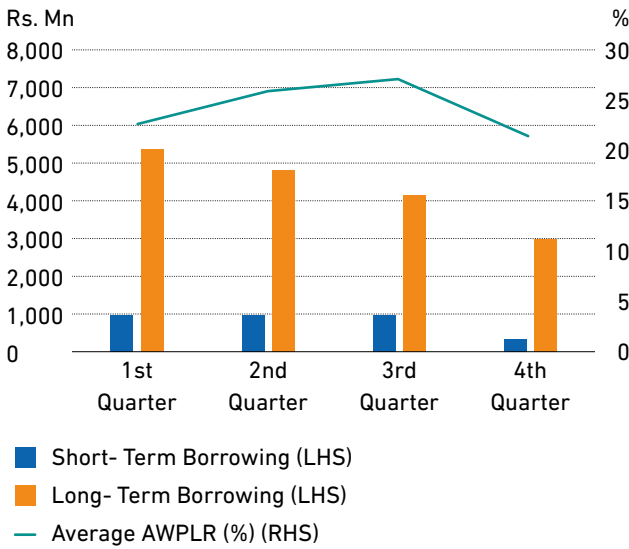
Key Risk Indicators	Approved Appetites/ Tolerance	Regulatory Limit	Actual Figure FY 2022/23	Actual Figure FY 2021/22
Net Interest Margin (NIM)	>8%	NA	6.46%	10.86%



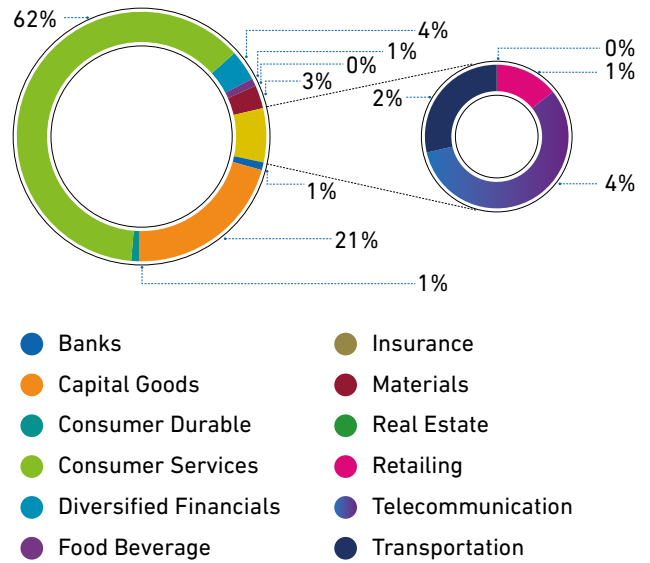
# Risk Management Report

## TREND OF MARKET RISK METRICS

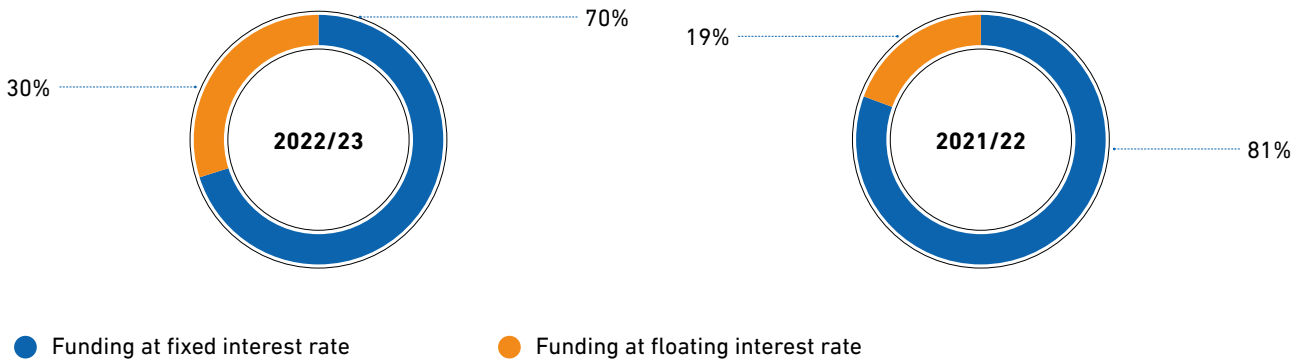
Short, long term borrowing and AWPLR



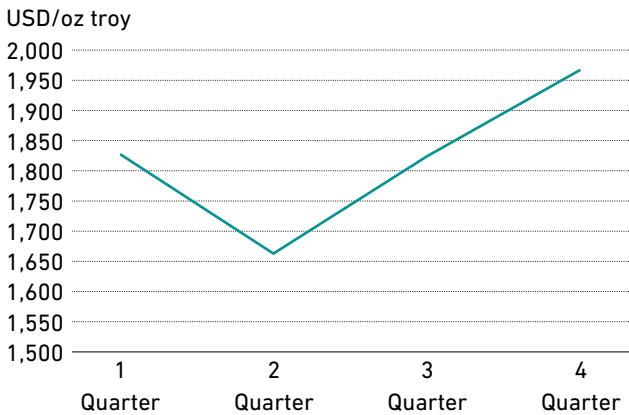
## MI's Equity Portfolio



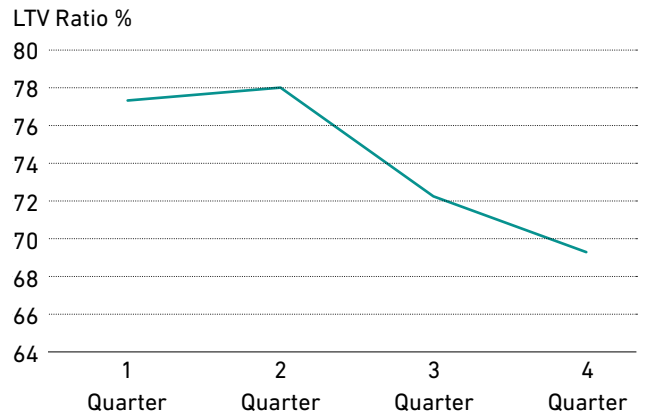
## Floating and Fixed Interest Rate Funding



## International Gold Price Movement





## Average Loan to Value Ratio of Gold Loans-New Disbursements




# Risk Management Report

## HOW WE TACKLED MARKET RISK

Risk	Risk Description	Risk Severity	Situational Analysis FY 2022/23	Our Strategies
Interest Rate Risk	Risk of facing reduced earnings or declined value of assets resulting from volatility in interest rates that impact rate-sensitive financial assets and liabilities.	 High	<p>NBFIs remained exposed to a higher interest rate risk compared to the banking sector due to the inherent nature of their rate-sensitive asset and liability mix. The prevailing high interest rate environment in the country resulted in recording a steep hike in funding cost of the sector on repricing effect, whilst demand on core product lending was contracting.</p> <p>In keeping with the above trend, MI's core margins contracted notably during the financial year under review. However, prudent decisions on boosting high-yield lending products and keeping high cost deposits short-term helped keeping future margin erosion minimised and repricing impact short-term.</p> <p><b>What We Can expect going forward:</b> With the gradual relaxation of tightened monetary policy, we expect a considerable drop in prevailing market interest rates.</p>	<ul style="list-style-type: none"> <li>➤ The Treasury Committee met regularly and remained highly receptive to market rate movements to decide deposit pricing, keep costs minimal and yet retain attractiveness of pricing.</li> <li>➤ Outcomes of various stressed scenarios were presented to ALCO and IRMC on monthly and quarterly basis, highlighting the impact on margins and profitability.</li> <li>➤ The Treasury continuously focused on lowering the cost of funding through active negotiations.</li> <li>➤ Prudent and continuous reviews and predictions ensured that gold loan exposures were managed at optimum levels, with the risk appetite under sufficient LTV.</li> <li>➤ Optimum pricing decisions were promptly taken at monthly ALCO meetings.</li> </ul>
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>Throughout the financial year under review, the equity market showed a downward trajectory in light of ongoing economic contraction, mounted inflation, high policy rate environment, lower foreign investor participation and slowdown in net profit growth in the corporate sector, further exacerbated by the new tax regime.</p> <p>However, MI was able to secure more than Rs. 2 Billion equity investment portfolio as at financial year-end through prudent investment decisions.</p> <p><b>What We Can expect going forward:</b> With the anticipated relaxation in tightened monetary policy, we expect investors to regain lost confidence in the equity market.</p>	<ul style="list-style-type: none"> <li>➤ Excess funds were invested in approved investment products maximising the returns on investments while adhering to instructions provided in the investment policy to keep risks minimal.</li> <li>➤ Counterparty exposures and sector-wise exposures were analysed to mitigate risk.</li> <li>➤ Share price movements of the investment portfolio were closely observed by the Treasury management team in line with future projections.</li> </ul>

# Risk Management Report

Risk	Risk Description	Risk Severity	Situational Analysis FY 2022/23	Our Strategies
Commodity Price Risk	The risk of financial losses due to the movements in commodity prices. MI's commodity price risk arises mainly due to the gold-backed loans.	 Moderate	<p>During the financial year under review, there was a significant tendency towards diverting NBFI sector funds to the gold loans portfolio as an alternative to low demand for core lending products and the people's propensity to borrow materially through pawning of gold articles, as higher inflation affected disposable household income.</p> <p>Even though sector peers continued to concentrate heavily on the gold loan product, we were prudent in expanding this product by considering the high volatility of world market gold prices. However, we were able to surpass the Rs. 1 Billion mark by 31st March 2023.</p> <p><b>What We Can expect going forward:</b></p> <p>We anticipate international gold prices to be on a declining trajectory amidst the prevailing global market trend towards an appreciating US dollar.</p>	<ul style="list-style-type: none"> <li>➤ While adopting a healthy LTV, keep monitoring the LTV even for minor fluctuation of gold prices since the commencement of gold loan operations.</li> <li>➤ Geographical concentration risk of gold loans was mitigated with new branch openings.</li> <li>➤ Short-tenure gold loan tickets were encouraged to minimise capital losses.</li> </ul>

## 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	17.83
2	10	17.64
3	15	17.45

#### Commentary:

Under the given stress cases, MI's Total Risk Weighted Capital Adequacy ratio is well above the prudential capital adequacy requirement of 12.5%.

# Risk Management Report

## 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. These losses could be monetary or non-monetary and may affect every aspect of business.

### Highlights on Operational Risk Management FY 2022/23

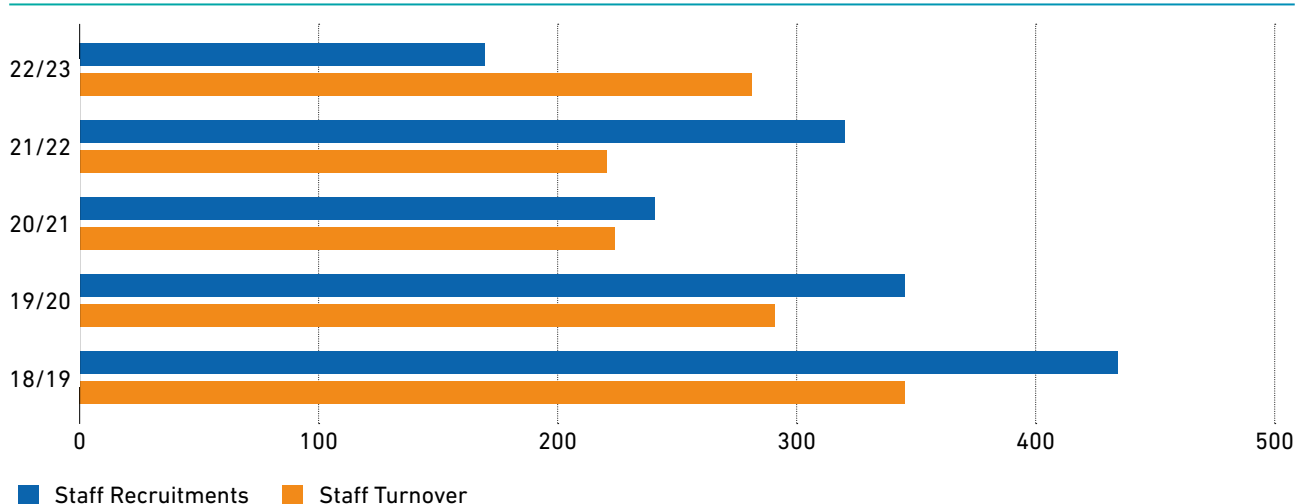
- New Board-approved format on Business Continuity Plan (BCP) was implemented.
- Company's policies on operational risk management and AML were reviewed and updated.
- MI's stance on standardising its cyber security practices was further reinforced by commencing to the new Finance Business Act Direction No. 01 of 2022 on Technology Risk Management and Resilience.
- Introduction of a new compliance risk dashboard sanctioned by BIRMC.

### STATEMENT ON OPERATIONAL RISK APPETITES

Key Risk Indicators	Approved Appetites/ Tolerance	Regulatory Limit	Actual Figure FY 2022/23	Actual Figure FY 2021/22
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




# Risk Management Report

## HOW WE TACKLED OPERATIONAL RISK

Risk	Risk Description	Risk Severity	Situational Analysis FY 2022/23	Our Strategies
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>Currently, all business sectors in the country are seeing a severe fall in employment with an exodus of skilled migration, adding pressure to the prevailing economic downturn following the worst currency crisis in history. This tendency is specifically driven by low per capita income, unemployment, high inflation, and indebtedness, lack of access to resources, instability and lack of trust in the system.</p> <p>However, our trusted reputation of over five decades coupled with the professionalism-oriented work culture have collectively protected MI's key workforce including, key management personnel (KMP).</p> <p><b>What We Can expect going forward:</b></p> <p>With the ongoing economic reforms, we expect the prevailing migration rate to slow down in the near future.</p>	<ul style="list-style-type: none"> <li>➤ Strategic approach to maintaining the talent pool with right motivation and skills levels.</li> <li>➤ Extensive staff trainings were targeted to improve career development</li> <li>➤ MI has implemented a detailed performance assessment of all employees and introduced mentoring to minimise the effects of the challenging environment.</li> <li>➤ A whistle-blowing policy along with strict disciplinary actions was in place to ensure good conduct.</li> </ul>
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, telecommunications problems and utility outages.	 High	<p>The financial services sector is inherently exposed to a higher information security risk due to its unique business model. The Central Bank (CBSL) was, therefore, actively involved in regulating the security risk. As a recent modification, the regulator initiated adopting of the Finance Business Act Direction no. 1 of 2022 on Technology Risk Management and Resilience.</p> <p>In keeping to the above directive, MI is on a clear road map for standardising its cyber security practices.</p> <p><b>What We Can expect going forward:</b></p> <p>We expect to achieve operational excellence with a new system which aligns with the new Technology Risk Management and Resilience direction.</p>	<ul style="list-style-type: none"> <li>➤ All employees were educated regarding information security through the Intranet.</li> <li>➤ Information technology-based BCP was reviewed and updated.</li> <li>➤ System downtimes and error reports were continuously monitored based on BCP appetites.</li> <li>➤ Detailed gap analysis was conducted on the new Directive no. 1 of 2022 on Technology Risk Management and Resilience and a road map deployed towards its timely compliance.</li> </ul>

# Risk Management Report

Risk	Risk Description	Risk Severity	Situational Analysis FY 2022/23	Our Strategies
Legal and Compliance Risk	Risk of possible losses in terms of penalties, fines, claims or outside parties filing lawsuits against the company.	 Moderate	<p>The severely challenging operating context and the inherent vulnerabilities have encouraged the regulator to impose more stringent rules, guidelines, directives, regulations and practices on the NBF1 sector.</p> <p>During the financial year under review, several key directives came into effect including Direction No. 1 of 2020 (Classification and Measurement of Credit Facilities), Direction No. 5 of 2021 (Corporate Governance) and Direction No. 1 of 2022 (Technology Risk Management and Resilience). Additionally, a web-based threshold reporting mechanism was also introduced by the CBSL's FIU called the goAML system.</p> <p><b>What We Can expect going forward:</b></p> <p>Amidst the vulnerable operating context, we expect the regulator to further strengthen industry rules and regulations, especially relating to corporate governance, capital management and money laundering eradication.</p>	<ul style="list-style-type: none"> <li>➤ The Compliance Unit presented monthly compliance status reports, dashboards and gap analyses to the Board and made recommendations.</li> <li>➤ Awareness sessions and trainings were conducted, especially relating to AML and combating financing of terrorism (CFT).</li> <li>➤ Required IT infrastructure was provided for AML and periodic reporting.</li> <li>➤ Periodic internal audit reviews covered the aspect of branch level compliance to guidelines and regulations.</li> <li>➤ Enhanced efforts to capture suspicious transactions (STRs) according to red flag warning signs and guidelines set by the CBSL's FIU and the internal AML/ CFT policy manual.</li> </ul>

## 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.

## Highlights on Strategic Risk Management FY 2022/23

- New qualitative and quantitative metrics were embedded when comparing quarterly competitor performances.
- Product pricing decisions were duly monitored through regular ALCO and Treasury Committee meetings.
- Various projects on new system implementations were initiated for competitive advantage.
- Summaries of key risks and mitigation mechanisms were tabled at monthly Board meetings as a dashboard.
- The Board reviewed the revised strategic plan for next three years.
- Comprehensive feasibility studies were carried out before setting up the new branches in strategic locations for next three years.

# Risk Management Report

## HOW WE TACKLED STRATEGIC RISK

Risk	Risk Severity/Tolerance	Situational Analysis FY 2022/23	Our Strategies
Strategic Risk	 High	<p>Extended restrictions on vehicle imports, mounting cost of funding and decreased demand for credit remained challenging towards implementing MI's strategic priorities.</p> <p>However, prudent approach on boosting gold loan portfolio enabled some injections into total loan book growth whilst buffering bottom line depletion.</p> <p><b>What We Can expect going forward:</b></p> <p>We expect import restrictions and tightened monetary policy to gradually be relaxed in the latter half of 2023, alongside an improved foreign reserve position.</p>	<ul style="list-style-type: none"> <li>➤ Enhanced stress testing scenarios were conducted by targeting capital, earnings and liquidity buffers.</li> <li>➤ Monthly variance analyses were conducted at management meetings on a regular basis to achieve cost efficiencies.</li> <li>➤ Various system implementations were initiated to bolster technological advancement.</li> <li>➤ Aligned business strategy with sound risk management principles and parameters to remain within the tolerance level of risk.</li> </ul>

### 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.

### Highlights on Reputational Risk Management FY 2022/23

- Customer protection framework directions/regulations continued to be followed and further informed based on regulator guidance.
- Sustainability Committee initiatives bolstered MI's social standing.
- Training was organised to educate the staff on maintaining workplace professionalism, organisation culture and ethics.
- Customer care hotlines were monitored to provide value added service to clients.
- Customer complaints were proactively handled with due care by experienced officers.

# Risk Management Report

## HOW WE TACKLED REPUTATIONAL RISK

Risk	Risk Severity/Tolerance	Situational Analysis FY 2022/23	Our Strategies
Reputational Risk	 Moderate	<p>At the beginning of the financial year under review, considering the severe economic challenges in the country, Fitch Ratings placed National Long-Term Ratings of 13 Sri Lankan Non-bank Financial Institutions on Rating Watch Negative including MI.</p> <p>The sector sentiments continued to be hampered, led by the macroeconomic downturn and hike in repricing risk. However, deposit mobilisation remained positive on account of high alternative returns offered above 20% throughout this period.</p> <p><b>What We Can expect going forward:</b></p> <p>As a reputed financial establishment, all possible proactive measures will be taken by the MI Board to safeguard stakeholder interests and meet corporate obligations, despite short-term headwinds.</p>	<ul style="list-style-type: none"> <li>➤ Deployed strong checks and balances with timely audit and review.</li> <li>➤ Annual enhancement of procedures on all functions.</li> <li>➤ All newly recruited front office staff were trained and educated on professionalism in customer handling.</li> <li>➤ Enhanced whistle-blowing policies to eliminate misconduct with the organisation.</li> <li>➤ Efficiency was increased, enhancing customer satisfaction with the aid of technology.</li> <li>➤ Customer complaints were handled carefully and remedial actions implemented to avoid future complaints.</li> </ul>

## 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.

### Highlights on Environmental Risk Management FY 2022/23

- The new initiative of concept branch helped reduce utility consumption.
- Initiatives are underway to operate some part of company premises with natural energy.
- Technology driven working environment was further enhanced which lead to reduce paper consumption

## HOW WE TACKLED ENVIRONMENTAL RISK

Risk	Risk Severity/Tolerance	Situational Analysis FY 2022/23	Our Strategies
Environmental Risk	 Moderate	<p>Increasing pattern of environmental risk continued to extend during the year, resulting in rapid climate changes, carbon emission, high energy consumption, rising sea levels, etc.</p>	<ul style="list-style-type: none"> <li>➤ Staff members were encouraged to reduce plastic usage.</li> <li>➤ Our Sustainability Governance Strategy strived in transforming from a high carbon intensive mechanism to a low carbon intensive mechanism in the longer horizon.</li> </ul>



# Board Integrated Risk Management Committee Report

## THE COMPOSITION OF THE 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 (Non-Board Director)
Mr. Deva Anthony	Member	Chief Financial Officer (Non-Board Director)
Mr. Thusitha Indunil Jayawardana	Member	Assistant General Manager-Credit Risk
Mr. Ramidu Costa	Member/Secretary	Head of Compliance and Risk Management

## THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)

The committee was established and operated in accordance with the sections 10.3 of the Finance Companies (Corporate Governance) Direction No. 5 of 2021 and respective transitional provisions issued by the Monetary Board under the Finance Business Act No. 42 of 2011.

### COMMITTEE MEETINGS

The Committee held four meetings for the financial year under review in order to achieve its key objectives and carry out its responsibilities. Details of Committee membership and meeting attendance information are disclosed on Page 98 of this integrated annual report.

### DUTIES AND RESPONSIBILITIES

According to the Board approved 'Terms of Reference' (TOR) of the committee, following remains the key responsibilities of the BIRMC.

- a. Assessing key risks associated with business including but not limited to 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.
- b. Determine appropriate risk appetite limits in addition to limits imposed stemming from regulations.
- c. 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 the risk company wide.
  - Promoting ethical conduct and integrity among the staff by setting forth appropriate standards and expectations.
- d. 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 robustness and effectiveness of the risk management mechanisms in place and the exercising oversight over the overall risk management process.
- e. 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.
- f. Approve parameters and limits set by the Management against various categories of risk upon ascertaining that they are in accordance with the laws and regulations.
- g. Identify and monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises.
- h. Assess performance against the defined risk appetite and risk goals set for the Company periodically and review MI's approach to Risk Management in order to introduce changes to bridge any gaps arising as a result of evolving business landscape.

## Board Integrated Risk Management Committee Report

### Key BIRMC Actions initiated during financial year 2022/23

The Committee considered wide range of risks faced by the Company amidst the prevailing economic turbulence and initiated proactive and vigilant measures by fulfilling its duties and responsibilities towards effectively managing risks of the company on behalf of the Board.

- The committee performed critical assessment of company's foundational risk capabilities and determined the adequacy of enterprise-wide risk governance processes. Key control framework of credit and liquidity risk, including appetite limits and tolerance thresholds were tightened and combined with more frequent monitoring and reporting to the Board.
- Reviewed the existing Risk Management Policy, enhancing risk controls arising from the operational and regulatory environmental changes and recommended for approval of the Board.
- Stress testing framework was further strengthened by considering prevailing macro-economic challenges in the country.
- With the due recommendation of BIRMC, a summarised version of Risk Dashboard was presented to the monthly Board Meetings.
- Adequacy of Company's liquidity buffers were regularly monitored through frequent cash flow forecasts and budgets
- Continuous monitoring of implementing new rules and regulations issued by the regulatory authorities
- Reviewed quarterly Anti Money Laundering (AML) and Countering of Financing of Terrorism (CFT) reports tabled by the Compliance Officer
- Potential risks arising from recent changes in the business environment including a rising interest rate regime and related repricing implications were discussed with a view to identify the impact of such events on the achievement of the Company's objectives and to initiate remedial action in a proactive manner.

During the FY 2022/23, the Committee continued to review 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, environmental and sustainability risks. The key actions performed by those Committees and positive outcomes derived are summarised below;

Key actions performed	Resulted outcomes
<b>Assets and Liabilities Management Committee (ALCO)</b> <ul style="list-style-type: none"> <li>➤ With the frequent fluctuations prevailing in the market interest rates, ALCO monitored interest rate trends and advised the Treasury division on mitigating repricing risk.</li> <li>➤ Provided information to the Board through BIRMC on material risks related to liquidity levels and liquidity planning based on forecast and best practices.</li> <li>➤ Reviewed and made recommendation to BIRMC on required amendments of liquidity risk management policy.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Better monitoring of interest cost resulted in better margins</li> <li>➤ Enhanced treasury management function with stronger risk controls helped to sustain sound liquidity levels during challenging times</li> </ul>
<b>IT Steering Committee</b> <ul style="list-style-type: none"> <li>➤ Made recommendations to the Board through BIRMC on company's IT strategy and IT Business Continuity Planning.</li> <li>➤ Updated the Board regarding the project implementation status on migration to the fully-fledged external IT system</li> <li>➤ Duly reviewed MI's adoption to the road map of standardizing its cyber security practices by aligning with the new Finance Business Act Direction No. 01 of 2022 on Technology Risk Management and Resilience.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Ensured MI's core functions were operated uninterrupted at optimal capacity.</li> </ul>
<b>Management committee</b> <ul style="list-style-type: none"> <li>➤ Strategic and operational decisions were taken based on Company's performance and evolving industry and process changes.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Aided smooth flow of operations by overseeing the risks attached to operations and the workforce.</li> <li>➤ Monitored core business progress amidst evolving risks</li> </ul>
<b>Sustainability Governance Committee</b> <ul style="list-style-type: none"> <li>➤ Duly reviewed MI's adherence to sustainable business practices.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Ensured that the Company's obligations towards society and the environment are fulfilled and the associated risks were managed.</li> </ul>



**A.L.N. Dias**

Chairman

Board Integrated Risk Management Committee

23rd June 2023

# Board Remuneration Committee Report

## COMMITTEE COMPOSITION

GRI 2-19, 2-20

The Remuneration Committee was formed by the Board in compliance with Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange and Sections 10.1 and 10.5 of Finance Business Act Directions No.05 of 2021 on Corporate Governance and related transitional provisions.

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. S. Pethiyagoda	Secretary	Company Secretary

## TERMS OF REFERENCE

The terms governing the Committee are;

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

## ROLE OF THE COMMITTEE

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

- Determining competitive and fair remuneration packages for the Executive Directors including the Managing Director of the Company.
- 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 time to time, in order to ensure it meets market/ industry rates, when making remuneration policy amendments.

## 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 economic crisis to adjust to the exceptional business environment.
- Set goals and targets for the Chief Executive Officer and Executive Director 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 2022/23

- The Committee had one meeting during the year, where it reviewed and made recommendations to the Board on the structure for Board performance evaluations and increments.
- Ensuring balance between staff retention and costs, the Committee provided guidance on annual remuneration and suggested changes, by duly considering the prevailing economic crisis and industry efficiency levels.
- The Committee reviewed and obtained Board approval for the revised Board Remuneration Policy



**A. L. N. Dias**  
Chairman  
Board Remuneration Committee  
23rd June 2023

# Board Nomination Committee Report

## COMPOSITION OF THE NOMINATION COMMITTEE

GRI 2-10, 2-18

The Nomination Committee was formed by MI in line with the Best Practices on Corporate Governance and the present composition of the Committee is in line with Section 10.4 of Finance Business Act Directions No.05 of 2021 and respective transitional provisions. The committee comprises of the following Board Directors.

Name	Membership Status	Directorship Status/ Position held in the company
Mrs. E. D. Wickramasuriya	Chairperson	Independent Non-Executive Director
Mr. G. 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. S. 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

- Review the size, structure and composition of the Board and make recommendations of any changes to the Board.
- Implement a procedure to select or appoint new Directors, CEO and Key Management Personnel in order to fulfil leadership needs of the Company.
- Set the criteria including, qualifications, competencies, experience, independence, and other key attributes, to ensure fitness and propriety to hold the position of Directors, CEO and Key Management
- Review and recommend from time to time the requirements of additional or new expertise for Directors and Key Management Personal and seek out possible candidates to fill those 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.

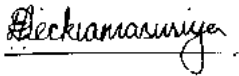
## COMMITTEE MEETINGS

One Nomination Committee meeting was held during the year under review and the proceedings of the meetings accordingly reported to the Board.

# Board Nomination Committee Report

## KEY ACTIONS DURING THE FINANCIAL YEAR 2022/23

- As per the Article 23(7) of the Articles of Association of the company, two Directors namely Mr. T. J. Ondaatjie and Mr. S. H. Jayasuriya retired by rotation during the financial year under review. After due consideration, the committee recommended the re-appointment of the said Directors.
- By duly considering the transitional provisions granted to section 3.5 a) of Finance Business Act Directions No.05 of 2021 on Corporate Governance, the committee concluded that it was satisfied with the present composition of the Board. Same time, future Board Composition requirements of the said direction effective from 1st July 2024 was also reviewed to ensure planning for future compliance.
- The Committee obtained declarations from all the Independent Non-Executive Directors through a prescribed format confirming their status of independence.



**E. D. Wickramasuriya**  
Chairperson  
Board Nomination Committee  
23rd June 2023

# Board Audit Committee Report

The Board of Directors have established the Board Audit Committee in line with the Central Bank Direction No. 05 of 2021 and respective transitional provisions, listing rules on corporate governance issued by CSE and code of best practice on corporate governance issued by CA Sri Lanka. The committee comprises three independent Non-Executive Directors and a Secretary.

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.S. Pethiyagoda	Secretary	Company Secretary

During the financial year under review, the Finance Director, Chief Financial Officer, other members from the management team and representatives from Internal and External Auditors were present at meetings by invitation.

## TERMS OF REFERENCE

Terms of Reference of the committee which stems from the scope of the Board Audit Committee has been established for the purpose of assisting the Board in fulfilling its 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

- Review appropriateness of the financial reporting systems of the Company to provide accurate, appropriate and timely information to the Board, management, regulatory authorities and other stakeholders.
- Ensure that the Company adopts and adheres to the high standards of prevailing corporate governance practices and conforming to the industry best practices.
- Review risk management measures and internal controls to ensure efficiency and effectiveness in mitigating risks involved.
- 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 concern 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 ten meetings for the financial year under review in order to achieve its key objectives and carry out its responsibilities. Details of Committee membership and meeting attendance information are disclosed on Page 98 of this integrated annual report.

# Board Audit Committee Report

## INTERNAL AUDIT

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

MI's Annual Internal Audit program was structured to ensure that there is an 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 was 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 Accountants, External Auditors, does not handle a substantial volume of non-audit services of the Company, in keeping with terms of reference of engagement of External Audit partners to provide non-audit services.

The Audit Committee ensured that the provision of such limited services did not impair the independence and objectivity of External Auditors and that work was assigned in such manner as to prevent any conflict of interest.

The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Company's assets are safeguarded and that the financial position of the Company is well monitored.

The Audit Committee 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 2024, subject to the approval of shareholders at the Annual General Meeting, in accordance with Central Bank regulations on selecting regulatory-approved External Auditors for LFCs. 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 2022/23 financial year and approved by the Board.

## KEY ACTIVITIES CONDUCTED BY THE COMMITTEE DURING FY 2022/23

- 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.
- Members of the committee regularly attended virtual and physical seminars, conferences, workshops, presentations done by internal and external officers on the areas such as new developments, new accounting standards, tax regulations, new statutes and Directions issued by the regulator.
- 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.
- Implementation status of key Directions that include transitional provisions, including the Corporate Governance Direction No. 5 of 2021, Direction no. 01 of 2020 on Classification and Measurement of Credit Facilities and Direction no. 01 of 2022 on Technology Risk Management and Resilience were regularly reviewed and significant gaps were referred to monthly Board meeting discussions for adoption.
- Committee Terms of Reference (TOR) was reviewed and recommended amendments were duly communicated to the Board and approval granted in March 2023.



**P. D. D. Perera**  
Chairman  
Board Audit Committee  
23rd June 2023

# Board Related Party Transactions 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. S. 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's main objective is to offer an unbiased evaluation, authorisation, and supervision of the company's transactions involving related parties. During each meeting, the management informs the committee about any updates or modifications regarding previously identified individuals or entities that are considered related parties.

## OBJECTIVE

In order 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 and Central Bank of Sri Lanka.

## RESPONSIBILITIES OF THE COMMITTEE

- Developing terms of reference of the committee 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.

## ACTIVITIES CONDUCTED BY THE COMMITTEE DURING FY 2022/23

- Four committee meetings were held during the year under review. Finance Division through the Finance Director submitted comprehensive reports on related party transactions to the Committee for the members review and oversight. Attendance of the members of the Committee is provided on page 98. Any concerns of the Committee continued to be reported to the Board of Directors on an ongoing basis.
- During the year under review, the committee reviewed all the recurrent and non-recurrent related party transactions entered into by the company on a quarterly basis that all such transactions entered into have been done on an arms-length basis, where no favorable terms have been offered. Based on this evaluation, concluded that the aggregate value of all non-recurrent related party transactions entered into during the year was below the threshold for immediate disclosure in terms of Rule 9.3.1 of the Listing Rules or disclosure in the Annual Report as per Rule 9.3.2 (a) of the Listing Rules of CSE.



## Board Related Party Transactions Review Committee Report

- The aggregate value one recurrent related party transaction entered into by the Company which fall under section 9.3.2 (b) of the Listing Rules have been disclosed in Note 50.5 to the Financial Statements on page 283. (Refer details of other Related Party Transactions which are disclosed in Note no 50 to the Financial Statements on pages 281 to 283).
- The Committee reviewed the current Terms of Reference on related party transactions, ensuring that it encompasses all the necessary requirements from both the organisation and regulatory standards.
- Based on the information as disclosed by the Directors the database of related parties maintained in the company's core system was updated and the required system generated comprehensive reports were tabled in every quarter for the committee's review.



**P. D. D. Perera**

Chairman

Related Party Transactions Review Committee

23rd June 2023



**Navigating  
our Progress**



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# Financial Calendar

	2022/23	2023/24 (Proposed)
First interim dividend	-	August 2023
Second interim dividend	-	February 2024
Annual Report and Accounts for the year signed/to be signed	23rd June 2023	30th May 2024
Annual General Meeting to be held	31st July 2023	28th June 2024
<b>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</b>		
	<b>2022/23 Submitted on</b>	<b>2023/24 to be submitted on or before</b>
For the 3 months ended 30th June – (unaudited)	15th August 2022	15th August 2023
For the 3 and 6 months ended 30th September – (unaudited)	15th November 2022	15th November 2023
For the 3 and 9 months ended 31st December – (unaudited)	15th February 2023	15th February 2024
For the 3 months and year ended 31st March – (unaudited)	31st May 2023	31st May 2024
<b>Publication of Financial Statements as per Finance Business Act No 42 of 2011</b>		
	<b>2022/23 Published on</b>	<b>2023/24 to be Published on or before</b>
Six month Financial Statements	24th November 2022	30th November 2023
Annual Financial Statements	30th June 2023	28th June 2024

# 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, 2023, and the Auditors' Report on those Financial Statements, conforming to the requirement of the Companies Act No 07 of 2007, Finance Business Act No 42 of 2011 and the Directions issued thereunder.

Mercantile Investments and Finance PLC is a public limited liability company incorporated in Sri Lanka on 15 June 1964 under the Companies Ordinance No 51 of 1938 and re registered under the Company Act No 07 of 2007 and a licensed Finance Company under the, Finance Business Act 42 of 2011.

The ordinary shares of the company are quoted on the Diri Savi board of the Colombo Stock Exchange since June 2011 and transferred to the second board in 15 November 2019. Fitch Ratings Lanka Ltd has assigned BBB- long term (Rating Watch Negative) 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 Business Act Direction No 05 of 2021- (Corporate Governance) , Listing Rules of the Colombo Stock Exchange and recommended best practices on Corporate Governance. This Report was approved by the Board of Directors on June 23, 2023.

Section 168 of the Companies Act No 07 of the 2007, requires the following information to be published in the Annual Report, prepared for the year under review (i.e., for the year ended March 31, 2023).

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 222
II) Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 (1) (b)	Refer pages 218 to 219
III) Auditor's Report on Financial Statements of the Company and the Group.	Section 168 (1) (c)	Refer page 213 to 216
IV) Any changes made to the Accounting policies during the year under review.	Section 168 (1) (d)	Refer page 222 to 233
V) Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 (1) (e)	Refer page 200
VI) Remuneration and other benefits paid to Directors of the Company during the period.	Section 168 (1) (f)	Refer page 237
VII) Total amount of donations made by the Company during the period.	Section 168 (1) (g)	Refer page 197
VIII) Information on Directorate of the Company during and at the end of the accounting period.	Section 168 (1) (h)	Refer pages 198 to 200
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 239
X) Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Refer page 200
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 202

# 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 1 new delivery points added, the total number of delivery points in country was 43 at the end of 2023 (42 at the end of 2022)

A review of operations of the company during the financial year and results of those operations are contained in the Chairman's Message, Managing Director's Review on pages 24 to 31 and Management Discussion & Analysis on pages 34 to 75 of this Annual Report.

Segment wise contribution to revenue, results, assets and liabilities is disclosed in Note 53 to the Financial Statements on page 285 to 287.

#### 2.2.1 Principal Activities of the Company

The principal 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% (2022 – 26.12%) holding in The Nuwara Eliya Hotels Company PLC which is a quoted public company and involving in the business of hotelling. Details of the investments in associate is given in note 29 to Financial Statement on page 258 to 259 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 219 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 218 to 313 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 206 to 207 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 16 of Finance Business Act Direction No 05 of 2021- (Corporate Governance). 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 209 to 210.

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 211 to 212.

### 2.6 Auditors' Report

Company's Auditors, Messrs Ernst & Young Partners performed the audit on the Financial Statements for the year ended March 31, 2023 and the Auditor's Report on the Financial Statements is given on pages 213 to 216 of this Annual Report as required by section 168(1)(c) of the companies Act No 07 of 2007.

### 2.7 Accounting Policies & Changes during the year

The Company prepared its Financial Statements for all periods up to and including the year ended March 31, 2023, 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 222 to 233 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 Interest's 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 199 of this report. Entries were made in the

# Annual Report of the Board of Directors

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. 287,000 (2022-Rs. 41,000). There are no donations made to the Government approved charities from above (2022 -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 are discussed under the Managing Director's review on page 27 to 31 and Capital Management section on page 45 of this Annual Report.

## 3. GROSS INCOMES

The income of the company for the year ended March 31, 2023 was Rs. 9,035 Mn (year ended March 31, 2022- Rs. 7,127 Mn). An analysis of income is given in Notes 6 & 7 to the Financial Statements on page 234 to 235 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 31 March 2023 was Rs. 132 Mn (Rs. 1,468 Mn in 2022) and the profit after tax for the year ended 31 March 2023 was Rs. 106 Mn (Rs. 1,011 Mn in 2022).

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

As of March 31,	2023	2022
Profit before Tax	132,820	1,468,920
Taxation	(26,767)	(457,370)
Profit after Tax	106,053	1,011,550
Other Comprehensive Income	(6,717)	(41,047)
Balance brought forward	3,639,546	2,723,183
Available for Appropriation	3,752,316	3,775,780
Transfer to Statutory Reserve	(6,000)	(55,000)
Transfer to Retain Profit FV through OCI reserve	18,774	264,456
Transfer to Regulatory loss allowance reserve	(1,043,234)	-
Interim Dividend Paid	-	(345,690)
Balance carried forward	2,721,826	3,639,546

### 4.2 Dividend on Ordinary Shares

Details of information on dividends are given in Note 17 to the Financial Statements on page 242.

### 4.3 Provision for Taxation

Income tax for 2022 has been provided at the rate of 24% for the first six months & at the rate of 30 % for the second six months (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 18% and social contribution levy on Financial Service 2.5% (18% -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 240, 241 & 274 respectively, of this Annual Report.

### 4.4 Reserves

A summary of reserves of the company as at year ended 31st March 2023 is as follows.

	2023	2022
Statutory Reserve Fund	857,400	851,400
Revaluation Reserve	2,052,204	2,221,290
Associate Company- reserve	591,399	690,061
General Reserve	4,086,430	4,086,430
Available for sale Reserve	(372,519)	(550,391)
Regulatory Loss Allowance	(1,043,234)	-
Retain Earnings	2,721,826	3,639,546

The company's total Reserves as of March 31, 2023 amounted to Rs. 11,016 Mn (2022-Rs. 10,974 Mn). The movement of the reserves are given on page 220 under Statement of Changes in Equity & Note 40 to 46 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	2023	2022
Property, Plant & Equipment	131 Mn	519 Mn
Leasehold Property	Nil	Nil
Intangible Assets	2 Mn	10 Mn

# Annual Report of the Board of Directors

Details of which are given in Note 31 on page 262 to 269 in the Financial Statements. Capital expenditure approved and contracted for is given in Note 47 to the Financial Statements on page 280 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 of March 31, 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 265.

## 7. STATED CAPITAL AND DEBENTURES

The stated capital of the company as of March 31, 2023 was Rs. 36 Mn comprising 3,006,000 ordinary shares. (2022- Rs. 36 Mn). The details of the stated capital are given in Note 40 to the Financial Statements on page 277 of this Annual Report.

The Company did not issue any debentures during the financial year ended March 31, 2023.

## 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 page 316 to 319.

### 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 316.

### 8.3 Issue of shares

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

Class of Shares	Voting Ordinary shares	
	2023	2022
Number of shares issued	Nil	Nil

## 9. SUBSTANTIAL SHAREHOLDINGS

The list of 20 Largest Shareholders as of 31 March 2023 are as follows.

Nilaveli Beach Hotels (Pvt) Ltd	629,580
Mr. G. G. Ondaatjie (Managing Director)	484,615
Ms. A. M. Ondaatjie	484,615
Mr. T. J. Ondaatjie	484,614
Mercantile Fortunes (Pvt) Ltd	415,162
Tangerine Tours (Pvt) Ltd.	203,809
Mr. C. A. Ondaatjie	166,224
Mr. A. S. G. H. Jafferjee	41,055
MR. S. S. 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 of 31 March 2023 Rs. 789,375,600/-.

The Company is not fully Compliant with the minimum public holding requirement as of 31 March 2023.

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 317.

### 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 of March 31, 2023, comprised of Eight Directors (Eight Directors as of March 31, 2022) with extensive financial and commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors – Profile' on pages 78 to 83 of this Annual Report.

Names of the persons holding office as Directors of the company as at the end of the year and the names of persons, who ceased to hold office as Directors of the



# Annual Report of the Board of Directors

company any time during the year 2023, 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-Independancy
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	Non-Executive	Independent

## 10.1.2 New Appointments & Resignations

There were no new appointments or resignations to and from the Board of Directors during the financial year.

## 10.1.3 Recommendation for Re-election

In terms of Article 23(7) of the articles of association, Mr. T.J. Ondaatjie and Mr. S.H. Jayasuriya 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 105.

## 10.1.5 Board Sub-Committees

Information with regard to Board subcommittees is given under Corporate Governance on pages 98 to 100 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 188 to 189 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 183 to 184 of this Annual Report.

## Remuneration & Nomination Committee

The Report of the Remuneration and Nomination Committee is given on pages 185 & 186 to 187 of this Annual Report.

## Related Party Transaction Review Committee

The report of the Related Party Transaction Review Committee is given on pages 190 to 191 of this Annual Report.

## 10.1.6 Directors' Remuneration & Other Benefits

Directors' remuneration and other benefits, in respect of the company for the financial year ended March 31, 2023, is given in Note 11.1 to the Financial Statements on page 237 of this Annual Report as required by section 168(1)(f) of the companies Act No 07 of 2007.

## 11. DISCLOSURES OF DIRECTORS DEALING IN SHARES

### 11.1 Directors' interest in ordinary shares of the Company

As of March 31,	2023	%	2022	%
Mr. G. G. Ondaatjie (Managing Director/CEO)	484,615	16.12	566,725	18.85
Mrs. A. M. Ondaatjie	484,615	16.12	525,670	17.49
Mr. T. J. Ondaatjie	484,614	16.12	484,614	16.12
Mr. S. H. Jayasuriya	-	-	-	-
Mr. M. K. S. Pieris	-	-	-	-
Mr. P. D. D. Perera	-	-	-	-
Mrs. E. D. Wickramasuriya	-	-	-	-
Mr. A. L. N. Dias	-	-	-	-

## Annual Report of the Board of Directors

**11.1.1.** Mr. Gerard G. Ondaatje 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 of March 31, 2023 was 303,605 shares (2022- 180,440) which amounted to 10.1% (2022- 6%) 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, 2023. Further information is given on page 203 to 205 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 50 to the Financial Statements on pages 281 to 283 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.

### **12.1 Directors declaration as per section 16.1 of the Finance Business Act. No. 05 of 2021, Corporate Governance.**

The Chairman and the Directors of the Company have made declarations as per the requirement of the above Direction that there is no financial, business, family or other material/relevant relationships between the Chairman and the Managing Director and/or amongst the member of the Board.

### **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 52 to the Financial Statements on page 285 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.

### **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. 3,010,800/- is payable by the company to the Auditors for the year under review comprising Rs. 1,989,600/- as Audit fees, and expenses of Rs. 1,021,200 /- 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.

# Annual Report of the Board of Directors

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 and financial risk are detailed on pages 289 to 313 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 188 to 189 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 1.5d of the Finance Business Act Direction No 05 of 2021- (Corporate Governance) by answering a self-assessment questionnaire.

The Chairman assessed the performance of each Director and Chairman's performance was assessed by the Non-Executive Directors.

The Board also carried out an annual self-evaluation of its own performance and that of the subcommittees to ensure that they discharge their duties and responsibilities satisfactorily, in terms of the Companies Act No. 07 of 2007, Finance Business Act Direction No 05 of 2021- (Corporate Governance) , Listing Rules of the Colombo Stock Exchange and Best Practices on Corporate Governance. The responses are collated by the Company Secretary, which are submitted to the Board and discussed at the Board Meeting.

Board evaluations for the year under review were tabled at the Board Meeting held in the month of 31st May 2023.

### 20.4 Audit Committee

The composition of the Audit Committee and their report is given on page 188 to 189 of this Annual report.

## 21. CORPORATE GOVERNANCE

### Directors Declarations

The Directors' Declare that – having considered all information and explanation made available to them 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 for all stakeholder particular the depositors.
- The business is a going concern with supporting assumption.
- Effective 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 105 to 162 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 105 to 162.

## 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 58 to 59 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. CYBER SECURITY RISK

Cyber security risks of the Company are monitored by the IT Division of the Company to establish relevant Controls.

# Annual Report of the Board of Directors

## 24. 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.

## 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 48 to the Financial Statement on page 280.

## 26. CONTINGENT LIABILITIES

Except as disclosed in Note 48 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 332 of this Annual Report.

## 28. ACKNOWLEDGMENT 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  
23 June 2023

## Directors' Interests in Contracts with the Company

Company	Relationship	Accommodation granted/ deposits/ receivable for services rendered/ payable for services obtained	As at 31.03.2023 Rs. '000	As at 31.03.2022 Rs. '000
<b>(a) Mr. G. G. Ondaatjie</b> Mercantile Fortunes (Pvt) Limited	Chairman	Motor vehicle hire, repairs and others	2,344	3,177
Tangerine Beach Hotels PLC	Director	Deposits	303,850	346,384
		Motor vehicle hire, repairs and others	318	35
Royal Palms Beach Hotels PLC	Director	Deposits	273,636	286,337
		Motor vehicle hire, repairs and others	193	318
The Nuwara Eliya Hotels Company PLC	Deputy Chairman	Deposits	953,270	955,247
		Motor vehicle hire, repairs and others	1,209	522
Tangerine Tours (Pvt) Limited	Director	Deposits	102,768	157,563
		Motor vehicle hire, repairs and others	1,473	727
Nilaveli Beach Hotels (Pvt) Limited	Director	Deposits	197,014	192,516
		Motor vehicle hire, repairs and others	-	-
Security Ceylon (Pvt) Limited	Chairman	Deposits	10,085	14,694
		Motor vehicle hire, repairs and others	20	20
		Security expenses	3,230	2,558
Mercantile Orient (Pvt) Limited	Chairman	Deposits	6,869	6,485
Global Films Limited	Chairman	Deposits	1,771	1,681
Fair View Hotel (Pvt) Limited	Chairman	Deposits	150,191	153,156
Mercantile Fortunes Insurance brokers (Pvt) Limited	Chairman	Deposits	65,707	31,735
		Motor vehicle hire, repairs and others	1,008	2,826
		Insurance commission receivable	65,462	66,929
		Insurance premium payable	183,970	172,218
Tangerine Vacations (Pvt) Limited	Director	Deposits	25,090	20,145
<b>(b) Ms. A. M. Ondaatjie</b> Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	2,344	3,177
Tangerine Beach Hotels PLC	Chairperson	Deposits	303,850	346,384
		Motor vehicle hire, repairs and others	318	35
Royal Palms Beach Hotels PLC	Chairperson	Deposits	273,636	286,337
		Motor vehicle hire, repairs and others	193	318
The Nuwara Eliya Hotels Company PLC	Director	Deposits	953,270	955,247
		Motor vehicle hire, repairs and others	1,209	522
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## Directors' Interests in Contracts with the Company

Company	Relationship	Accommodation granted/ deposits/ receivable for services rendered/ payable for services obtained	As at	As at
			31.03.2023	31.03.2022
			Rs. '000	Rs. '000
Nilaveli Beach Hotels (Pvt) Limited	Director	Deposits	197,014	192,516
		Motor vehicle hire, repairs and others	-	-
Security Ceylon (Pvt) Limited	Director	Deposits	10,085	14,694
		Motor vehicle hire, repairs and others	20	20
		Security expenses	3,230	2,558
Mercantile Orient (Pvt) Limited	Director	Deposits	6,869	6,485
Global Films Limited	Director	Deposits	1,771	1,681
Fair View Hotel (Pvt) Limited	Director	Deposits	150,191	153,156
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	65,707	31,735
		Motor vehicle hire, repairs and others	1,008	2,826
		Insurance commission receivable	65,462	66,929
		Insurance premium payable	183,970	172,218
Tangerine Vacations (Pvt) Limited	Chairperson	Deposits	25,090	20,145
(c.) Mr. T. J. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	2,344	3,177
Tangerine Beach Hotels PLC	Director	Deposits	303,850	346,384
		Motor vehicle hire, repairs and others	318	35
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## Directors' Interests in Contracts with the Company

Company	Relationship	Accommodation granted/ deposits/ receivable for services rendered/ payable for services obtained	As at 31.03.2023 Rs. '000	As at 31.03.2022 Rs. '000
Nilaveli Beach Hotels (Pvt) Limited	Chairman	Deposits	197,014	192,516
		Motor vehicle hire, repairs and others	-	-
Security Ceylon (Pvt) Limited	Director	Deposits	10,085	14,694
		Motor vehicle hire, repairs and others	20	20
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Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	65,707	31,735
		Insurance commission receivable	65,463	66,929
		Insurance premium payable	183,970	172,218
		Motor vehicle hire, repairs and others	1,008	2,826
(d) Mr. S. H. Jayasuriya				
Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs and others	2,344	3,177
Security Ceylon (Pvt) Limited	Director	Deposits	10,085	14,694
		Motor vehicle hire, repairs and others	20	20
		Security expenses	3,229	2,558
Mercantile Fortunes Insurance brokers (Pvt) Limited	Director	Deposits	65,707	31,735
		Insurance commission receivable	65,462	66,929
		Insurance premium payable	183,970	172,218
		Motor vehicle hire, repairs and others	1,008	2,826

## 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 diligently 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 188 to 189 of this Integrated Annual Report. The Financial Statements comprise of the Statement of Financial Position as at 31st March 2023, the Income Statement and Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto prepared and presented in this Integrated Annual Report are consistent with the underlying books of account and are in conformity with the requirements of the Companies Act, Sri Lanka Accounting Standards and the Finance Business Act No. 42 of 2011.

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 2023 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 218 to 221 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 is responsible for the implementation of an adequate and effective internal control mechanism at Mercantile Investments and Finance PLC and ensures 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 the Board Integrated Risk Management Committee (Refer the BIRMC Report given on pages 183 to 184).

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.



## Directors' Responsibility for Financial Reporting

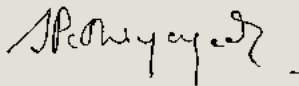
The Directors also confirm that as per the Section 166(1) and 167(1) of the Companies Act No. 07 of 2007, they have prepared the Annual Report on time and ensured that copies are sent to the shareholders within the specified period of time required by Rule No. 7.5 (a) & (b) of Listing Rules (The Colombo 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 213 to 216 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

23rd June 2023

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

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

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

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

There were no changes to the Accounting Policies and methods of computation since the publication of the Annual Report for the year ended 31st March 2022.

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

recognized 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 2023, as required by the Corporate Governance Direction on No. 5 of 2021, results of which is given on pages 209 to 210 of this Integrated Annual Report, the 'Directors Statement on Internal Controls'.

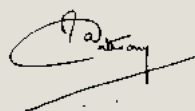
The Board Audit Committee met periodically with the Internal and External Auditors to review the manner in which the auditors carry out their responsibilities in performing their duties and to discuss audit findings, and any deficiencies in internal controls that may impact the accuracy and completeness 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 213 to 216 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 48 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 2023 have been paid or where relevant accrued.



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



**Gerard Ondaatjie**  
Managing Director  
23rd June 2023

# Report by the Board on Internal Controls

## DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

### Responsibility

This Report on internal control has been presented in accordance with Section 16 (1) (ix) of the Finance Companies (Corporate Governance) Direction, No. 05 of 2021 and Principle D.1.5 of the Code of Best Practice on Corporate Governance 2017 issued by Institute of Chartered Accountants of Sri Lanka.

The Board of Directors is 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 internal 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 2022/23.
- 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.
- In order to adhere to the new Corporate Governance Direction of the Central Bank (No. 05 of 2021) which was effective from 1st July 2022, required changes have been made to some internal processes and procedures during the financial year under review.
- 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

## Report by the Board on Internal Controls

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 2023 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

23rd June 2023

# Independent Assurance Report on the Directors' Statement on Internal Control



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

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ey.com

GSM/JN/UM

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

### Report on the Statement on Internal Control Over Financial Reporting included in the Director's Statement on Internal Control

We were engaged by the Board of Directors of Mercantile Investments & Finance PLC (the "Company") to provide assurance on the Statement of Internal Control Over Financial Reporting included in the Directors' Statement on Internal Control for the year ended 31 March 2023 (the "Statement") included in the annual report.

### 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 the Section 16 (1) (ix) of Finance Companies Corporate Governance Direction no. 05 of 2021, by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

We have complied with the 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.

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 K 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\_LB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudan ACA, D L B Karunathilaka ACA, Ms. P S Paranzatane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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# Independent Assurance Report on the Directors' Statement on Internal Control



The procedures performed were limited primarily to inquiries of the 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.

A handwritten signature in black ink, appearing to read 'Suresh Prasad', is located below the conclusion text.

23 June 2023  
Colombo

# Independent Auditor's Report



Ernst & Young  
Chartered Accountants  
201, De Saram Place  
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ey.com

**GSM/JN/UM/AD**

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying Financial Statements of Mercantile Investment & Finance PLC (the "Company"), which comprise the statement of financial position as at 31 March 2023, Income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Company as at 31 March 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Partners: 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 K 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 Muliangamuwa FCA FCMA (LB (London)), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudan ACMA, D L B Karunathilaka ACMA, Ms. P S Paranzantane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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# Independent Auditor's Report



## Key audit matter

### Provision for credit impairment on financial assets carried at amortized cost

As at 31 March 2023, financial assets carried at amortized cost net of impairment allowances amounted to LKR 32.8 Bn as disclosed in notes 3.2(v), 23 – 25 & 26.1 to the financial statements.

This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations; degree of significant judgements and assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets.

Key areas of significant judgments, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following;

- Management overlays to incorporate the current economic contraction.
- The Incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors evaluated under different economic scenarios and the probability weighting determined for each of these scenarios.

## How our audit addressed the key audit matter

In addressing the adequacy of the provision for credit impairment on financial assets carried at amortized cost, our audit procedures included the following key procedures.

- We assessed the alignment of the Company's provision for credit impairment computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report.
- We evaluated the Internal controls over estimation of credit impairment, which included assessing the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management.
- We checked the completeness, accuracy and classification of the underlying data used in the computation of credit impairment by agreeing details to relevant source documents and accounting records of the Company.
- In addition to the above, following procedures were performed.
- **For Loan, Lease and Hire Purchase receivables assessed on an individual basis for impairment:**
  - We evaluated the reasonableness of credit quality assessment.
  - We checked the arithmetical accuracy of the underlying individual impairment calculations.
  - We evaluated the reasonableness of key inputs used in provision for credit impairment made with particular focus on current economic contraction. Such evaluations were carried out considering the customer exposure to elevated risk industries, debt moratoriums, status of recovery actions of collaterals in forecasting the value and timing of cashflows.
- **For Loan, Lease and Hire Purchase receivables assessed on a collective basis for impairment:**
  - We tested key inputs as disclosed in notes 23 and 25 and the calculations used in the provision for credit impairment.
  - We assessed whether judgements used in assumptions and estimates made by the management when estimating future cashflows, in the underlying methodology and management overlays were reasonable. Our assessment included portfolio segmentation, elevated risk industries, evaluating the reasonableness of forward-looking information, different economic scenarios and probability weighting assigned to each of those scenarios.

We assessed the adequacy of the related financial statement disclosures set out in notes 3.2(v), 23 – 25 & 26.1 of the financial statements.



# Independent Auditor's Report



Key audit matter	How our audit addressed the key audit matter
<p><b>Information Technology (IT) systems and internal controls over financial reporting</b></p> <p>Company's financial reporting process is significantly 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, IT systems and related internal controls over financial reporting were considered a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>➤ We obtained an understanding of the Internal control environment of the processes and checked relevant controls relating to financial reporting and related disclosures.</li> <li>➤ We involved our internal specialized resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls, including those related to user access and change management.</li> <li>➤ We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the company and the actions taken to address these risks.</li> <li>➤ We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of general ledger reconciliations.</li> </ul>

## Other Information included in the 2023 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2023 annual report, but does not include the financial statements and our auditor's report thereon. The Company's 2023 annual report is expected to be made available after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will 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 identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

## Responsibilities of management and those charged with governance in the financial statement

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

## Independent Auditor's Report



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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with 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 2471.

23 June 2023  
Colombo

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# Statement of Comprehensive Income

Year ended 31 March	Note	2023 Rs. '000	2022 Rs. '000
<b>Gross income</b>	6	9,035,723	7,127,706
Interest income	7.1	8,749,868	6,759,925
Interest expenses	7.2	(6,134,824)	(2,586,220)
<b>Net interest income</b>		2,615,044	4,173,706
Fee and commission income	8	75,568	67,496
<b>Net fee and commission income</b>		75,568	67,496
Other operating income	9	210,288	300,285
<b>Total operating income</b>		2,900,900	4,541,486
Impairment (charge)/reversal for loans and receivables and other financial assets	10	276,201	147,674
<b>Net operating income</b>		3,177,101	4,689,160
<b>Less: Operating expenses</b>			
Personnel expenses	11	(1,302,861)	(1,425,843)
Depreciation of PPE and Right-of-use assets and amortization of intangible assets	12	(161,831)	(156,759)
Other operating expenses	13	(1,267,105)	(1,146,562)
<b>Total operating expenses</b>		(2,731,797)	(2,729,164)
<b>Operating profit before taxes on financial services</b>		445,304	1,959,996
Taxes on financial services	15.2	(331,848)	(493,579)
<b>Operating profit after taxes on financial services</b>		113,456	1,466,417
<b>Add: Share of associate company's profit / (Loss) net of tax</b>	14	19,365	2,504
<b>Profit before taxation from operations</b>		132,820	1,468,920
<b>Less: Income tax expenses</b>	15	(26,767)	(457,370)
<b>Profit for the year</b>		106,053	1,011,550
<b>Other comprehensive income/(expenses)</b>			
<b>Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods</b>			
Changes in fair value of financial investments through OCI		-	-
<b>Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods</b>		-	-
<b>Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods</b>			
Changes in fair value of financial investments through OCI	46	196,647	(363,628)
Net change in revaluation surplus on Land & Buildings	41.1	0	302,589
Deferred tax effect on revaluations surplus on Land & building	37	(169,086)	(78,837)
Share of other comprehensive income of associates ( net of tax)	29.1	(98,662)	97,735
Actuarial gain/(loss) on retirement benefit obligation	38.2	(13,210)	66,517
Deferred tax effect on actuarial gain	37	19,927	(25,470)
<b>Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods</b>		(64,383)	(1,094)
<b>Other comprehensive income/(expenses) for the year (net of tax)</b>		(64,383)	(1,094)
<b>Total comprehensive income/(expenses) for the year (net of tax)</b>		41,670	1,010,456
<b>Earnings per share</b>			
Basic earnings per share (Rs.)	16	35.28	336.51
Diluted earnings per share (Rs.)	16	35.28	336.51
Dividend per ordinary share (Rs.)	17	-	115

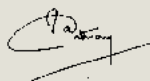
Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 222 to 313 form an integral part of these financial statements.

# Statement of Financial Position

As at 31 March	Note	2023 Rs. '000	2022 Rs. '000
<b>Assets</b>			
Cash and cash equivalents	20	1,791,064	681,130
Placement with banks at Amortized cost	21	1,422	997,771
Financial investments - At FVOCI (quoted)	22.1	6,303,228	4,161,039
Financial investments - At FVPL	22.2	3,250	2,924
Loans and receivables at Amortized Cost	23	13,593,368	16,125,123
Finance leases receivables at Amortized Cost	24	19,026,269	18,334,913
Hire purchase receivables at Amortized Cost	25	127,176	242,430
Financial investments - at FVOCI (unquoted)	22	70,427	70,427
Other financial assets	26	442,950	423,726
Inventories	27	314,853	36,000
Other assets	28	230,244	166,727
Current tax refunds		117,327	-
Investment in associates	29	1,255,524	1,334,821
Investment property	30	227,219	220,718
Property, Plant and Equipment	31	3,930,649	3,952,290
Right-of-use assets	31.15	139,667	181,499
Leasehold property	32	39,334	39,802
Intangible assets	33	9,335	28,235
<b>Total assets</b>		<b>47,623,304</b>	<b>46,999,575</b>
<b>Liabilities</b>			
Bank overdraft		93,518	395,159
Deposits due to customers at Amortized Cost	34	31,223,715	26,349,272
Debt instruments issued and other borrowings at Amortized Cost	35	3,487,442	7,022,730
Other financial liabilities	36	378,645	658,957
Current tax liabilities		-	328,579
Deferred tax liabilities	37	795,864	639,064
Other liabilities		112,023	125,719
Retirement benefit obligations	38.1	337,518	272,003
Lease Liability	39	178,573	233,757
<b>Total liabilities</b>		<b>36,607,298</b>	<b>36,025,239</b>
<b>Shareholders' funds</b>			
Stated capital	40	36,000	36,000
Revaluation reserve	41.1 & 41.2	2,643,604	2,911,351
Statutory reserve fund	42	857,400	851,400
General reserves	43	4,086,430	4,086,430
Retained earnings	44	2,721,856	3,639,546
Regulatory loss allowance reserve	45	1,043,234	-
Fair Value through OCI reserve	46	(372,519)	(550,391)
<b>Total shareholders' funds</b>		<b>11,016,006</b>	<b>10,974,336</b>
<b>Total liabilities and shareholders' funds</b>		<b>47,623,304</b>	<b>46,999,575</b>
Net assets per share (Rs.)		3,665	3,651
Capital commitments and contingencies	47 & 48		

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 23 June 2023. 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 222 to 313 form an integral part of these financial statements.

23 June 2023  
Colombo

# Statement of Changes in Equity

Year ended 31 March 2023	Note	Stated Capital Rs. '000	Revaluation Reserves Land and Buildings Rs. '000	Associate Company Reserve Rs. '000	Statutory Reserves Rs. '000	General Reserves Rs. '000	*Regulatory Loss Allowance Reserves Rs. '000	Fair Value through OCI Reserve Rs. '000	Retained Earnings Rs. '000	Total Rs. '000
<b>As At 31st March, 2021</b>		36,000	1,997,538	592,326	796,400	4,086,430	-	77,693	2,723,183	10,309,570
<b>Total comprehensive income for the year</b>										
Profit for the year		-	-	-	-	-	-	1,011,550	1,011,550	
Other comprehensive income/(expenses)		-	223,752	97,735	-	-	-	(363,628)	41,047	(1,094)
<b>Total comprehensive income/(expenses)</b>		-	223,752	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)	-
<b>As At 31st March, 2022</b>		36,000	2,221,290	690,061	851,400	4,086,430	-	(550,391)	3,639,546	10,974,336
<b>Total comprehensive income for the year</b>										
Profit for the year		-	-	-	-	-	-	106,053	106,053	106,053
Other comprehensive income/(expenses)		-	(169,086)	(98,662)	-	-	-	196,647	6,717	(64,383)
<b>Total comprehensive income/(expenses)</b>		-	(169,086)	(98,662)	-	-	-	196,647	112,770	41,670
Dividends paid to equity shareholders		-	-	-	-	-	-	-	-	-
Transfer to retained profit		-	-	-	-	-	-	(18,774)	18,774	-
Deferred Tax rate Adjustment		-	-	-	-	-	-	-	-	-
Transfer to regulatory loss allowance reserve		-	-	-	-	-	1,043,234	-	(1,043,234)	-
Transfer to statutory reserve		-	-	-	6,000	-	-	-	(6,000)	-
<b>As At 31st March, 2023</b>		36,000	2,052,204	591,399	857,400	4,086,430	1,043,234	(372,519)	2,721,856	11,016,006

\*The regulatory loss allowance reserve is a non-distributable reserve created as required by section 7.1 of Direction No. 01 of 2020. Finance Business act direction, classification and measurement of credit facilities.

Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 222 to 313 form an integral part of these financial statements.

# Statement of Cash Flow

Year ended 31 March	Note	2023 Rs. '000	2022 Rs. '000
<b>Cash flow from operating activities</b>			
Profit before tax		132,820	1,468,920
Capital gain from sale of quoted shares and treasury bonds	9	-	(156,952)
Unrealized gain from investments of FVPL	9	(326)	11,089
Dividend from investing securities	9	(41,174)	(50,563)
Share of (profit)/Loss of associate investments	14	(19,365)	(2,504)
(Profit)/loss on sale of Property, Plant and Equipment	9	(7,835)	(29,844)
Depreciation of Property, Plant and Equipment	12	84,963	75,975
Depreciation of Investment Property	12	1,665	1,665
Depreciation of ROU assets	12	53,899	49,977
Amortization of leasehold property	12	468	468
Amortization of intangible assets	12	20,835	28,674
Provision for bad and doubtful debts	10.1	(276,201)	147,674
Retirement benefit provision	38.2	69,144	32,267
Retirement benefit paid	38.1	(16,839)	(16,249)
<b>Operating profit before changes in operating assets and liabilities (Note A)</b>		2,056	1,560,598
<b>(Increase) / decrease in operating assets</b>			
Deposits held for regulatory purposes		(1,227,040)	(1,046,349)
Funds advanced to customers		2,231,859	(4,739,120)
Other receivables		(220,367)	31,722
<b>Increase / (decrease) in operating liabilities</b>			
Other payables		(351,411)	(285,801)
Deposits from customers		4,874,443	3,288,997
		5,309,539	(1,189,951)
Income taxes paid		(462,815)	(315,635)
<b>Net cash from operating activities</b>		4,846,724	(1,505,586)
<b>Cash flows from investing activities</b>			
Dividends received	9	41,174	50,563
Purchase of Equity securities		(3,517)	(1,565,745)
Proceeds from sale of equity securities		128,069	1,573,367
Purchase of Property, Plant and Equipment	31.1	(130,988)	(518,909)
Proceeds from sale of Property, Plant and Equipment		75,000	93,589
Acquisition of investment properties		(10,168)	-
Proceeds from sale of Investment Properties		2,500	18,500
Acquisition of intangible assets	33	(1,935)	(9,610)
<b>Net cash from investing activities</b>		100,136	(358,245)
<b>Cash flows from financing activities</b>			
Borrowings obtained during the year		1,540,000	4,310,000
Borrowings repaid during the year		(5,075,287)	(3,644,962)
Dividends paid		-	(345,690)
<b>Net Cash from financing activities</b>		(3,535,287)	319,348
<b>Net increase in cash and cash equivalents</b>		1,411,573	(1,544,483)
<b>Cash and cash equivalents at the beginning of the period</b>		285,971	1,830,454
<b>Cash and cash equivalents at the end of the period (Note B)</b>		1,697,545	285,971
<b>Reconciliation of profit before tax with cash inflow from operating activities (Note A)</b>			
<b>Cash and cash equivalents at the end of the period ( Note B)</b>			
Cash in hand	20	220,014	207,967
Balances with bank	20	343,416	369,395
Money market balances	20	1,227,634	103,768
Bank Overdrafts		(93,518)	(395,159)
		1,697,545	285,971
<b>Operational Cash flow from Interest</b>			
Interest Received		8,636,691	6,930,268
Interest payments		(5,034,970)	(2,555,476)

Figures in brackets indicate deductions.

The significant accounting policies and the notes from pages 222 to 313 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 2023 was 1,097 (1,210 as at 31st March 2022).

### 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 2023 (including comparatives) were approved and authorized for issue by the Board of Directors on 23 June 2023.

## 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](http://www.slaasc.com).

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 219.

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 218).
- Statement of financial position providing the information on the financial position of the company as at year end (refer page 219).
- A statement of changes in equity depicting all changes in shareholders' equity during the year under review (refer page 220).
- 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 221).
- Notes to the financial statements which comprise of accounting policies used and other explanatory information (refer pages 222 to 313).



# Notes to the Financial Statements

## 2.3 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position.

Items	Basis of measurement	Note No.
Financial investments at 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 54 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.

## Notes to the Financial Statements

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.

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.

## Notes to the Financial Statements

### 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 2023. 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 ‘Day 1’ 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.

## Notes to the Financial Statements

### (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:

#### 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

## Notes to the Financial Statements

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 no 55 Financial risk management - Offsetting of Financial Assets and Liabilities.

## Notes to the Financial Statements

### (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:

## Notes to the Financial Statements

- The company has transferred substantially all the risks and rewards of the asset; or
- The company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

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

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

### 3.2.7.2 Financial liabilities

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

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

### 3.2.8 Fair value of financial instruments

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

### 3.2.9 Identification and measurement of impairment of financial assets

The company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

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

#### 3.2.9.1 Impairment of financial assets carried at amortized cost

The company recognizes the changes in the impairment provisions for loans and receivables which are assessed

as per the SLFRS 9 - "Financial Instruments". The methodology adopted by the company is explained below:

#### Individual assessment of impairment

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognized in statement of comprehensive income. Interest income continues to be accrued and recorded in 'interest income' on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

## Notes to the Financial Statements

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



## Notes to the Financial Statements

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 fulfillment 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.
- 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.

## Notes 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 2023.

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 SLFRS 4 Insurance Contracts that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

## Notes to the Financial Statements

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

### Definition of Accounting Estimates - Amendments to LKAS 8

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to LKAS 12.

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

### Disclosure of Accounting Policies - Amendments to LKAS 1 and IFRS Practice Statement 2

Amendments to LKAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies.
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

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

Amendments to LKAS 1 Presentation of Financial Statements specify the requirements for classifying liabilities as current or non-current. The amendments clarify –

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

## Notes to the Financial Statements

### 6. GROSS INCOME

#### Accounting policy

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and such revenue can be reliably measured. The specific recognition criteria is given under the respective income notes.

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Interest income (Note 7.1)	8,749,868	6,759,925
Fee and commission income (Note 8)	75,568	67,496
Other operating income (Note 9)	210,288	300,285
<b>Total</b>	<b>9,035,723</b>	<b>7,127,706</b>

### 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.

##### Before Posting

The calculation takes into account all contractual terms of the financial instrument (for example, pre-payment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'interest and similar income' for financial assets and 'interest and similar expense' for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Discounts/premium on treasury bills and treasury bonds are amortized over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognized on an accrual basis. The interest income on securities purchased under resale agreements is recognized in the statement of comprehensive income on an accrual basis over the period of the agreement.

#### 7.1 Interest income

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Income from finance lease	4,265,204	3,578,669
Income from hire purchase	14,377	87,915
Income from other loans and receivables	3,243,151	2,878,637
Income from treasury bills and bonds	955,572	106,856
Income from fixed deposits ,unit trust and money market investments	271,564	107,848
<b>Total</b>	<b>8,749,868</b>	<b>6,759,925</b>

# Notes to the Financial Statements

## 7.2 Interest expenses

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Interest on fixed deposits	5,091,664	1,994,943
Interest on savings deposits	13,573	7,490
Interest on commercial papers	-	-
Interest on bank overdraft	30,944	22,181
Interest on bank and securitized borrowings	984,509	525,810
Interest on lease liability	14,133	35,796
<b>Total</b>	<b>6,134,824</b>	<b>2,586,220</b>
<b>Net interest income</b>	<b>2,615,044</b>	<b>4,173,706</b>

## 8. FEE AND COMMISSION INCOME

### Accounting policy

The company earns fee and commission income from insurance referral business that is accounted for on an accrual basis.

### Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as introducer commission received on insurance policies of loans and receivable customers.

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Gross Commission Income	75,568	67,496
	75,568	67,496

## 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 the 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

## 9. OTHER OPERATING INCOME (CONTD.)

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Dividend from FVOCI - Financial Investments	41,174	50,563
Capital gain/(loss) from FVPL - Financial Investments	-	156,952
Unrealized gain/(loss) from FVPL - Financial Investments	326	(11,089)
Rental income from Properties /Investment properties	18,472	15,895
Net gain/(loss) on disposal of Property, Plant and Equipment	7,835	29,844
Other income	140,005	52,310
Bad debts recovered	2,475	5,809
<b>Total</b>	<b>210,288</b>	<b>300,285</b>

## 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.

## 10.1 For the year ended 31st March

	2023 Rs. '000	2022 Rs. '000
Impairment charges / (reversals) to the statement of comprehensive income		
- Loans and receivables (Note 23.4)	(110,393)	(192,199)
- Finance leases receivables (Note 24.4)	(217,013)	(29,942)
- Hire purchase receivables (Note 25.4)	(4,922)	10,593
-Other financial assets (Note 26.1)	56,127	63,873
<b>Total</b>	<b>(276,201)</b>	<b>(147,674)</b>

## 10.2 Analysis of Impairment Charges and Other Losses

	2023				2022			
	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	(23,080)	(86,652)	(661)	(110,393)	(6,507)	16,198	(201,890)	(192,199)
Finance leases receivables	(42,485)	(203,116)	28,588	(217,013)	29,741	82,240	(141,922)	(29,942)
Hire purchase receivables	(176)	(4,640)	(105)	(4,922)	(780)	(919)	12,292	10,593
Other financial assets	(3,873)	-	60,000	56,127	3,873	-	60,000	63,873
<b>Total</b>	<b>(69,615)</b>	<b>(294,408)</b>	<b>87,822</b>	<b>(276,201)</b>	<b>26,327</b>	<b>97,519</b>	<b>(271,520)</b>	<b>(147,674)</b>

# Notes to the Financial Statements

## 11. PERSONNEL EXPENSES

### Accounting policy

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses.

### Bonus

The provision for bonus is recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

### Defined contribution plans - Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF)

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods as defined in the 'Sri Lanka Accounting Standard LKAS 19 - Employee Benefits'.

The contribution payable to a defined contribution plan is in proportion to the services rendered to the company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The company and the employees contribute 12% and 8% respectively on the salary of each employee to the Employees' Provident Fund where as the company contributes 3% of the salary to the Employees' Trust Fund.

### Defined benefit plan - gratuity

Defined benefit plan contributions are recognized in the Statement of Comprehensive Income based on an actuarial valuation carried out for the gratuity liability in accordance with 'LKAS 19 - Employee Benefits'.

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Salaries and bonus	968,238	1,164,402
Directors' emoluments (Note 11.1)	91,745	79,304
Employer's contribution to EPF	113,410	98,674
Employer's contribution to ETF	27,691	24,089
Defined benefit plan (Note 38)	69,144	32,267
Other allowances and staff related expenses	32,634	27,106
<b>Total</b>	<b>1,302,861</b>	<b>1,425,843</b>

### 11.1 Directors' emoluments

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

## Notes to the Financial Statements

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

#### Accounting policy

##### Depreciation of Property, Plant and Equipment & Right of Use Assets

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of Property Plant and Equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated. The estimated useful lives are as follows:

Class of assets	Depreciation % per annum	Estimated useful life
Buildings	1.33 - 2.5	40 - 75 Years
Plant and machinery	20	5 Years
Computer equipment	25	4 Years
Office equipment	10	10 Years
Furniture and fittings	10	10 Years
Fixtures	10	10 Years
Motor vehicles	10 - 16.67	6 - 10 Years
Office bicycles	10	10 Years
Tools	25	4 Years
Right of Use Assets	20-25	4 - 5 Years

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

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

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

#### Depreciation of investment property

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

#### Amortization of intangible assets

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

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

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

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

#### Amortization of leasehold property

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



## Notes to the Financial Statements

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Depreciation of Property, Plant & Equipment (Note 31)	84,963	75,975
Depreciation of Investment Property (Note 30)	1,665	1,665
Depreciation of ROU Assets (Note 31.15)	53,899	49,977
Amortization of Leasehold Property (Note 32)	468	468
Amortization of Intangible Assets (Note 33)	20,835	28,674
<b>Total</b>	<b>161,831</b>	<b>156,759</b>

The company has reviewed the residual value and the useful lives of the assets as at 31st March, 2023 and there were no any material changes with the previous year reassessment.

### 13. OTHER OPERATING EXPENSES

#### Accounting policy

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

#### Crop Insurance Levy (CIL)

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

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

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Auditors' remuneration	1,990	1,790
Professional and legal expenses	11,602	10,246
Advertising and business promotion expenses	82,453	167,068
Insurance premium	67,762	48,481
Donations	287	41
Office and building maintenance	66,250	57,899
Computer equipment maintenance	79,962	41,004
Others	956,801	820,032
<b>Total</b>	<b>1,267,105</b>	<b>1,146,562</b>

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

#### Accounting policy

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

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

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Nuwara Eliya Hotels Co. PLC share of Profit/(Loss) after tax (Note 29.1)	19,365	2,504
<b>Total</b>	<b>19,365</b>	<b>2,504</b>

## Notes to the Financial Statements

### 15. INCOME TAX EXPENSES AND TAX ON FINANCIAL SERVICE GRI 207-1, 207-2, 207-3, 207-4

#### Accounting policy

As per the Sri Lanka Accounting Standard - LKAS 12 on 'Income Taxes', tax expense (tax income) is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognized in the statement of Comprehensive Income except to the extent it relates to items recognized directly in equity or in Other Comprehensive Income (OCI), in which case it is recognized in equity or in OCI.

#### Current taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted at the reporting date. Accordingly, Current and deferred tax have been provided as per the Inland Revenue Act No. 24 of 2017 and any subsequent amendments thereto, including any amendments legislated by Inland Revenue (Amendment) Act No. 45 of 2022.

#### Deferred taxation

Detailed disclosure of accounting policies and estimate of deferred tax are available in the note 37 to the financial statements.

#### Effect of changes in tax rate in current year

The Inland Revenue (Amendment) Act No 45 of 2022 was certified by the Speaker on 19th December 2022. The standard rate of income tax has been increased to 30% from 24% w.e.f. 1st October 2022. The increase in income tax rate to 30% in mid-year has resulted in two tax rates being applicable for the Year of Assessment 2022/23. The Company has computed the current tax payable on a pro rata basis for the Year of Assessment 2022/23.

#### Treatment of impairment charges

As per Part I : Sec. (I) of the Gazette notification issued on 25th October 2022 under sub section (2) and (3) of section 66 of the Inland revenue Act, No. 24 of 2017, the impairment charges of Stage 3 credit facilities classified as per Sri Lanka Accounting Standards (SLFRS 9) have been considered as an allowable deduction (after adjusting for specifications given under section 1 of schedule 1 of the said Gazette notification).

#### 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.

#### Social Security Contribution Levy (SSCL) on financial services

As per Social Security Contribution Levy Act no 25 of 2022, effective from 1st October 2022, Company is liable to pay SSCL on Financial Service at the rate of 2.5% on the value addition attributable to the supply of finance services further Non-Financial Services are made liable on the turn over at the rate of 2.5%.

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Income tax expenses on profit for the year (Note 15.1)	71,379	649,523
(Over)/ under provision in respect of previous year	(52,253)	15,763
Deferred tax (reversal)/ charged (Note 37)	20,952	(207,915)
Deferred tax impact due to the change of tax rate (reversal)/ charged (Note 37)	(13,311)	-
<b>Total tax expense for the year</b>	<b>26,767</b>	<b>457,370</b>

## Notes to the Financial Statements

### 15.1 Reconciliation of Accounting profit and Taxable Income

A reconciliation between tax expense and the accounting profit multiplied by relevant tax rate for the year ended 31 March is as follows.

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Accounting Profit before income tax	113,456	1,466,417
Tax expenses as per accounting profit @ 24%	13,615	351,940
Tax expenses as per accounting profit @ 30%	17,018	-
<b>Add:</b> Tax effect on non-deductible expenses	98,079	229,091
<b>Less:</b> Tax effect on deductible expenses	(63,137)	61,412
Tax effect on exempt income/profit	-	-
Profit and Income tax @ 15%	5,210	-
Profit and Income tax @ 14%	594	7,079
	71,379	649,523
Effective tax rate (including deferred tax )	81.38%	30.11%
Accounting profit before tax on financial services	445,304	1,959,995
Effective tax rate (excluding tax on financial services )	6.01%	23.34%

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 Taxes charged on financial services

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Value Added Tax on Financial Services	309,431	493,579
Social Security Contribution Levy on Financial Services	22,417	-
	331,848	493,579

## 16. BASIC/ DILUTED EARNINGS PER ORDINARY SHARE

### Accounting policy

Basic earnings per share is calculated by dividing the net profit after tax for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, as required by Sri Lanka accounting standard LKAS No 33 on Earning Per Share. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

Diluted earnings per share is calculated by dividing the net profit after tax attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of diluted potential ordinary shares).

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
<b>Amount used as the numerator</b>		
Net profit after tax attributable to equity holders of the company	106,053	1,011,550
Net profit after tax attributable to equity holders of the company for basic and diluted earnings per share	106,053	1,011,550

	Nos.'000	Nos.'000
<b>Number of ordinary shares used as the denominator</b>		
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
<b>Basic earnings per share (Rs.)</b>	35.28	336.51
<b>Diluted earnings per share (Rs.)</b>	35.28	336.51

## Notes to the Financial Statements

## 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	2023			2022		
	Gross Dividend Rs. '000	Dividend Tax Rs. '000	Net Dividend Rs. '000	Gross Dividend Rs. '000	Dividend Tax Rs. '000	Net Dividend Rs. '000
<b>Interim dividend</b>						
Out of dividend received - free of tax	-	-	-	78,973	-	78,973
Out of normal profits	-	-	-	266,717	-	266,717
<b>Total dividend</b>	-	-	-	345,690	-	345,690
<b>Dividend per ordinary share (Rs.)</b>	-	-	-	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 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 2023

	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
<b>Financial assets</b>				
Cash and cash equivalents	1,791,064	-	-	1,791,064
Placement with banks at Amortized cost	1,422	-	-	1,422
Financial investments - At FVOCI	-	-	6,373,655	6,373,655
Financial investments - At FVPL	-	3,250	-	3,250
Loans and receivables at Amortized Cost	13,593,368	-	-	13,593,368
Finance leases receivables at Amortized Cost	19,026,269	-	-	19,026,269
Hire purchase receivables at Amortized Cost	127,176	-	-	127,176
Other financial assets	442,950	-	-	442,950
<b>Total financial assets</b>	<b>34,982,247</b>	<b>3,250</b>	<b>6,373,655</b>	<b>41,359,153</b>

For the year ended 31st March	At Amortized Cost Rs. '000	Total Rs. '000
<b>Financial liabilities</b>		
Bank overdraft	93,518	93,518
Deposits due to customers at Amortized Cost	31,223,715	31,223,715
Debt instruments issued and other borrowings at Amortized Cost	3,487,442	3,487,442
Other financial liabilities	378,645	378,645
<b>Total financial liabilities</b>	<b>35,183,320</b>	<b>35,183,320</b>

## Notes to the Financial Statements

## 18.2 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
<b>Financial assets</b>				
Cash and cash equivalents	681,130	-	-	681,130
Placement with banks at Amortized cost	997,771	-	-	997,771
Financial investments - At FVOCI	-	-	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
<b>Total financial assets</b>	<b>36,805,094</b>	<b>2,924</b>	<b>4,231,466</b>	<b>41,039,484</b>

For the year ended 31st March	At Amortized Cost Rs. '000	Total Rs. '000
<b>Financial liabilities</b>		
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
<b>Total financial liabilities</b>	<b>34,426,117</b>	<b>34,426,117</b>

## 19. FAIR VALUE MEASUREMENT

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

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

## 19.1. Determination of fair value and fair value hierarchy

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

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

## Notes to the Financial Statements

### 19. FAIR VALUE MEASUREMENT (CONTD.)

#### 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	2023				2022			
	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
<b>Non- financial assets</b>								
<b>Property, Plant and Equipment</b>								
Land and buildings (note 19.3.1)	-	-	3,479,869	3,479,869	-	-	3,535,501	3,535,501
	-	-	3,479,869	3,479,869	-	-	3,535,501	3,535,501
<b>Financial assets</b>								
<b>Financial investments- (FVOCI)</b>								
Quoted investments	1,682,810	484,872	-	2,167,682	1,631,989	638,168	-	2,270,157
Unquoted investments (note 19.3.2)	-	-	70,427	70,427	-	-	70,427	70,427
Government debt securities	-	4,135,547	-	4,135,547	-	1,890,882	-	1,890,882
<b>Financial investments- (FVPL)</b>								
Quoted investments	3,250	-	-	3,250	2,924	-	-	2,924
	1,686,060	4,620,419	70,427	6,376,906	1,634,914	2,529,050	70,427	4,234,390

**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.

## Notes to the Financial Statements

**19.3.2.** Value of unquoted shares as at 31st March, 2023 categorized under financial investments- (FVOCI) whose fair values can not be reliably measured is stated at cost in the statement of financial position.

### 19.3.3. Significant unobservable inputs used in level 3 measurement

Note no 31.4 to the financial statements provides information on significant unobservable inputs used in measuring fair value of land and buildings categorized as Level 3 in the fair value hierarchy.

There were no transfer between Level 1 and Level 2 during the year 2022 and 2023

### 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	2023					2022				
	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
<b>Financial assets</b>										
Cash and cash equivalents	-	-	-	1,791,064	1,791,064	-	-	-	681,130	681,130
Placement with banks	-	-	-	1,422	1,422	-	-	-	997,771	997,771
Loans and receivables	-	-	13,206,753	13,206,753	13,593,368	-	-	16,249,476	16,249,476	16,125,123
Finance leases receivables	-	-	18,724,450	18,724,450	19,026,269	-	-	19,702,270	19,702,270	18,334,913
Hire purchase receivables	-	-	127,176	127,176	127,176	-	-	262,568	262,568	242,430
Other financial assets	-	-	442,950	442,950	442,950	-	-	423,726	423,726	423,726
<b>Total financial assets</b>	-	-	32,501,328	34,293,814	34,982,247	-	-	36,638,040	38,316,941	36,805,094
<b>Financial liabilities</b>										
Bank overdraft	-	-	-	93,518	93,518	-	-	-	395,159	395,159
Deposits due to customers	-	-	31,169,107	31,169,107	31,223,715	-	-	26,359,801	26,359,801	26,349,272
Debt instruments issued and other borrowings	-	-	3,125,007	3,125,007	3,487,442	-	-	7,376,456	7,376,456	7,022,730
Other financial liabilities	-	-	378,645	378,645	378,645	-	-	658,957	658,957	658,957
<b>Total financial liabilities</b>	-	-	34,672,759	34,766,277	35,183,320	-	-	34,395,214	34,790,373	34,426,117

## Notes to the Financial Statements

### 19.5. Reclassification of financial assets

There have not been any reclassifications during the financial years 2021/22 and 2022/23.

### 20. CASH AND CASH EQUIVALENTS

#### Accounting policy

Cash and cash equivalents comprise cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of changes in their value. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

There were no cash and cash equivalents held by the company that were not available for use by the company.

Details of cash and cash equivalents in the statement of financial position are given below.

As at 31st March	2023 Rs. '000	2022 Rs. '000
Cash in hand	220,014	207,967
Balances with the banks	343,416	369,395
Money market balances	1,227,634	103,768
	1,791,064	681,130

As at 31st March 2023, the company had available Rs. 2,691 Million (2022-Rs. 1,025 Million) of undrawn committed borrowing facilities.

#### Net Cash & Cash Equivalents for the purpose of Cash Flow Statement

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, balances with banks, money at call and short notice net of outstanding bank overdrafts.

### 21. PLACEMENT WITH BANKS

#### Accounting policy

Balances with banks and financial institutions includes fixed deposits. Balances with banks and financial institutions are carried at amortized cost in the statement of financial position.

As at 31st March	2023 Rs. '000	2022 Rs. '000
Fixed deposits net of impairment provision	1,422	997,771
	1,422	997,771

### 22. FINANCIAL INVESTMENTS - AT (FVOCI)

#### Accounting policy

Financial investments at FVOCI include equity and debt securities which comprise 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 (CONTD...)

As at 31st March	2023 Rs. '000	2022 Rs. '000
<b>Government securities, Unit trust and quoted investments</b>		
Government debt securities	4,135,547	1,890,882
Equities (Note 22.1.1)	1,682,810	1,631,989
Unit Trust Investment (Note 22.1.3)	484,872	638,168
	6,303,228	4,161,039
<b>Unquoted investments</b>		
Equities (Note 22.1.2)	70,427	70,427
	70,427	70,427
<b>Total financial investments - (FVOCI)</b>	<b>6,373,655</b>	<b>4,231,466</b>

## 22.1.1 Equities (quoted)

	2023			2022		
	No of Shares	Cost Rs. '000	Market Value Rs. '000	No of Shares	Cost Rs. '000	Market Value Rs. '000
<b>Banks</b>						
Commercial Bank of Ceylon PLC	595	67	38	574	65	36
Sampath Bank PLC	112,104	9,916	5,885	112,104	9,916	5,134
		9,983	5,923		9,981	5,170
<b>Capital Goods</b>						
Aitken Spence & PLC	15,000	343	1,965	15,000	343	1,106
John Keells Holdings PLC	1,514,307	277,644	212,003	1,514,307	277,644	219,575
Access Engineering PLC	13,121,925	293,469	186,331	13,121,925	293,469	196,829
Hayleys PLC	636,893	72,205	45,856	153,545	72,205	48,977
Hemas Holdings PLC	1,000,000	101,131	65,000	1,000,000	101,131	46,200
ACL Cables PLC	245,406	29,778	20,197	245,406	29,778	13,988
		774,569	531,353		774,569	526,674
<b>Consumer Durables and Apparel</b>						
Hayleys Fabric PLC	898,284	36,717	22,637	898,284	36,717	26,140
		36,717	22,637		36,717	26,140
<b>Consumer Services</b>						
Royal Palms Beach Hotels PLC	8,576,700	124,582	225,567	8,576,700	124,582	139,800
Tangerine Beach Hotels PLC	3,899,644	26,343	214,480	3,899,644	26,343	171,974
Hayleys Leisure PLC	1,933,440	60,070	46,403	1,933,440	60,070	31,322
The Light House Hotel PLC	7,736,677	224,407	211,211	7,736,677	224,407	212,759
Hotel Sigiriya PLC	13,340	556	444	13,340	556	1,174
Palm Garden Hotel PLC	200,000	25,913	11,000	200,000	25,913	8,220
Fortress Resorts PLC	100,000	2,844	2,200	100,000	2,844	1,250
		464,713	711,306		464,713	566,499

## Notes to the Financial Statements

As at 31st March	2023			2022		
	No of Shares	Cost Rs. '000	Market Value Rs. '000	No of Shares	Cost Rs. '000	Market Value Rs. '000
<b>Diversified Financials</b>						
Singer Finance	296,760	14,357	3,324	296,760	14,357	3,858
People's Leasing & Finance PLC	7,610,092	95,314	60,120	7,033,570	91,797	56,972
Lanka Orix Leasing Company PLC	100,000	100,528	37,500	100,000	100,528	59,750
LOLC Finance PLC	2,000,000	56,829	12,000	2,000,000	56,829	28,400
		267,028	112,943		263,511	148,980
<b>Food Beverage &amp; Tobacco</b>						
Three Acre Farms PLC	153,545	46,036	20,076	153,545	46,036	28,943
Renuka Foods PLC	200	4	4	200	4	3
Ceylon Grain Elevators PLC	103,669	13,740	8,698	103,669	13,740	6,324
		59,780	28,778		59,780	35,270
<b>Insurance</b>						
HNB Assurance PLC	200,000	12,336	9,980	200,000	12,336	8,660
		12,336	9,980		12,336	8,660
<b>Material</b>						
Tokyo Cement Company (Lanka) PLC (Non Voting)	1,818,299	119,158	82,733	1,818,299	119,158	47,821
CIC Holdings PLC (Voting)	-	-	-	1,000,000	64,195	38,100
CIC Holdings PLC (Non-voting)	-	-	-	870,000	45,099	21,750
Swisstek (Ceylon) PLC	250,000	11,623	3,525	250,000	11,623	5,525
		130,782	86,258		240,076	113,196
<b>Real Estate</b>						
East West Properties PLC	50,000	2,471	420	50,000	2,471	365
		2,471	420		2,471	365
<b>Retailing</b>						
United Motors Lanka PLC	150,000	18,701	8,985	150,000	18,701	8,265
Odel PLC	300,000	11,943	5,040	300,000	11,943	5,730
		30,644	14,025		30,644	13,995
<b>Telecommunication services</b>						
Dialog Axiata PLC	9,300,000	102,123	96,720	9,300,000	102,123	93,000
		102,123	96,720		102,123	93,000
<b>Transportation</b>						
ExpoLanka Holdings PLC	452,661	163,766	62,467	452,661	163,766	94,040
		163,766	62,467		163,766	94,040
<b>Total</b>		2,054,911	1,682,810		2,160,687	1,631,989

## Notes to the Financial Statements

## 22.1.2 Equities (non-quoted)

As at 31st March	2023			2022		
	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

## 22.1.3 Unit Trust Investment

As at 31st March	2023		2022	
	Cost Rs. '000	Market Value Rs. '000	Cost Rs. '000	Market Value Rs. '000
NDB Wealth Management Ltd	450,000	484,872	600,000	638,168
	450,000	484,872	600,000	638,168

## 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.

	2023			2022		
	No of Shares	Cost Rs. '000	Market Value Rs. '000	No of Shares	Cost Rs. '000	Market Value Rs. '000
<b>Capital Goods</b>						
Hayleys PLC	21,868	2,568	1,574	21,868	2,568	1,682
<b>Transportation</b>						
ExpoLanka Holdings PLC	228	50	31	228	50	47
<b>Food Beverage &amp; Tobacco</b>						
Ceylon Grain Elevators PLC	19,597	2,660	1,644	19,597	2,660	1,195
		5,279	3,250		5,279	2,924

# Notes to the Financial Statements

## 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 receivables are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'Recovery of Bad debts' in the statement of profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross loans and receivables	16,384,873	19,510,741
Prepaid rentals	166	(55)
Unearned interest	(1,828,777)	(2,301,124)
Allowance for impairment (Note 23.4)	(808,792)	(922,641)
Interest in suspense	(154,103)	(161,798)
Net loans and receivables	13,593,368	16,125,123

### 23.1 Loans and receivables-within one year

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross loans and receivables	8,515,643	12,989,022
Prepaid rentals	166	(43)
Unearned interest	(43,289)	(2,600,581)
Loans and receivables	8,472,519	10,388,397

## Notes to the Financial Statements

## 23.2 Loans and receivables-from one to five years

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross loans and receivables	7,867,068	6,521,720
Prepaid rentals		(12)
Unearned interest	(1,784,351)	299,458
Loans and receivables	6,082,717	6,821,166

## 23.3 Loans and receivables-after five years

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross loans and receivables	2,163	-
Unearned interest	(1,136)	-
Loans and receivables	1,026	-

## 23.4 Movement in allowance for impairment

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	922,641	1,244,547
Bad debts written off during the year	(3,456)	(129,707)
Charge/(reversal) to the statement of comprehensive income	(110,393)	(192,199)
Balance at the end of the year	808,792	922,640

Stagewise impairment provision movement of loan and receivables is disclosed in Note 55 of the financial statements.

## 23.4.1 Individual impairment

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	551,715	766,662
Bad debt written off during the year	(3,456)	(129,707)
Charge/(reversal) to the statement of comprehensive income	3,642	(85,240)
Balance at the end of the year	551,901	551,715

Loans and Receivables with the contractual amount of Rs. 844,165/- written off during the year ended 31 March 2023 are being considered for enforcement activities.

## 23.4.2 Collective impairment

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	370,927	477,885
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	(114,036)	(106,959)
Balance at the end of the year	256,891	370,927

## Notes to the Financial Statements

## 23.5 Sector wise analysis of loans and receivables

As at 31st March	2023 Rs. '000	2022 Rs. '000
Agriculture	737,533	1,189,568
Industrial	2,821,015	1,577,877
Tourism	298,226	798,541
Trading	2,643,950	4,852,157
Construction	876,769	879,512
Services	7,546,376	9,708,081
Others	1,461,001	505,005
	16,384,870	19,510,741

## 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.

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross finance leases receivables	26,438,080	25,154,879
Prepaid rentals	(125)	(91)
Unearned interest	(6,748,102)	(5,952,478)
Allowance for impairment (note 24.4)	(589,869)	(810,733)
Interest in suspense	(73,715)	(56,664)
Net finance leases receivables	19,026,269	18,334,913

## 24.1 Finance leases receivable-within one year

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross finance leases receivables	11,750,417	9,754,265
Prepaid rentals	(67)	(15)
Unearned interest	(3,489,697)	(2,901,428)
Finance leases receivables	8,260,653	6,852,822

## Notes to the Financial Statements

## 24.2 Finance leases receivable-from one to five years

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross finance leases receivables	14,687,663	15,400,614
Prepaid rentals	(58)	(76)
Unearned interest	(3,258,405)	(3,051,050)
Finance leases receivables	11,429,200	12,349,489

## 24.3 Finance leases receivable-after five years

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross finance leases receivables	-	-
Unearned interest	-	-
Finance leases receivables	-	-

## 24.4 Movement in allowance for impairment

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning the year	810,733	853,538
Bad debt written off during the year	(3,851)	(12,863)
Charge/(reverse) to the statement of comprehensive income	(217,013)	(29,942)
Balance at the end the year	589,869	810,733

Stagewise impairment provision movement for lease receivables is disclosed in Note 55 of the financial statements.

## 24.4.1 Movement in individual impairment

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	258,804	251,459
Bad debt written off during the year	(3,851)	(12,863)
Charge/(reverse) to the statement of comprehensive income	26,943	20,209
Balance at the end of the year	281,897	258,804

Finance Lease Receivables with the contractual amount of Rs. 1,293,687/- written off during the year ended 31 March 2023 are being considered for enforcement activities.

## 24.4.2 Movement in collective impairment

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	551,928	602,079
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	(243,956)	(50,151)
Balance at the end of the year	307,972	551,928

## Notes to the Financial Statements

## 24.5 Sector wise analysis of finance leases receivables

As at 31st March	2023 Rs. '000	2022 Rs. '000
Agriculture	2,932,714	2,725,917
Industrial	2,195,894	2,082,281
Tourism	417,996	336,303
Trading	7,130,580	7,041,944
Construction	461,059	469,183
Services	12,174,587	11,350,979
Others	1,125,251	1,148,271
	26,438,080	25,154,879

## 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".

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross hire purchases receivables	359,079	494,327
Prepaid rentals	-	-
Unearned interest	(1,161)	(4,409)
Allowance for impairment (note 25.4)	(216,189)	(228,245)
Interest in suspense	(14,553)	(19,243)
Net hire purchases receivables	127,176	242,430

## 25.1. Hire purchases receivable-within one year

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross hire purchases receivables	240,465	361,007
Prepaid rentals	-	-
Unearned interest	-	(2,575)
Hire purchases receivables	240,465	358,432



## Notes to the Financial Statements

## 25.2. Hire purchases receivable-from one to five years

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross hire purchases receivables	118,614	133,320
Prepaid rentals	-	-
Unearned interest	(1,161)	(1,834)
Hire purchases receivables	117,453	131,486

## 25.3. Hire purchases receivable-after five years

As at 31st March	2023 Rs. '000	2022 Rs. '000
Gross hire purchases receivables	-	-
Unearned interest	-	-
Hire purchases receivables	-	-

## 25.4. MOVEMENT IN ALLOWANCE FOR IMPAIRMENT

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning the year	228,245	222,399
Bad debt written off during the year	(7,135)	(4,747)
Charge/(reverse) to the statement of comprehensive income	(4,922)	10,593
Balance at the end the year	216,189	228,245

Stage wise impairment provision movement for hire purchase receivables is disclosed in the Note 55 of the financial statements.

## 25.4.1. Movement in individual impairment

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	123,464	134,564
Bad debt written off during the year	(7,135)	(4,747)
Charge/(reverse) to the statement of comprehensive income	(7,082)	(6,353)
Balance at the end of the year	109,247	123,464

Hire purchases Receivables with the contractual amount of Rs. 7,087,476/- written off during the year ended 31 March 2023 are being considered for enforcement activities.

## 25.4.2. Movement in collective impairment

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	104,781	87,835
Bad debt written off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	2,161	16,947
Balance at the end of the year	106,942	104,781

## Notes to the Financial Statements

## 25.5. Sector wise analysis of hire purchases receivables

As at 31st March	2023 Rs. '000	2022 Rs. '000
Agriculture	18,399	22,262
Industrial	20,930	42,517
Tourism	2,403	2,931
Trading	147,901	182,060
Construction	889	4,172
Services	145,314	206,840
Others	23,242	33,544
	359,079	494,327

## 26. OTHER FINANCIAL ASSETS

**Accounting policy****Insurance receivables**

Premium receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premium receivables is reviewed for impairment whenever or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income.

**Operating lease receivables**

All leases other than finance leases are classified as operating leases. When acting as lessor, the company includes the assets subject to operating leases in 'Property, Plant and Equipment' and accounts for them accordingly. Impairment losses are recognized to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

Rental receivable under operating leases are accounted for on a straight line basis over the periods of the leases to reduce the asset to its estimated residual value and are included in 'other operating income'. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

As at 31st March	2023 Rs. '000	2022 Rs. '000
Insurance receivables	300,230	217,123
Investments (Note 26.1)	69,307	129,307
Other receivables	73,413	77,296
	442,950	423,726

## Notes to the Financial Statements

**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. 567 Million as at 31st March 2023 which includes the current year provision of Rs. 60 Million.

### 27. INVENTORIES

#### Accounting policy

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

As at 31st March	2023 Rs. '000	2022 Rs. '000
Spare parts	9,421	7,289
Lubricant and others	3,887	2,790
Stationary	6,673	3,696
Vehicle Stock	294,872	22,225
	314,853	36,000

### 28. OTHER ASSETS

#### Accounting policy

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

As at 31st March	2023 Rs. '000	2022 Rs. '000
Other receivables	100,261	34,419
Deposits and prepayments	129,983	132,308
	230,244	166,727

## Notes to the Financial Statements

### 29. INVESTMENT IN ASSOCIATES

#### Accounting policy

Investments in associates are accounted for by using the equity method of accounting in terms of the Sri Lanka Accounting Standard – LKAS 28 on “investments in associates”. An associate is an entity in which the company has significant influence. Significant influence is presumed to exist when the company holds between 20% and 50% of the voting power of another entity.

Under the equity method, the investment is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the company’s share of net assets of associate since acquisition date.

Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Statement of Comprehensive Income reflects the company’s share of results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the company and the associate are eliminated to the extent of the interest in the associate.

The company’s share of the profit or loss of an associate is shown on the face of the Statement of Comprehensive Income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the company. When necessary, adjustments are made to bring the accounting policies in line with those of the company.

After application of the equity method, the company determines whether it is necessary to recognize an impairment loss on its investment in its associate. The company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in ‘share of losses of an associate’ in the Statement of Comprehensive Income.

Upon loss of significant influence over the associate, the company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the Statement of Comprehensive Income.

Company has a 26.12% (2020-26.12%) holding in 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 30% w.e.f 01st October 2022.

As at 31st March	2023 Rs. '000	2022 Rs. '000
Investment in associates - quoted (29.1)	1,255,525	1,334,821
<b>Total</b>	<b>1,255,525</b>	<b>1,334,821</b>

## Notes to the Financial Statements

## 29.1 Investment in associates - quoted

As at 31st March	2023 Rs. '000	2022 Rs. '000
<b>Nuwara Eliya Hotels Company PLC</b>		
Carrying value at the beginning of the year	1,334,821	1,234,582
Increase/(Decrease) in Investment	-	-
<b>Add:</b> Share of associates Profit/(Loss) after tax (29.1.1)	19,365	2,504
<b>Less:</b> Dividend received from associates	-	-
Current year retained profit/(Loss) net of tax	19,365	2,504
Share of Other Comprehensive Income/(Loss)	(98,662)	97,735
<b>Carrying value at the end of the year</b>	<b>1,255,525</b>	<b>1,334,821</b>

## Summary of associate's statement of financial position

As at 31st March	As per audited financial statements 2023 Rs. '000	As per audited financial statements 2022 Rs. '000
Current assets	1,775,888	1,566,962
Non-current assets	4,159,135	4,191,431
Current liabilities	(211,183)	(167,049)
Non-current liabilities	(917,083)	(481,004)
Net assets	4,806,757	5,110,339
<b>Holding percentage of the company</b>	<b>26.12%</b>	<b>26.12%</b>
<b>Share of net assets of the company</b>	<b>1,255,525</b>	<b>1,334,821</b>
<b>Market value per share (Rs.)</b>	<b>1,490.00</b>	<b>1,100.00</b>
<b>Total market value of the investment (Rs.'000)</b>	<b>850,891</b>	<b>628,175</b>

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

## 29.1.1 Summary of Associate's Revenue and Profit after Tax

As at 31st March	2023 Rs. '000	2022 Rs. '000
Revenue	995,527	649,158
Profit/(Loss) after tax	74,137	9,585
<b>Share of associate's Profit/(Loss) after tax</b>	<b>19,365</b>	<b>2,504</b>

## Notes to the Financial Statements

### 30. INVESTMENT PROPERTY

#### Accounting policy

##### Recognition and measurement

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under cost model in the financial statements. Accordingly, after initial recognition, the property is carried at its cost, less accumulated depreciation and impairment losses.

##### Depreciation

Depreciation is provided on a straight line basis over the estimated useful life of the class of asset from the date of purchase upto the date of disposal. Estimated useful life of buildings classified as investment property ranges from 40 to 75 years.

##### De-recognition

Investment properties are de-recognized when they are disposed of, or permanently withdrawn from use since no future economic benefits are expected. Transfers are made to and from investment property only when there is a change in use.

As at 31st March	2023 Rs. '000	2022 Rs. '000
<b>Cost</b>		
Balance at the beginning of the year	234,034	249,034
Additions during the year	10,168	-
Disposals during the year	(2,000)	(15,000)
Balance at the end of the year	242,202	234,034
<b>Less : Accumulated Depreciation</b>		
Balance at the beginning of the year	13,317	11,652
Charge for the year	1,665	1,665
Disposals during the year	-	-
Balance at the end of the year	14,982	13,317
<b>Carrying value</b>	<b>227,219</b>	<b>220,718</b>

The company earned rental income from the property situated at No 75A-23/2, Kollupitiya Road, Colombo 03 for which the details are given below:

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Rental income derived from investment properties	10,932	6,595
Direct operating expenses incurred generating rental income	(1,181)	(993)
Profit arising from investment properties	9,751	5,602

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

## Notes to the Financial Statements

## 30.1 Information on the investment property of the company

As At 31st March Location	Extent (Perches)	Building (Square Feet)	No of Buildings	2023		2022	
				Cost Rs. '000	Fair Value Rs. '000	Cost Rs. '000	Fair Value Rs. '000
<b>Nilaweli</b> Nilaweli Village, Pulmoddai Road, Trincomalee.	438		-	59,000	87,600	59,000	87,600
<b>Kurunegala</b> Sapirimini Jeewa Pohora, Thaththiripitiya, Welipennegahamulla.	80		-	2,500	4,000	2,500	4,000
<b>Peliyagoda</b> 151/3A Negombo Road, Peliyagoda.	5		-	5,000	10,000	5,000	10,000
<b>Kollupitiya</b> No 75A-23/2, Kollupitiya Road, Colombo 03.	-	2,636	1	83,234	126,900	83,234	126,900
<b>Gampaha</b> No 735/1, Jonikkuwatte Road, Kohalwila.	19.7		-	12,300	31,200	12,300	31,200
<b>Godagama</b> Lenagalawatta, Habarakada.	14.8		-	-	-	2,000	2,100
<b>Nugegoda</b> No 19, Sigiri Mawatha, Kohuwala, Nugegoda.	66		-	60,000	75,000	60,000	75,000
<b>Kandana</b> No 72, Theresa Mawatha, Kandana.	10		-	10,000	12,125	10,000	12,125
<b>Nawagamuwa</b> No 737/7, Sri Sumanatissa Mawatha, Kaduwela, Nawagamuwa.	47		-	10,168	10,168	-	-
<b>Total</b>				242,202	356,993	234,034	348,925

The fair value of the investment properties as at 31st March, 2023 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 2023 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.



## Notes to the Financial Statements

### Derecognition

An item of Property, Plant and Equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognized in 'other income/ expenses' in the statement of comprehensive income in the year the asset is derecognized.

When replacement costs are recognized in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognized as required by Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant and Equipment'.

### Capital work-in-progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalization. These are stated in the statement of financial position at cost.

### Assets on operating leases

Assets leased to customers under agreements in which we retain substantially all the risks and rewards associated with ownership and legal title are classified as operating leases. Such assets are recognized as Property, Plant and Equipment in the statement of financial position.

## 31.1 Carrying value of Property, Plant and Equipment

2023- Current year	At valuation		At cost							Total (Rs. '000)
	Land (Rs. '000)	Buildings (Rs. '000)	Motor vehicles (Rs. '000)	Plant and machinery (Rs. '000)	Computer hardware (Rs. '000)	Office equipment (Rs. '000)	Furniture, fixtures & fittings (Rs. '000)	Motor vehicle on operating leases (Rs. '000)	Capital work-in- progress (Rs. '000)	
<b>Cost/ valuation</b>										
Balance as at 01.04.2022	2,556,576	978,925	415,617	48,461	208,433	110,135	100,033	9,500	-	4,427,681
Additions during the year	7,056	-	28,073	4,340	15,673	44,601	31,246	-	-	130,988
Disposals during the year	(17,200)	(45,488)	(8,448)	-	(5,596)	(68)	-	-	-	(76,800)
Derecognition	-	-	-	-	-	-	-	-	-	-
Surplus on revaluation of property	-	-	-	-	-	-	-	-	-	-
Transfers/ adjustments	-	-	-	-	-	-	-	-	-	-
<b>Cost/ valuation as at 31.03.2023</b>	<b>2,546,432</b>	<b>933,437</b>	<b>435,243</b>	<b>52,801</b>	<b>218,510</b>	<b>154,667</b>	<b>131,278</b>	<b>9,500</b>	<b>-</b>	<b>4,481,869</b>
<b>Accumulated depreciation</b>										
Balance as at 01.04.2022	-	-	145,705	39,287	165,304	55,840	61,206	8,050	-	475,392
Charge for the year	-	19,134	23,870	4,514	18,089	11,397	7,960	-	-	84,963
Disposals during the year	-	(465)	(3,633)	-	(5,008)	(29)	-	-	-	(9,134)
Derecognition	-	-	-	-	-	-	-	-	-	-
Transfers/ adjustments	-	-	-	-	-	-	-	-	-	-
<b>Accumulated depreciation at 31.03.2023</b>	<b>-</b>	<b>18,669</b>	<b>165,943</b>	<b>43,800</b>	<b>178,385</b>	<b>67,208</b>	<b>69,166</b>	<b>8,050</b>	<b>-</b>	<b>551,221</b>
<b>Net book value as at 31.03.2023</b>	<b>2,546,432</b>	<b>914,768</b>	<b>269,300</b>	<b>9,001</b>	<b>40,126</b>	<b>87,459</b>	<b>62,112</b>	<b>1,450</b>	<b>-</b>	<b>3,930,649</b>

## Notes to the Financial Statements

## 31.1 Carrying value of Property, Plant and Equipment

2022 - previous year	At valuation		At cost							Total (Rs. '000)
	Land (Rs. '000)	Buildings (Rs. '000)	Motor vehicles (Rs. '000)	Plant and machinery (Rs. '000)	Computer hardware (Rs. '000)	Office equipment (Rs. '000)	Furniture, fixtures & fittings (Rs. '000)	Motor vehicle on operating leases (Rs. '000)	Capital work-in- progress (Rs. '000)	
<b>Cost/ valuation</b>										
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)
<b>Cost/ valuation as at 31.03.2022</b>	<b>2,556,576</b>	<b>978,925</b>	<b>415,617</b>	<b>48,461</b>	<b>208,433</b>	<b>110,135</b>	<b>100,033</b>	<b>9,500</b>	<b>-</b>	<b>4,427,681</b>
<b>Accumulated depreciation</b>										
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)
<b>Accumulated depreciation at 31.03.2022</b>	<b>-</b>	<b>-</b>	<b>145,705</b>	<b>39,287</b>	<b>165,304</b>	<b>55,840</b>	<b>61,206</b>	<b>8,050</b>	<b>-</b>	<b>475,392</b>
<b>Net book value as at 31.03.2022</b>	<b>2,556,576</b>	<b>978,925</b>	<b>269,913</b>	<b>9,174</b>	<b>43,129</b>	<b>54,295</b>	<b>38,827</b>	<b>1,450</b>	<b>-</b>	<b>3,952,290</b>

## 31.2 Revaluation of Property, Plant and Equipment

The land and buildings were last revalued during the previous 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.

## Notes to the Financial Statements

## 31.3 Information on the Freehold Land and Building of the Company

As required by rule No. 7.6 (VIII) of the continuing listing requirements of the Colombo Stock Exchange

Location	Extent (Perches)	Buildings (Square Feet)	No of Buildings	Revalued Amount of Buildings (Rs. '000)	Revalued Amount of Land (Rs. '000)	Net Book Value As At 31.03.2023 (Rs. '000)	As a % of Total NBV As At 31.03.2023	Net Book Value As At 31.03.2022 (Rs. '000)	As a % of Total NBV As At 31.03.2022
<b>Kollupitiya</b> - No. 236, Galle Road, Colombo 03	32.56	46,777	1	458,415	781,440	1,239,855	35.82	1,249,210	35.33
<b>Maharagama</b> - No. 176, Lake Road, Maharagama	168.74	10,919	2	33,658	548,405	582,063	16.82	582,750	16.48
<b>Maharagama</b> - No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama	104.00	17,359	3	48,216	249,600	297,816	8.60	298,800	8.45
<b>Kohuwala</b> - No. 28, Sunethra Devi Road, Kohuwala	88.00	27,543	2	101,715	404,463	506,177	14.62	508,253	14.38
<b>Kohuwala</b> - No. 30/8, Sunethra Devi Road, Kohuwala	17.80	1,700	1	7,497	47,150	54,647	1.58	54,800	1.55
<b>Borella</b> - No. 219, Dr. N.M. Perera Mw, Colombo 08	9.46	6,264	1	58,235	107,076	165,312	4.78	166,500	4.71
<b>Negombo</b> - No. 36, Colombo Road, Negombo	13.87	3,961	1	23,282	38,143	61,425	1.77	61,900	1.75
<b>Kollupitiya</b> - No. 75-17/4, Kollupitiya Road, Colombo 03	-	1,210	1	45,080	-	45,080	1.30	46,000	1.30
<b>Kollupitiya</b> - No. 89-28/4 & 89- 28/5, Kollupitiya Road, Colombo 03	-	3,583	1	138,670	-	138,670	4.01	141,500	4.00
<b>Negombo</b> - 814/24 Colombo Road, Negombo.	17.20	4,832	1	-	-	-	-	62,688	1.77
<b>Negombo</b> - No. 36/1, Colombo Road, Negombo	16.22	-	-	-	24,300	24,300	0.70	24,300	0.69
<b>Kollupitiya</b> - 171 & 173, Kollupitiya Road, Colombo 03	16.94	-	-	-	345,856	345,856	9.99	338,800	9.58
<b>Total</b>	-	-	-	914,768	2,546,432	3,461,200	100	3,535,501	100

## Notes to the Financial Statements

## 31. PROPERTY, PLANT AND EQUIPMENT (CONTD...)

## 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.

## 31.4.1 Details of Valuation as at 31st March 2023

Location	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for unobservable inputs	NBV Before Revaluation As At 31 March, 2023		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, Batadombagawatta 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						
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/A, 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	-						
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	-						
<b>Total</b>			<b>2,390,549</b>	<b>774,816</b>	<b>2,539,376</b>	<b>933,437</b>	<b>148,827</b>	<b>158,621</b>

## Notes to the Financial Statements

## 31.4.2 Details 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						
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/A, 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	-						
<b>Total</b>			<b>2,404,299</b>	<b>828,613</b>	<b>2,556,576</b>	<b>978,925</b>	<b>152,277</b>	<b>150,312</b>

## Notes to the Financial Statements

### 31. PROPERTY, PLANT AND EQUIPMENT (CONTD...)

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
<b>Market comparable method</b> 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"> <li>➤ Price per perch for land</li> <li>➤ Price per square foot for building</li> </ul>	Estimated fair value would increase (decrease) if; <ul style="list-style-type: none"> <li>➤ Price per perch would be higher (lower)</li> <li>➤ Price per square foot would be higher (lower)</li> </ul>
<b>Investment method</b> 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"> <li>➤ Gross Annual Rentals</li> <li>➤ Years Purchase</li> </ul>	Estimated fair value would increase (decrease) if; <ul style="list-style-type: none"> <li>➤ Gross Annual Rentals would be higher (lower)</li> <li>➤ Years purchase would be higher (lower)</li> </ul>

**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	2023			2022		
	Cost Rs. '000	Cumulative Depreciation (Rs. '000)	Net Carrying Amount (Rs. '000)	Cost Rs. '000	Cumulative Depreciation (Rs. '000)	Net Carrying Amount (Rs. '000)
<b>Class of asset</b>	160,521	-	160,521	160,521	-	160,521
Freehold land	255,755	109,904	145,851	255,755	104,810	150,945
Freehold buildings	416,276	109,904	306,372	416,276	104,810	311,466

**31.6** During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value (excluding capital working progress) of Rs. 130,987,857/- (2022 - Rs. 518,908,847/-).

Cash payments amounting to Rs. 130,987,857/- (2022 - Rs. 518,908,847/-) 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 2023 was Rs. 1,450,086/- (2022 - Rs. 1,450,086/-), on which the accumulated depreciation as at 31st March 2023 was Rs. 8,049,914/- (2022 - 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. 398,789,707/- (2022 - Rs. 339,246,335/-).

## Notes to the Financial Statements

### 31.10 Property, Plant and Equipment pledged as security for liabilities

There were no Property, Plant and Equipment pledged as securities for liabilities except properties at Sri Vajiragnana Mawatha, Maharagama and No. 28, Sunethradevi Road, Kohuwala pledged as securities for overdraft facilities obtained from Sampath Bank PLC and Hatton National Bank PLC respectively.

### 31.11 Title restriction in Property, Plant and Equipment

There were no restrictions that existed in the title of the Property, Plant and Equipment of the company as at reporting date except properties at Sri Vajiragnana Mawatha, Maharagama and No.28, Sunethradevi Road, Kohuwala pledged as securities for overdraft facilities obtained from Sampath Bank PLC and Hatton National Bank PLC respectively.

### 31.12 Compensation from third parties for items of Property, Plant and Equipment

There were no compensation received /receivable from third parties for items of Property, Plant and Equipment that were impaired, lost or given up.

### 31.13 Capitalization of borrowing cost

There were no borrowing costs that have been capitalized into the capital work-in-progress.

### 31.14 Capital commitments

There are no significant capital commitments which have been approved or contracted for by the company as at 31st March, 2023.

### 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

As at 31st March	2023 Rs. '000	2022 Rs. '000
<b>Cost</b>		
Balance at the beginning of the year	385,555	345,231
Modifications	-	16,453
Additions/renewal of operating leases during the year	12,069	46,062
Disposals during the year	(3,554)	(22,192)
Balance at the end of the year	394,069	385,555
<b>Accumulated amortization and impairment</b>		
Balance at the beginning of the year	204,056	164,874
Amortization for the year	53,899	49,977
Disposals during the year	(3,554)	(10,795)
Impairment	-	-
Balance at the end of the year	254,401	204,056
<b>Net book value as at 31st March</b>	<b>139,667</b>	<b>181,499</b>

## Notes to the Financial Statements

## 32. LEASEHOLD PROPERTY

As at 31st March	2023 Rs. '000	2022 Rs. '000
<b>Cost</b>		
At the beginning of the year	46,354	46,354
Additions	-	-
Disposals	-	-
At the end of the year	46,354	46,354
<b>Accumulated amortization and impairment</b>		
At the beginning of the year	6,552	6,084
Amortization for the year	468	468
Disposals	-	-
Impairment	-	-
At the end of the year	7,020	6,552
<b>Net book value as at 31st March</b>	<b>39,334</b>	<b>39,802</b>

## 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

As at 31st March	2023 Rs. '000	2022 Rs. '000
<b>Cost</b>		
At the beginning of the year	145,879	136,269
Additions	1,935	9,610
Disposal	-	-
At the end of the year	147,814	145,879
<b>Accumulated amortization and impairment</b>		
At the beginning of the year	117,644	88,970
Amortisation for the year	20,835	28,674
Disposal	-	-
At the end of the year	138,479	117,644
<b>Net book value as at 31st March</b>	<b>9,335</b>	<b>28,235</b>

**33.1** Net book value of Intangible assets reported as of 31st March 2023 solely comprised of computer softwares which were acquired from the market.

### 33.2 Fully amortized Intangible assets

The cost of intangible assets as at reporting date includes the fully depreciated assets amounting to Rs. 108,771,113/- (2022- Rs. 39,553,509/-).

## 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.

As at 31st March	2023 Rs. '000	2022 Rs. '000
Fixed deposits (note 34.1)	31,030,285	26,089,446
Savings deposits	193,430	259,826
	<b>31,223,715</b>	<b>26,349,272</b>

### 34.1 Analysis of fixed deposits by maturity date

As at 31st March	2023 Rs. '000	2022 Rs. '000
1 to 90 days	16,069,324	11,087,980
91 to 365 days	10,090,108	12,461,636
More than 365 days	4,870,853	2,539,830
	<b>31,030,285</b>	<b>26,089,446</b>

**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. 39,353,359 as the premium for the above insurance scheme during the year (2022 - Rs. 32,714,837).

## Notes to the Financial Statements

## 35. DEBT INSTRUMENTS ISSUED AND OTHER BORROWINGS

**Accounting policy**

These represent the funds borrowed by the company for long term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortized cost using the EIR method except where the company designates debt securities issued at fair value through profit or loss. Interest paid or payable is recognized in the statement of comprehensive income.

As at 31st March	2023 Rs. '000	2022 Rs. '000
Short term borrowings (Note 35.1)	340,000	500,000
Long term borrowings (Note 35.2)	2,990,565	6,252,436
Interest payable	156,877	270,293
	3,487,442	7,022,730

## 35.1 Short Term Borrowings

As at 31st March	Terms of Repayment			2023 Rs. '000	2022 Rs. '000
	Interest Rate	Period	Payment terms		
Seylan Bank PLC	10.00%	1 Year	At maturity	-	500,000
Individual Borrowing	8.00%	1 Year	At maturity	340,000	-
				340,000	500,000

## 35.2 Long Term Borrowings

As at 31st March	Terms of Repayment			2023 Rs. '000	2022 Rs. '000
	Interest Rate	Period	Payment terms		
Seylan Bank PLC	AWPLR+1.9%	4 yrs	Fixed monthly installment	-	260,406
Securitized Borrowings	8.30% - 13.35%	3 Yrs	Variable installment	1,155,000	2,509,970
Sampath Bank PLC	9.00%	4 yrs	Fixed monthly installment	312,500	500,000
Peoples Bank	AWPLR+1.5%	3 yrs	Fixed monthly installment	27,778	361,111
Nations Trust Bank	21.00%	2yrs	Fixed monthly installment	187,500	437,500
National Development Bank PLC	10.80%	2yrs	Fixed monthly installment	187,500	437,500
National Development Bank PLC	AWPLR+1.8%	3 yrs	Annual installment	667,000	1,000,000
National Development Bank PLC	9.00%	3 yrs	Fixed monthly installment	152,788	319,450
Hatton National Bank PLC	AWPLR+1%	4 yrs	Fixed monthly installment	300,500	426,500
				2,990,565	6,252,436

Maturity analysis of borrowings and assets pledged details are given in note 54 and 51 to the financial statements respectively.

## Notes to the Financial Statements

### 36. OTHER FINANCIAL LIABILITIES

As at 31st March	2023 Rs. '000	2022 Rs. '000
Vendor payable	95,122	243,583
Insurance payable	183,970	172,168
Other payable	99,553	243,206
	378,645	658,957

### 37. DEFERRED TAX LIABILITIES

#### Accounting policy

Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except;

- Where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilized: except
- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

The deferred tax relating to items recognized directly in equity are also recognized in equity, and not in the statement of comprehensive income.

## Notes to the Financial Statements

## 37. DEFERRED TAX LIABILITIES (CONTD.)

As at 31st March	2023		2022	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
<b>Summary of net deferred tax liability</b>				
Balance at the beginning of the year	2,662,767	639,063	3,094,469	742,672
SLFRS Adjustments	-	-	-	-
Tax effect due to change of tax rate on opening deductible temporary difference (Refer Note 15)	-	(13,311)	-	-
Tax effect due to change of tax rate on opening revaluation surplus on PPE	-	169,086	-	-
Tax effect due to change of tax rate on opening actuarial gain	-	3,991	-	-
Amount originating/(reversing) during the year (Refer Note 15)	69,840	20,952	(866,314)	(207,915)
Deferred tax effect on revaluation surplus on PPE	-	-	328,486	78,837
Deferred tax effect on actuarial gain	(79,727)	(23,918)	106,126	25,470
Balance at the end of the year	2,652,880	795,864	2,662,767	639,063
<b>Deferred tax asset</b>				
Retirement benefit obligation	337,518	101,255	272,003	65,281
Unclaimed impairment provision	219,412	65,824	440,889	105,813
Lease Liability	38,905	11,672	53,532	12,848
	595,835	178,751	766,424	183,942
<b>Deferred tax liability</b>				
Accelerated depreciation for tax purpose - leased assets	(143,549)	(43,065)	(311,889)	(74,853)
Accelerated depreciation for tax purpose - owned assets	(287,075)	(86,122)	(299,211)	(71,811)
Deferred tax effect on revaluation surplus	(2,818,092)	(845,428)	(2,818,092)	(676,342)
	(3,248,716)	(974,615)	(3,429,191)	(823,006)
<b>Net temporary difference and deferred assets/(tax liability)</b>	<b>(2,652,880)</b>	<b>(795,864)</b>	<b>(2,662,767)</b>	<b>(639,064)</b>

## 38. RETIREMENT BENEFIT OBLIGATIONS

**Accounting policy**

The company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit (PUC) method as required by Sri Lanka Accounting Standard LKAS No. 19 - on 'Employees Benefits'. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflow using interest rates that apply to the currency in which the benefits will be paid.

The company policy is to perform actuarial valuation in every year.

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS 19 on 'Employees Benefits'.

This is a final salary defined benefit plan where regulatory requirement (Gratuity Act No. 12 of 1983) is to pay half month last drawn salary into number of years completed to the employees who completed 5 years upon termination of the employment.

## Notes to the Financial Statements

### 38.1 Provision for retirement benefit obligations

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	272,002	322,501
(Income)/Expenses recognized during the year (note 38.2)	82,354	(34,250)
Payments made during the year	(16,839)	(16,249)
Balance at the end of the year	337,518	272,002

### 38.2 Expenses recognized in the statement of comprehensive income

As at 31st March	2023 Rs. '000	2022 Rs. '000
Interest cost - statement of comprehensive income	42,704	27,735
Current service cost - statement of comprehensive income	26,440	22,485
Past service cost	-	(17,953)
	69,144	32,267
Actuarial loss - other comprehensive income	13,210	(66,517)
	82,354	(34,250)

Actuarial valuation of the gratuity liability was carried out as at 31st March, 2023 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 25% used in this valuation have been determined based on the staff turnover statistics of the company. (Previous year 20%).

#### 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. (2022- 60 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 17.0% has been used having given weightage to the anticipated long term rate of inflation. (Previous year 15.7%).

##### Salary increases

A 11% p.a salary increment rate has been used in respect of the active employees. (Previous year 10%).

## Notes to the Financial Statements

### 38. RETIREMENT BENEFIT OBLIGATIONS (CONTD...)

#### 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 2023, sensitivity analysis has been carried out as follows:

Discount Rate	Salary Escalation Rate	Present Value of Defined Benefit Obligation	
		2023 (Rs. '000)	2022 (Rs. '000)
1% Increase	As the Rate Above	328,527	263,644
1% Decrease	As the Rate Above	347,022	280,899
As the Rate Above	1% Increase	346,166	280,293
As the Rate Above	1% Decrease	329,205	264,093

#### 38.5 Maturity profile of the Defined Benefit Obligation

As at 31st March	2023 Rs. '000	2022 Rs. '000
Within the next 12 Months	78,226	58,596
Between 1 - 2 years	95,837	75,003
Between 2 - 5 years	120,319	96,400
Beyond 5 years	43,137	42,003
	337,518	272,002

Weighted Average duration of Defined Benefit Obligation as at 31st March 2023 is 3.20 years ( 3.65 years in 2022).

### 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 22%. (2022 - 14%).

As at 31st March	2023 Rs. '000	2022 Rs. '000
Lease Liability (Note 39.1.1)	178,573	233,757

#### 39.1.1 Movement in Operating lease liabilities

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	233,757	235,431
Modifications to Lease Liability	-	3,853
Disposals during the year	(3,554)	(17,251)
Additions/renewal operating leases during the year	3,163	46,062
Accretion of the Interest	14,133	35,791
Payment to lease creditors	(68,925)	(70,129)
Balance at the end of the year	178,573	233,757

## 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 2023.

Increase/(Decrease) in Incremental Borrowing Rate	2023 Rs. '000		2022 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	(3,286)	1,027	(4,186)	1,327
1bp Down	3,105	(1,041)	4,305	(1,341)

### 39.1.3 Contractual Maturity Analysis of Lease Liability

As at 31 March 2023	With in One Year Rs. '000	1 - 5 Years Rs. '000	Over 5 Years Rs. '000	Total Rs. '000
Lease Liability	4,148	174,424	-	178,573

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

## 40. STATED CAPITAL

As at 31st March	2023 Rs. '000	2022 Rs. '000
<b>Value</b>		
Ordinary shares	36,000	36,000
	36,000	36,000

As at 31st March	2023 No's	2022 No's
<b>Number of shares in issue</b>		
Ordinary shares (no par value)	3,006	3,006
	3,006	3,006

## Notes to the Financial Statements

### 41. CAPITAL RESERVE - REVALUATION RESERVE

The revaluation reserve relates to revaluation of land and buildings of the company and its associates company and represents the increase in the fair value of the land and buildings at the date of revaluation.

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	2,911,351	2,589,864
Increase during the year through FVOCI	(98,662)	400,324
Deferred tax effect	(169,086)	(78,837)
Balance at the end of the year	2,643,604	2,911,351

#### 41.1 REVALUATION RESERVE- COMPANY

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	2,221,290	1,997,538
Increase during the year due to revaluation	-	302,589
Transfer out realized gain on disposed revalued building	-	-
Deferred tax effect	(169,086)	(78,837)
Balance at the end of the year	2,052,205	2,221,290

#### 41.2 ASSOCIATE COMPANY RESERVE

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	690,061	592,326
Increase during the year through FVOCI	(98,662)	97,735
Transfer out realized gain on disposed revalued building	-	-
Deferred tax effect	-	-
Balance at the end of the year	591,399	690,061

Revaluation reserve (Company & Associates) can be utilized for dividend distribution upon realization.

### 42. STATUTORY RESERVE FUND

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	851,400	796,400
Transfers during the year	6,000	55,000
Balance at the end of the year	857,400	851,400

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

As at 31st March	2023 Rs. '000	2022 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

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	3,639,546	2,723,183
<b>Total comprehensive income</b>		
Profit for the year	106,053	1,011,550
Other comprehensive income - Actuarial gain / (Loss)	6,717	41,047
Transfer to general reserve	-	-
Transfer to statutory reserve	(6,000)	(55,000)
Transfer from OCI reserve	18,774	264,456
Transfer to regulatory loss allowance reserve	(1,043,234)	-
Dividend paid	-	(345,690)
Balance at the end of the year	2,721,856	3,639,546

## 45. REGULATORY LOSS ALLOWANCE RESERVE

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	-	-
Transfer to retained earnings	-	-
Transfer from retained earnings	1,043,234	-
Balance at the end of the year	1,043,234	-

\* The Regulatory Loss Allowance Reserve is a non-distributable reserve created as required by Section 7.1 of Direction No.01 of 2020. Finance Business act direction, classification and measurement of credit facilities.

## 46. FAIR VALUE THROUGH OCI RESERVE

As at 31st March	2023 Rs. '000	2022 Rs. '000
Balance at the beginning of the year	(550,391)	77,694
Transfer to retained earnings	(18,774)	(264,456)
Net gain / (losses) on remeasuring of FVOCI (note 46.1)	196,647	(363,628)
Balance at the end of the year	(372,519)	(550,391)

# Notes to the Financial Statements

## 46.1 Net gain / (losses) on remeasuring of FVOCI

	2023 Rs. '000	2022 Rs. '000
Government securities unrealised gain / (Losses)	21,276	(29,972)
Equity investments gain / (Losses)	175,370	(333,655)
	196,647	(363,628)

Fair Value through OCI reserve comprises the cumulative net change in fair value of financial investment, until such investment are derecognized or impaired.

## 47. CAPITAL COMMITMENTS

Capital commitments for which provision has not been made in the financial statements amounts to approximately Rs. 34.4 million for the company.

## 48. CONTINGENCIES

### 48.1 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:

- The gratuity liability of the company as at 31st March, 2023 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, 2023 is Rs. 337,518,254/-.
- 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 as no any pending court cases against the company to recover any damages.

### 48.2 Contingent assets

There are no contingent assets as at the date of the statement of financial position.

## 49. 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.

## Notes to the Financial Statements

### 50. 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.

#### 50.1 Parent and ultimate controlling party

The company does not have an identifiable parent of its own.

#### 50.2 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. 2.330 Million (FY 2022 - Rs. 2.349 Million).

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Short - term employee benefits	104,348	100,804
Post employee benefits	75,985	59,183
Other cost - Directors	39,350	35,936
	219,683	195,923

#### 50.3 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.

	2023 Rs. '000	2022 Rs. '000
<b>Statement of financial position</b>		
<b>Liabilities</b>		
Deposits	552,901	899,979
Borrowings	340,000	-
Interest Payable	2,267	-
	895,168	899,979
<b>Statements of comprehensive income</b>		
Interest expenses	51,994	84,753
Other Expenses	1,170	660
<b>Other transactions</b>		
Dividend paid on shareholding	-	178,065

Rs. 154,000 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.

## Notes to the Financial Statements

## 50. RELATED PARTY DISCLOSURE (CONTD...)

**50.4** Transactions with entities which are controlled by Key Management Personnel (KMPs) and their close family members (CFMs).

## 50.4.1 Statement of financial position

As at 31st March	2023 Rs. '000	2022 Rs. '000
<b>Assets</b>		
Insurance Commission Receivable	63,850	66,929
Other receivables	6,566	7,623
<b>Total</b>	<b>70,416</b>	<b>74,552</b>
Accommodation as a % of capital funds	0.75%	0.78%
<b>Liabilities</b>		
Deposits	2,090,251	2,165,946
Insurance premium payable	183,970	172,218
Accrued expenses	3,230	2,558
	<b>2,277,451</b>	<b>2,340,722</b>

## Statements of comprehensive income

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Interest income on loans and advances	-	-
Rent income	7,540	9,300
Insurance Commission Income	77,180	67,496
Other income	12,924	5,215
Interest expenses on fixed deposits	242,304	172,377
Security expenses	38,510	31,138
Other expenses	2,419	2,595
<b>Other Transactions</b>		
Dividend Paid on shareholdings	-	143,583

## Notes to the Financial Statements

## 50.4.2 Transactions with Associate Company

## Statement of financial position

As at 31st March	2023 Rs. '000	2022 Rs. '000
<b>Assets</b>		
Other assets	1,209	522
<b>Liabilities</b>		
Deposits	953,270	955,247

## Statements of comprehensive income

For the year ended 31st March	2023 Rs. '000	2022 Rs. '000
Rent income	1,560	1,560
Other income	2,310	1,189
Interest expenses on fixed deposits	88,260	67,330
Other Expenses	15	237
<b>Other transactions</b>		
Dividend income	-	-

## 50.5 Disclosures on related party transactions according to the section 9 of the listing rules

During the year the Company has entered in to following recurrent related party transactions which exceed 10% of the gross revenue/income as disclosed below;

Name of the Related Party	Relationship	Nature of the Transaction	Aggregate value of Related Party Transactions entered into during the financial year Rs. '000	Aggregate value of Related Party Transactions as a % of Gross Revenue	Terms and Conditions of the Related Party Transactions
Mercantile Fortune Insurance Brokers (Pvt) Ltd	Other Related Entity	Customer insurance premium paid to Mercantile Fortune Insurance Brokers (Pvt) Ltd.	1,140,664	12.62%	Premium paid at market rate

## Notes to the Financial Statements

## 51. 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 31.03.2023 (Rs. '000)	Securities/ mortgages
Hatton National Bank	Overdraft	347 Million		Mortgaged over investments in quoted shares by the company and over immovable property No. 28, Sunethradevi Road, Kohuwala
	Term Loan	500 Million	300,500	Mortgaged over hire purchases, leases and vehicle loan receivables for 120%
NDB	Term Loan	500 Million	152,788	Mortgaged over leases and vehicle loan receivables for 1.5 times
	Term Loan	500 Million	187,500	Mortgaged over vehicle loan receivables for 130%
	Term Loan	1 Billion	667,000	Mortgaged over vehicle loan receivables for 130%
Sampath Bank	Overdraft	100 Million	-	Mortgaged over property at Vajiragnana Mawatha, Maharagama
	Term Loan	750 Million	312,500	Mortgaged over leases receivables for 1.5 times
Seylan Bank	Short Term Loan	500 Million	-	Mortgaged over leases and vehicle loan receivables for 1.5 times
	Term Loan	500 Million	-	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	187,500	Mortgaged over leases receivables for 1.3 times
People's Bank	Term Loan	1 Billion	27,778	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 31.03.2023 (Rs. '000)	Securities/ mortgages
Securitized borrowings	Trust Loan	784 Million	-	Mortgaged over hire purchases, leases and vehicle loan receivables for 1.3 times
	Trust Loan	1 Billion	205,000,000	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
	Trust Loan	1 Billion	875,000,000	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
	Trust Loan	310 Million	75,000,000	Mortgaged over hire purchases, leases and vehicle loan receivables for 130%
	Trust Loan	600 Million	-	Mortgaged over vehicle loan receivables for 130%

## Notes to the Financial Statements

### 52. 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 in 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.

### 53. FINANCIAL REPORTING BY SEGMENTS

#### Accounting policy

An operating segment is a component of the company that engages in business activities from which it may earn revenues and incur expenses, including revenues and incur expenses, that relate to transactions with any of the company's other components, whose operating results are reviewed regularly by the company management committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

As per the provisions of Sri Lanka Reporting Standard - SLFRS 8, the operating segments of the company has been identified based on the products and services offered by the company of which level of risk and rewards are significantly differ from one another and management believes that information about the segment would be useful to users of the financial statements.

The operating business are organized and managed separately according to the nature of the products and services provided with each segment representing a strategic business unit that offers different products and serves different markets. The operating segments identified by the company for are as follows:

Finance lease	This segment includes finance leasing products offered to the customers
Hire purchase	This segment includes hire purchase products offered to the customers
Loans and advances	This segment include vehicle loans, loans against property mortgages and micro finance lending
Investments	This segment includes the investments in equities and debt securities
Other	This segment includes all other business activities other than the above segments

The company has aggregated all other business lines under "other segment" considering the risks & rewards and the materiality criteria.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing financial statements of the company. Inter- segment transfers are accounted at arms length basis.

#### Business Segments

The following table presents the income, profit and assets and liability information on the company business's segment for the year ended 31st March, 2023 and comparative figures for the year ended 31st March, 2022.

## Notes to the Financial Statements

## 53. FINANCIAL REPORTING BY SEGMENTS AS PER THE PROVISIONS OF SRI LANKA FINANCIAL REPORTING STANDARD - SLFRS 08 (CONTD...)

For the year ended 31st March	Finance Lease		Hire Purchase		
	2023 Rs. '000	2022 Rs. '000	2023 Rs. '000	2022 Rs. '000	
<b>External operating income</b>					
Interest income	4,265,204	3,578,669	14,377	87,915	
Interest expenses	2,895,869	1,298,486	9,761	31,899	
Net interest income/(expenses)	1,369,335	2,280,184	4,616	56,016	
Fee and commission income	-	-	-	-	
Capital gains	-	-	-	-	
Dividends	-	-	-	-	
Others	-	-	-	-	
<b>Total operating income</b>	1,369,335	2,280,184	4,616	56,016	
Impairment charge/(reversal) for loans and receivables / Equity Investments	(217,013)	(29,942)	(4,922)	10,593	
Net operating income	1,586,347	2,310,125	9,537	45,423	
Personnel expenses	571,693	676,068	1,927	16,609	
Commission	90,835	97,014	-	2,383	
Depreciation and amortisation	76,390	78,706	257	1,934	
Disallowed VAT on expenses	23,049	13,654	78	335	
Other overheads	568,954	512,741	1,918	12,596	
	1,330,921	1,378,183	4,180	33,857	
Operating profit before value added tax on financial services	255,426	931,942	5,357	11,566	
Value added tax and NBT on financial services	156,645	247,816	528	6,088	
Operating profit after value added tax on financial services	98,781	684,126	4,829	5,478	
Share of associate company's profit before taxation					
Profit before taxation from operations					
Income tax expenses					
Profit for the year					
<b>Other information</b>					
<b>As At 31st March</b>					
Segment assets	19,026,271	18,334,913	127,176	242,430	
Segment liabilities	14,625,201	14,056,466	97,758	185,859	
<b>Net assets</b>	4,401,070	4,278,447	29,418	56,571	



## Notes to the Financial Statements

	Loans & Advances		Investments		Others		Total	
	2023 Rs. '000	2022 Rs. '000	2023 Rs. '000	2022 Rs. '000	2023 Rs. '000	2022 Rs. '000	2023 Rs. '000	2022 Rs. '000
	3,243,151	2,878,637	1,227,136	214,704	-	-	8,749,868	6,759,925
	2,201,944	1,044,486	861,122	96,249	166,127	115,100	6,134,824	2,586,220
	1,041,207	1,834,151	366,014	118,455	(166,127)	(115,100)	2,615,044	4,173,706
	-	-	-	-	75,568	67,496	75,568	67,496
	-	-	-	-	-	-	-	-
	-	-	41,174	50,563	-	-	41,174	50,563
	-	-	-	-	169,113	249,722	169,113	249,722
	1,041,207	1,834,151	407,188	169,017	78,554	202,119	2,900,900	4,541,486
	(110,393)	(192,199)	-	-	56,127	63,873	(276,201)	(147,674)
	1,151,600	2,026,350	407,188	169,017	22,428	138,245	3,177,101	4,689,160
	434,700	543,821	170,000	50,113	32,796	59,928	1,211,116	1,346,538
	13,871	78,037	-	-	-	-	104,707	177,434
	58,085	63,310	22,716	5,834	4,382	6,977	161,831	156,759
	17,526	10,983	6,854	1,012	1,322	1,210	48,829	27,195
	432,618	412,443	169,185	38,007	32,639	45,450	1,205,314	1,021,237
	956,801	1,108,593	368,755	94,966	71,140	113,565	2,731,797	2,729,164
	194,799	917,757	38,434	74,051	(48,712)	24,681	445,304	1,959,996
	119,109	199,340	46,580	18,369	8,986	21,967	331,848	493,579
	75,690	718,417	(8,147)	55,682	(57,698)	2,714	113,456	1,466,417
							19,365	2,504
							132,820	1,468,920
							(26,767)	(457,370)
							106,053	1,011,550
	13,593,366	16,125,123	7,630,601	6,564,058	7,245,891	5,733,051	47,623,304	46,999,575
	10,449,011	12,362,331	5,865,525	5,032,337	5,569,804	4,388,247	36,607,298	36,025,240
	3,144,355	3,762,793	1,765,076	1,531,721	1,676,087	1,344,804	11,016,006	10,974,336

## Notes to the Financial Statements

## 54. 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	2023			2022		
	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
<b>Assets</b>						
<b>Financial assets</b>						
Cash and cash equivalents	1,791,064	-	1,791,064	681,130	-	681,130
Placement with banks	-	1,422	1,422	996,372	1,399	997,771
Financial investments-at FV through OCI	5,734,672	568,557	6,303,228	3,720,755	440,284	4,161,039
Financial investments - At FVPL	3,250	-	3,250	2,924	-	2,924
Loans and receivables	12,228,683	1,364,684	13,593,368	10,239,923	5,885,201	16,125,123
Finance lease receivables	7,177,721	11,848,547	19,026,269	6,037,506	12,297,407	18,334,913
Hire purchase receivables	25,801	101,375	127,176	108,287	134,143	242,430
Financial Investments - at FVOCI (unquoted)	-	70,427	70,427	-	70,427	70,427
Other financial assets	373,643	69,307	442,950	294,419	129,307	423,726
Total financial assets	27,334,836	14,024,318	41,359,153	22,081,317	18,958,167	41,039,484
<b>Non-financial assets</b>						
Inventories	-	314,853	314,853	-	36,000	36,000
Current tax refunds	117,327	-	117,327	-	-	-
Investment in associates	-	1,255,524	1,255,524	-	1,334,821	1,334,821
Other assets	100,261	129,983	230,244	34,419	132,308	166,727
Property, plant and equipment	-	3,930,649	3,930,649	-	3,952,290	3,952,290
Leasehold property	-	39,334	39,334	-	39,802	39,802
Intangible assets	-	9,335	9,335	-	28,235	28,235
Investment property	-	227,220	227,220	-	220,717	220,717
Right-of-use assets	-	139,667	139,667	-	181,499	181,499
Total non-financial assets	217,588	6,046,564	6,264,151	34,419	5,925,672	5,960,091
Total assets	27,552,423	20,070,881	47,623,304	22,115,735	24,883,839	46,999,575
<b>Liabilities</b>						
<b>Financial liabilities</b>						
Bank overdraft	93,518	-	93,518	395,159	-	395,159
Deposits due to customers	26,416,604	4,807,111	31,223,715	23,823,709	2,525,562	26,349,272
Debt instruments issued and other borrowings	2,611,442	876,000	3,487,442	3,694,042	3,328,687	7,022,730
Other financial liabilities	364,836	13,809	378,645	638,715	20,242	658,957
Total financial liabilities	29,486,400	5,696,920	35,183,320	28,551,626	5,874,492	34,426,117
<b>Non-financial liabilities</b>						
Current tax liabilities	-	-	-	328,579	-	328,579
Deferred tax liability	-	795,864	795,864	-	639,064	639,064
Other liabilities	112,023	-	112,023	125,719	-	125,719
Retirement benefit obligation	-	337,517	337,517	-	272,003	272,003
Lease Liability	-	178,573	178,573	-	233,757	233,757
Total non-financial liabilities	112,023	1,311,954	1,423,977	454,298	1,144,824	1,599,122
Total liabilities	29,598,423	7,008,873	36,607,298	29,005,923	7,019,315	36,025,239
Net assets/ liabilities	(2,046,000)	13,062,008	11,016,006	(6,890,188)	17,864,524	10,974,336

# Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT

### 55.1 Risk Index

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### 55.2 Introduction

MI's risk management landscape was further strengthened in the light of the prevailing macro economic turbulence and evolving financial industry landscape. As a result of policy changes deployed during the financial year under review to maintain ultimately an appropriate balance between risk and rewards the company was well geared to face headwinds that prevailed with resilience. 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 year. 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 continues to adopt.

# Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT (CONTD...)

### 55.2.1 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 Board Integrated Risk Management Committee (BIRMC) and the Board 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 BIRMC 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 BIRMC. Any negative deviations and exceeding of limits are captured through a sound risk monitoring process that regularly measures and reports such instances to the respective subcommittee through to the Board for their guidance and instructions.

### 55.2.2 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 BIRMC periodically by the Head of Compliance and Risk Management for the committee’s oversight.

### 55.2.3 MI’s Integrated Risk Management Framework



## Notes to the Financial Statements

### 55.3 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. 34 billion loan book, 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 (This includes 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.)

#### 55.3.1 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 as at the end of the financial year 2022/23 in keeping to SLFRS 9.

##### 55.3.1.A Credit Quality by Class of Financial Assets - As at 31st March 2023 (as per SLFRS 9)

	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
<b>Financial Assets</b>					
Cash and Cash Equivalents	1,791,064	-	-	-	1,791,064
Placements with banks	1,422	-	-	-	1,422
Financial Assets Measured at FVOCI (quoted)	6,303,228	-	-	-	6,303,228
Financial Assets Measured at FVPL	3,250	-	-	-	3,250
Loans & Receivables	-	10,075,190	2,572,984	1,908,088	14,556,262
Finance Lease Receivables	-	11,866,659	5,916,858	1,906,335	19,689,853
Hire Purchase Receivables	-	4,846	6,749	346,323	357,918
Financial Assets Measured at FVOCI (unquoted)	70,427	-	-	-	70,427
Other Financial Assets	442,950	-	-	-	442,950
	8,612,341	21,946,696	8,496,591	4,160,746	43,216,374

#### Commentary

Out of MI's total financial assets portfolio, 51% comprises of ECL stage 1 assigned loans and receivables (FY 2021/22 it was 56%). This marginal downward movement of the asset quality was mainly arose due to the macro-economic challenges prevailing in the market.

## Notes to the Financial Statements

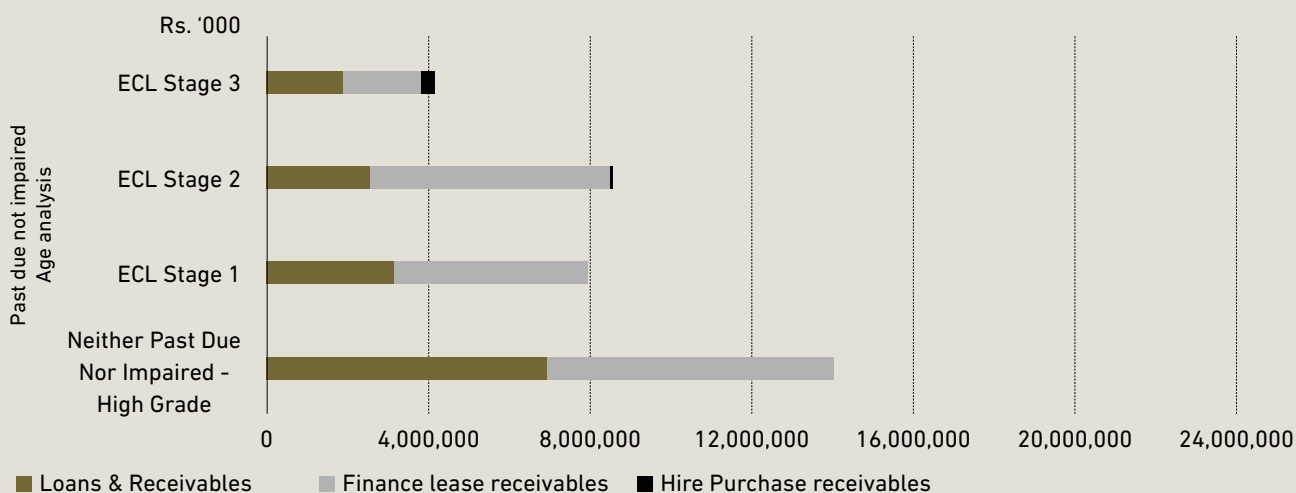
## 55. FINANCIAL RISK MANAGEMENT (CONTD...)

**55.3.1.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 2023 (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	6,929,115	3,146,075	2,572,984	1,908,088
Finance Lease Receivables	7,077,855	4,788,804	5,916,858	1,906,335
Hire Purchase Receivables	3,540	1,306	6,749	346,323
	14,010,509	7,936,186	8,496,591	4,160,746

**Commentary**

Close to 40% of the customer base at MI remained in the “high grade performing” customer group with zero past due basis (Last year 60%). Shifting of arrears stages towards longer past due duration was notably experienced during the financial year under review with the declining household income of the LFC sector borrower base aggravated mainly by the ongoing economic turbulence.

**Neither Past Due & Past Due not Impaired Age Analysis 2022/23**

## Notes to the Financial Statements

**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 229 to 231 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.

**55.3.1.C Credit Quality by Class of Financial Assets - As at 31st March 2022 (as per SLFRS 9)**

	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
<b>Financial Assets</b>					
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

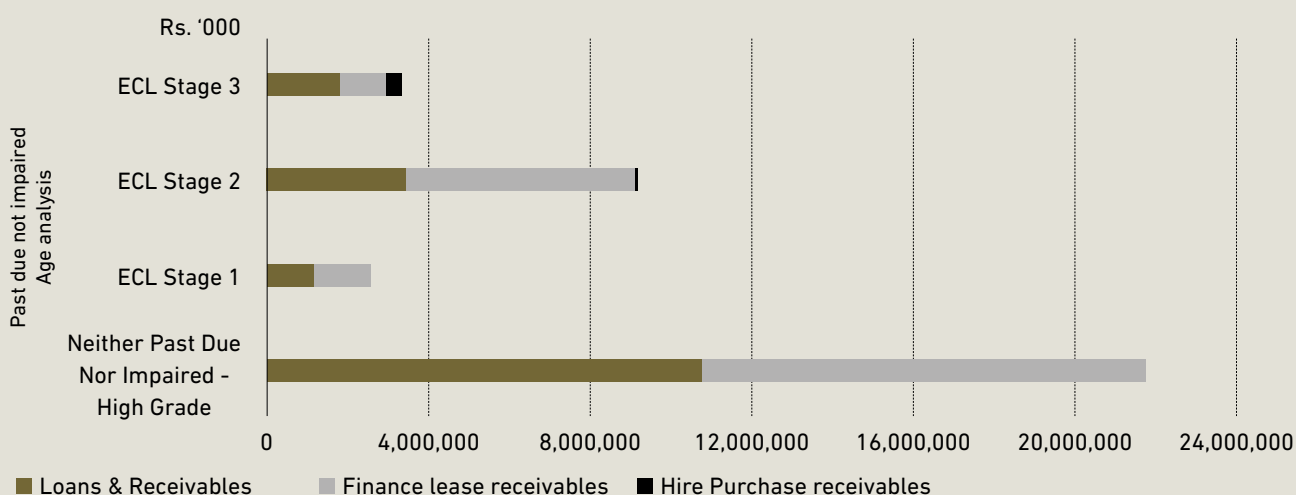
## Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT (CONTD...)

**55.3.1.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 2022 (as per SLFRS 9).

	Neither Past Due Nor Impaired - High Grade Rs. '000	Past due not impaired Age analysis		
		ECL Stage 1	ECL Stage 2	ECL Stage 3
		Rs. '000	Rs. '000	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

## Neither Past Due &amp; Past Due not Impaired Age Analysis 2021/22





## Notes to the Financial Statements

## 55.3.1.E Credit Exposure Movement - ECL Stage Wise (as per SLFRS 9)- As at 31st March 2023

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 Rs. '000	Not Subject to ECL Rs. '000	12 Month ECL (Stage 1) Rs. '000	Life time ECL - not credit impaired (Stage 2) Rs. '000	Life time ECL - credit impaired (Stage 3) Rs. '000
<b>Cash and Cash Equivalents</b>					
Gross carrying amount as at April 1, 2022	681,130	681,130	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	1,109,934	1,109,934	-	-	-
Financial assets derecognized or repaid (excluding write-offs)	-	-	-	-	-
As at March 31, 2023	1,791,064	1,791,064	-	-	-
<b>Placements with banks</b>					
Gross carrying amount as at April 1, 2022	997,771	997,771	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(996,349)	(996,349)	-	-	-
As at March 31, 2023	1,422	1,422	-	-	-
<b>Financial assets measured at FVOCI (quoted)</b>					
Gross carrying amount as at April 1, 2022	4,161,039	4,161,039	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	2,142,190	2,142,190	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Write-offs	-	-	-	-	-
As at March 31, 2023	6,303,228	6,303,228	-	-	-
<b>Financial assets measured at FVPL</b>					
Gross carrying amount as at April 1, 2022	2,924	2,924	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	326	326	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Write-offs	-	-	-	-	-
As at March 31, 2023	3,250	3,250	-	-	-

## Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT (CONTD...)

## 55.3.1.E Credit Exposure Movement - ECL Stage Wise (as per SLFRS 9)- As at 31st March 2023 (Contd.)

	Carrying Amount Rs. '000	Not Subject to ECL Rs. '000	12 Month ECL (Stage 1) Rs. '000	Life time ECL - not credit impaired (Stage 2) Rs. '000	Life time ECL - credit impaired (Stage 3) Rs. '000
<b>Financial assets at amortised cost – Loans &amp; Receivables</b>					
Gross carrying amount as at April 1, 2022	17,209,563	-	11,953,156	3,449,385	1,807,022
Transfer to Stage	-	-	(248,840)	74,201	174,639
New assets originated or purchased	7,176,777	-	6,081,124	949,330	146,323
Financial assets derecognised or repaid (excluding write-offs)	(9,826,621)	-	(7,710,250)	(1,899,932)	(216,439)
Write-offs	(3,456)	-	-	-	(3,456)
As at March 31, 2023	14,556,262	-	10,075,190	2,572,984	1,908,088
<b>Financial assets at amortised cost – Finance lease receivables</b>					
Gross carrying amount as at April 1, 2022	19,202,310	-	12,397,745	5,668,833	1,135,733
Transfer to Stage	-	-	(1,583,980)	580,240	1,003,740
New assets originated or purchased	7,197,402	-	5,666,537	1,383,348	147,517
Financial assets derecognised or repaid (excluding write-offs)	(6,706,009)	-	(4,613,642)	(1,715,562)	(376,804)
Write-offs	(3,851)	-	-	-	(3,851)
As at March 31, 2023	19,689,853	-	11,866,659	5,916,858	1,906,335
<b>Financial assets at amortised cost – Hire Purchase receivables</b>					
Gross carrying amount as at April 1, 2022	489,918	-	26,645	72,764	390,509
Transfer to Stage	-	-	21,326	(26,650)	5,324
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	(124,866)	-	(43,124)	(39,366)	(42,376)
Write-offs	(7,135)	-	-	-	(7,135)
As at March 31, 2023	357,918	-	4,846	6,749	346,323

## Notes to the Financial Statements

## 55.3.1.E Credit Exposure Movement - ECL Stage Wise (as per SLFRS 9)- As at 31st March 2023 (contd.)

	Carrying Amount Rs. '000	Not Subject to ECL Rs. '000	12 Month ECL (Stage 1) Rs. '000	Life time ECL - not credit impaired (Stage 2) Rs. '000	Life time ECL - credit impaired (Stage 3) Rs. '000
<b>Financial assets measured at FVOCI (unquoted)</b>					
Gross carrying amount as at April 1, 2022	70,427	70,427	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Write-offs	-	-	-	-	-
As at March 31, 2023	70,427	70,427	-	-	-
<b>Other Financial Assets</b>					
Gross carrying amount as at April 1, 2022	423,726	423,726	-	-	-
Transfer to Stage	-	-	-	-	-
New assets originated or purchased	19,223	19,223	-	-	-
Financial assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Write-offs	-	-	-	-	-
As at March 31, 2023	442,950	442,950	-	-	-

## Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT (COND...)

## 55.3.1.F Provision for Impairment (ECL) Movement (as per SLFRS 9)- As at 31st March 2023

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
<b>Financial assets at amortised cost – Loans &amp; Receivables</b>						
Provision for impairment (ECL) as at April 1, 2022			78,164	141,384	703,093	922,641
Transfer to Stage			31,843	(34,631)	2,788	-
Net remeasurement of impairment			(36,550)	8,397	24,814	(3,339)
New assets originated or purchased			46,649	19,581	15,324	81,554
Financial assets derecognised or repaid (excluding write-offs)			(60,458)	(85,985)	(42,164)	(188,608)
Write offs and Recoveries			-	-	(3,456)	(3,456)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
As at March 31, 2023	23	250	59,648	48,746	700,399	808,792
<b>Financial assets at amortised cost – Finance lease receivables</b>						
Provision for impairment (ECL) as at April 1, 2022			115,543	318,027	377,163	810,733
Transfer to Stage			90,625	(112,845)	22,219	-
Net remeasurement of impairment			(125,318)	23,008	67,929	(34,381)
New assets originated or purchased			33,182	23,491	18,800	75,473
Financial assets derecognised or repaid (excluding write-offs)			(40,975)	(136,770)	(80,360)	(258,104)
Write offs and Recoveries			-	-	(3,851)	(3,851)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
As at March 31, 2023	24	252	73,057	114,911	401,901	589,869
<b>Financial assets at amortised cost – Hire Purchase receivables</b>						
Provision for impairment (ECL) as at April 1, 2022			362	5,315	222,568	228,245
Transfer to Stage			2,414	(2,151)	(263)	-
Net remeasurement of impairment			(2,421)	(318)	7,419	4,680
New assets originated or purchased			-	-	-	-
Financial assets derecognised or repaid (excluding write-offs)			(169)	(2,171)	(7,262)	(9,602)
Write offs and Recoveries			-	-	(7,135)	(7,135)
Unwinding of Discount			-	-	-	-
Other Movements			-	-	-	-
As at March 31, 2023	25	254	186	675	215,328	216,189

## Notes to the Financial Statements

### 55.3.2 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 31 March 2023	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,	1,807,022	1,135,733	390,509	3,333,263
Newly classified as impaired loans and advances during the year	146,323	147,517	-	293,840
Net change in already impaired loans and advances during the year	174,639	1,003,740	5,324	1,183,703
Net payment, write-off and recoveries and other movement during the year	(219,895)	(380,655)	(49,511)	(650,060)
Impaired loans and advances of customers as at March 31,	1,908,088	1,906,335	346,323	4,160,746

As at 31 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	39,071	79,621	-	118,693
Net change in already impaired loans and advances during the year	(82,333)	132,193	1,506	51,366
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

### 55.3.3 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 2023 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 2023 to a reasonably possible change in PDs, LGDs and forward looking information.

## Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT (CONTD...)

## 55.3.3 Sensitivity of impairment provision on loans and advances to other customers (as per SLFRS 9) (Contd.)

	Sensitivity effect on Statement of Financial Position [Increase/ (Decrease) in impairment provision]				Sensitivity Effect on Income Statement
	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000	
PD 1% increase across all age buckets	24,249	6,857	-	31,106	(31,106)
PD 1% decrease across all age buckets *	(24,249)	(6,857)	-	(31,106)	31,106
LGD 5% increase	95,867	128,112	129,900	353,879	(353,879)
LGD 5% decrease *	(89,857)	(119,952)	(122,764)	(332,573)	332,573
Probability weighted Economic Scenarios					
Base case 10% increase, worst case 5% decrease and best case 5% decrease	86	111	-	198	(198)
Base case 10% decrease, worst case 5% increase and best case 5% increase	(120)	(171)	-	(291)	291

\* The PD/LGD decrease is capped to 0%, if applicable.

**Commentary**

Based on the "Sensitivity effect on the Statement of Financial Position [Increase/ (Decrease) in impairment provision]" currently impact from a probability of default (+or (-) 1%) and (+or (-) 5%) Loss given default is at significant level at Rs. 31 Million and Rs. 354 Million respectively. However, the worse case scenario impacted regulatory Capital Adequacy Ratio would be 17.22%, well above the minimum regulatory limit of 12.5%.

## 55.3.4 Types of Collateral Taken to Minimise Credit Exposure

## 55.3.4.A Collateral Held

Type of Lending	Collateral generally obtained
Lease & Hire Purchase	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.
Personal Loans/ Term Loans	Same as above except Residential property.
Micro Finance, Cheque Loans	Promissory notes
Gold Loans	Gold articles

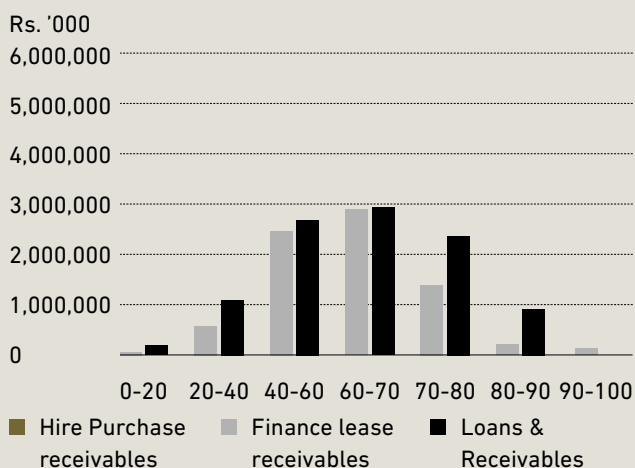
## Notes to the Financial Statements

### 55.3.4.B Credit Portfolio Classification Based on Loan to Value Ratio (LTV)

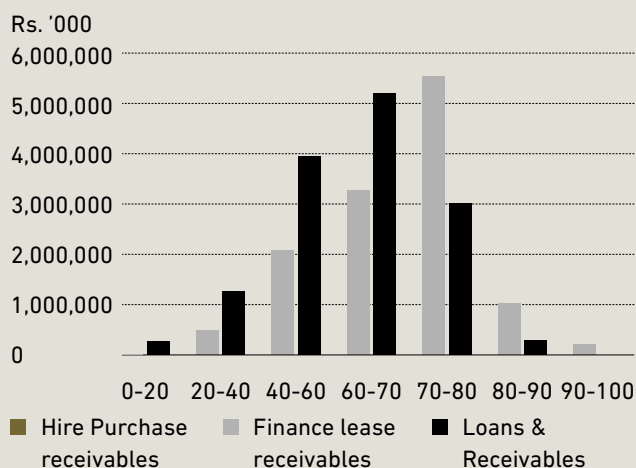
The table below specifies eligible credit exposures on the total lendings carried out for the FY 2022/23 by ranges of loan-to-value (LTV) ratios. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral.

LTV Ratio %	Rs. '000							
	2022/23				2021/22			
	Loans & Receivables	Finance lease receivables	Hire Purchase receivables	Total	Loans & Receivables	Finance lease receivables	Hire Purchase receivables	Total
0-20	197,382	69,019	-	266,401	264,181	45,551	-	309,732
20-40	1,097,122	576,963	-	1,674,085	1,270,567	488,151	-	1,758,718
40-60	2,690,506	2,475,836	-	5,166,342	3,955,652	2,079,263	-	6,034,914
60-70	2,939,261	2,898,321	-	5,837,582	5,208,106	3,268,536	-	8,476,642
70-80	2,369,893	1,401,888	-	3,771,781	3,026,700	5,537,131	-	8,563,831
80-90	920,721	210,427	-	1,131,148	284,753	1,033,355	-	1,318,108
90-100	8,036	134,728	-	142,764	7,800	202,414	-	210,214
	10,222,922	7,767,181	-	17,990,103	14,017,759	12,654,400	-	26,672,159

#### LTV Ratio 2022/23



#### LTV Ratio 2021/22



#### Commentary

LTV remained below 80% for approximately 93% of new lending business carried out during the year, this indicates adequate collateral backing to cover against the remaining credit exposure.

## Notes to the Financial Statements

### 55. FINANCIAL RISK MANAGEMENT (CONTD...)

#### 55.3.4. C Maximum Net Exposure of the Financial Assets

The following table shows the maximum exposure and net exposure to credit risk by class of financial assets.

As at 31 March	2023		2022	
	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000	Maximum exposure to credit risk Rs. '000	Net exposure Rs. '000
<b>Financial Assets</b>				
Cash and cash equivalents	1,791,064	1,791,064	681,130	681,130
Placements with Banks	1,422	1,422	997,771	997,771
Financial Assets Measured at FVOCI (quoted)	6,303,228	6,303,228	4,161,039	4,161,039
Financial Assets Measured at FVPL	3,250	3,250	2,924	2,924
Loans & Receivables	13,593,368	-	16,125,123	-
Finance Lease Receivables	19,026,269	-	18,334,913	-
Hire Purchase Receivable	127,176	-	242,430	-
Financial Assets Measured at FVOCI (unquoted)	70,427	70,427	70,427	70,427
Other Financial assets	442,950	442,950	423,726	423,726
	<u>41,359,153</u>		<u>41,039,484</u>	

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.

#### 55.3.5 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.

##### 55.3.5. A. Sector Wise Analysis

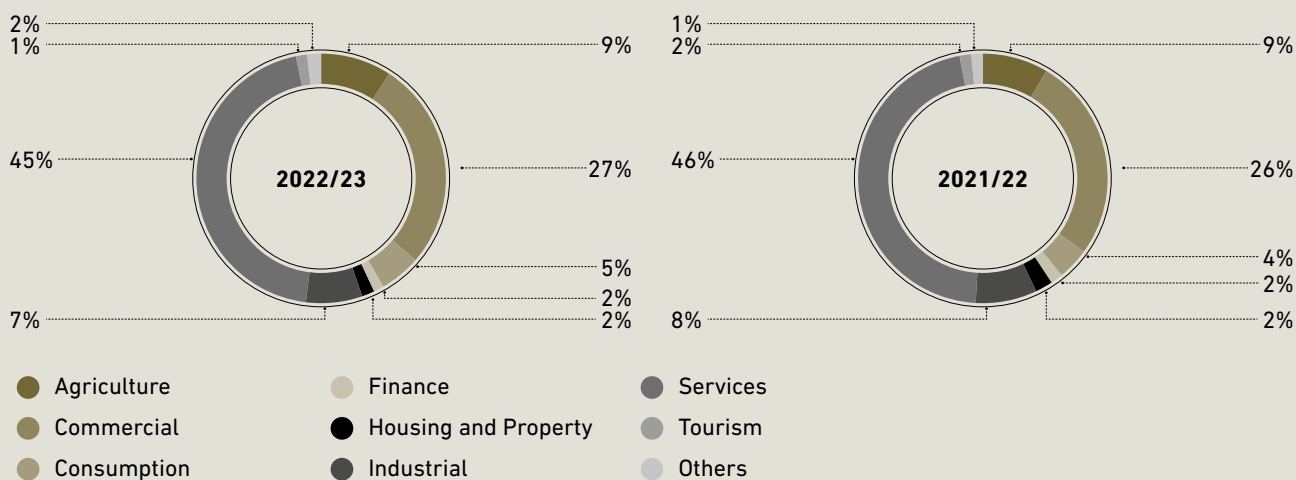
Outlined below are the maximum credit exposures of MI's loans and advances to various sectors, as at the end of the underlined financial year;

Industry	31.03.2023	%	31.03.2022	%
Agriculture	3,169,704	9	3,137,141	9
Commercial	9,415,210	27	9,766,770	26
Consumption	1,843,898	5	1,534,306	4
Finance	462,697	2	586,444	2
Housing and Property	558,840	2	834,004	2
Industrial	2,528,820	7	2,929,776	8
Services	15,498,062	45	17,008,794	46
Tourism	501,318	1	558,791	2
Others	625,484	2	545,764	1
Grand Total	<u>34,604,033</u>	100	<u>36,901,790</u>	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 Service sector which remained high at 45% of total lending value. This is mainly attributable to the lendings carried out for transportation services, health care and professional services. Further, the Tourism sector exposure stood at 1% (2% FY 2021/22) with minimal exposure for MI. Other sector exposures were also closely monitored considering the on-going economic volatility amidst the foreign exchange driven crisis.

### 55.3.5. B. Province Wise Analysis

This table below discloses MI's geographic credit exposure;

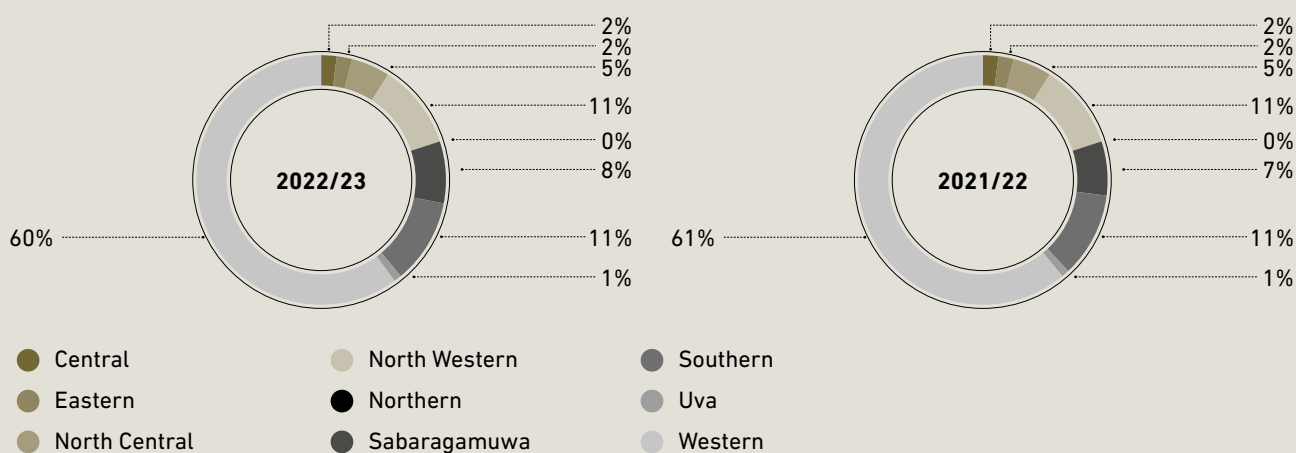
Province	31.03.2023	%	31.03.2022	%
Central	822,964	2	916,816	2
Eastern	740,052	2	703,535	2
North Central	1,614,853	5	1,681,295	4
North Western	3,945,649	11	4,071,284	11
Northern	43,440	0	16,489	0
Sabaragamuwa	2,566,838	8	2,918,481	8
Southern	3,768,232	11	3,898,862	11
Uva	263,538	1	298,425	1
Western	20,838,468	60	22,396,603	61
Total	34,604,033	100	36,901,790	100

# Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT (CONTD...)

### 55.3.5. B. Province Wise Analysis (Contd.)

#### 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 continued to reflect the largest contribution of 60% towards MI's total lending, with a marginal decrease compared to last financial year contribution of 61%. In keeping to MI's expansion strategy beyond the Western Province, there is a gradual credit diversification to other regions as well, in particular the Northern, Eastern and Central Provinces.

## 55.4 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. Considering the prevailing volatile economic setting, the company continued to display 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.

### 55.4.1 Exposure to Liquidity Risk

Ratio	2023	2022
Net Loans/Customer Deposits	105%	132%
Net Loans/Total Assets	69%	74%

#### Commentary

MI's net loans to deposits ratio remained at acceptable levels of 105%, decreasing compared to last year amidst the challenging times disrupted by ongoing economic turbulence in the country.

### 55.4.2 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 2023.

The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns. The estimated maturity profiles of undiscounted cash flows may also differ, due to rollover of loans and advances and renewal of fixed deposits.

## Notes to the Financial Statements

	On demand Rs. '000	Up to 3 Months Rs. '000	4-12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Unclassified Rs. '000	Total Rs. '000
<b>Financial Assets</b>								
Cash & Cash Equivalents	1,791,064	-	-	-	-	-	-	1,791,064
Placement with Banks	-	-	-	-	-	1,422	-	1,422
Financial Investments FVOCI	-	3,583,845	2,150,825	-	-	-	638,984	6,373,655
Financial Investments FVPL	3,250	-	-	-	-	-	-	3,250
Loans and Receivables	1,251,048	1,239,153	6,025,439	5,230,163	2,636,908	2,163	-	16,384,873
Finance Lease Receivables	863,533	3,278,619	7,608,265	12,415,198	2,272,465	-	-	26,438,080
Hire Purchase Receivables	146,802	29,433	64,230	106,417	12,197	-	-	359,079
Other Financial Assets	-	373,643	-	-	-	-	69,307	442,950
<b>Total Financial Assets</b>	<b>4,055,697</b>	<b>8,504,693</b>	<b>15,848,759</b>	<b>17,751,778</b>	<b>4,921,570</b>	<b>3,585</b>	<b>708,291</b>	<b>51,794,372</b>
<b>Financial Liabilities</b>								
Bank Overdraft	93,518	-	-	-	-	-	-	93,518
Deposits Due to Customers	193,430	17,480,444	11,907,773	4,409,169	3,891,085	-	-	37,881,901
Debt Instruments Issued and Other Borrowings	2,267	827,680	2,060,488	860,396	-	-	-	3,750,830
Other Financial Liabilities	42,021	298,956	23,781	-	-	-	13,885	378,642
<b>Total Financial Liabilities</b>	<b>331,236</b>	<b>18,607,079</b>	<b>13,992,042</b>	<b>5,269,565</b>	<b>3,891,085</b>	<b>-</b>	<b>13,885</b>	<b>42,104,891</b>
<b>Total Net Financial Assets/Liabilities</b>	<b>3,724,461</b>	<b>(10,102,386)</b>	<b>1,856,717</b>	<b>12,482,213</b>	<b>1,030,485</b>	<b>3,585</b>	<b>694,406</b>	<b>9,689,481</b>

**Measurement Assumptions**

- Liquidity gap analysis is prepared based on the contractual maturity of assets and liabilities as at 31st March 2023.
- 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 2023 interest rate or the interest rate cap was used for calculation.

**Commentary**

With the upward trajectory in interest rates, investors opted to place shorter tenor deposits while restricting longer tenor borrowings as well. As the average tenor of loan book stood above 1 year, the company's one year cumulative total assets and liability mismatch stood at Rs. 4.5 Billion (undiscounted basis). Refer financial statement Note 54 for actual maturity mismatch at MI.

## Notes to the Financial Statements

### 55. FINANCIAL RISK MANAGEMENT (CONTD...)

#### 55.4.3 Compliance to the Statutory Liquidity Position

Finance companies are required to maintain daily cash requirements and comply to minimum statutory liquidity limits imposed by the regulator. The Board together with Treasury division closely monitored the liquidity position on a daily, weekly & monthly basis and periodic statutory liquid assets reports were 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 16.7% 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 regulator.

#### 55.4.4 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 2023	Actual as at 31st March 2023	CBSL minimum requirement as at 31st March 2022	Actual as at 31st March 2022
Total liquid assets (Rs. '000)	3,166,043	5,941,046	2,647,918	3,576,631
Statutory liquid assets ratio (%)	10	18.82	10	13.57
Minimum approved securities (Rs. '000)	1,853,150	4,135,547	1,670,896	1,890,882

#### Commentary

We kept required liquidity buffers well above the minimum requirement of 10% throughout the financial year under review to endure any market shocks that could result from the prevailed economic volatility.

#### 55.4.5 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, by executing new and existing funding lines and temporary facilities from banks and other financial intermediaries as and when needed. The Core funding source remained the mobilization of deposits which remained on a growth trajectory, sourced from 43 MI locations.

### 55.5 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

### 55.5.1 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.

#### 55.5.1.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 2023. The financial assets and financial liabilities so disclosed are at their carrying amounts and categorised by the earlier of contractual re- pricing or maturity dates.

	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 Years Rs. '000	3 to 5 Years Rs. '000	More than 5 Years Rs. '000	Non-Interest Bearing Rs.'000	Total Rs.'000
<b>Financial Assets</b>							
Placement with other banks	-	-	-	-	1,422	-	1,422
Financial Investments -at FVOCI	1,984,721	2,150,826	-	-	-	-	4,135,547
Loans and Receivables	2,294,051	5,617,991	3,981,727	1,698,640	959	-	13,593,368
Finance Lease Receivables	2,811,302	5,170,966	9,149,494	1,894,507	-	-	19,026,269
Hire Purchase Receivables	63,115	29,173	30,877	4,011	-	-	127,176
<b>Total Financial Assets</b>	<b>7,153,189</b>	<b>12,968,956</b>	<b>13,162,098</b>	<b>3,597,158</b>	<b>2,381</b>	<b>-</b>	<b>36,883,781</b>
<b>Financial Liabilities</b>							
Bank Overdraft	93,518	-	-	-	-	-	93,518
Deposits Due to Customers	16,344,216	10,072,389	2,897,409	1,909,701	-	-	31,223,715
Debt Instruments Issued and Other Borrowings	737,662	1,873,780	837,254	38,746	-	-	3,487,442
<b>Total Financial Liabilities</b>	<b>17,175,396</b>	<b>11,946,169</b>	<b>3,734,663</b>	<b>1,948,447</b>	<b>-</b>	<b>-</b>	<b>34,804,675</b>
<b>Total Interest Sensitivity Gap</b>	<b>(10,022,207)</b>	<b>1,022,787</b>	<b>9,427,435</b>	<b>1,648,711</b>	<b>2,381</b>	<b>-</b>	<b>2,079,106</b>

#### 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.

#### 55.5.1.B Interest Rate Sensitivity Analysis

Given below is a sensitivity analysis carried out as at 31st March 2023 that demonstrates possible impact to MI's Net Interest Income due to parallel rate shock on rate sensitive assets and liabilities, keeping all other variables constant.

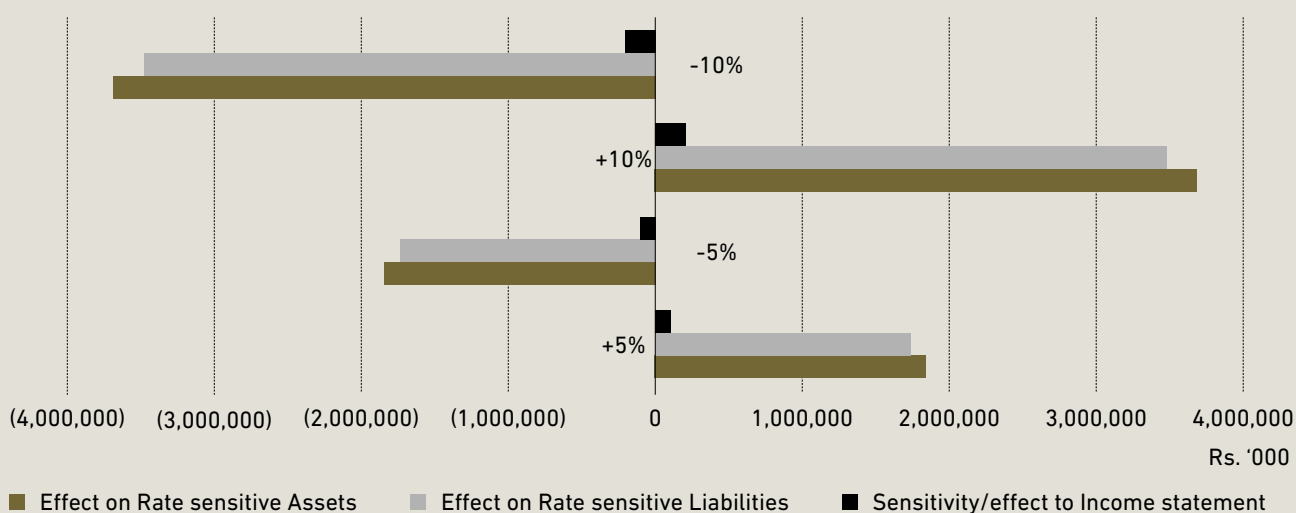
## Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT (CONTD...)

## 55.5.1.B Interest Rate Sensitivity Analysis (Contd.)

	Parallel increase of market rates by 5% effect to the Interest Income / (Expenses) (Rs. '000)	Parallel decrease of market rates by 5% effect to the Interest Income/ (Expenses) (Rs. '000)	Parallel increase of market rates by 10% effect to the Interest Income (Expenses) (Rs. '000)	Parallel decrease of market rates by 10% effect to the Interest Income/ (Expenses) (Rs. '000)
Effect on Rate sensitive Assets	1,844,189	(1,844,189)	3,688,378	(3,688,378)
Effect on Rate sensitive Liabilities	1,740,234	(1,740,234)	3,480,468	(3,480,468)
Sensitivity/ effect to Net Interest Income	103,955	(103,955)	207,910	(207,910)

## Interest Rate Sensitivity Analysis



## Measurement Assumptions

- The sensitivity rates applied + or (-) to parallel static over the total financial assets and financial liabilities contractual tenor till maturities.

## Commentary

MI possesses interest rate sensitive assets of Rs. 36.8 billion and rate sensitive liabilities of Rs. 34.8 billion. Based on the sensitivity analysis, an interest rate fluctuation of 10%+ or (10%) will result in Rs. 208 Million impact to Net Interest Income.

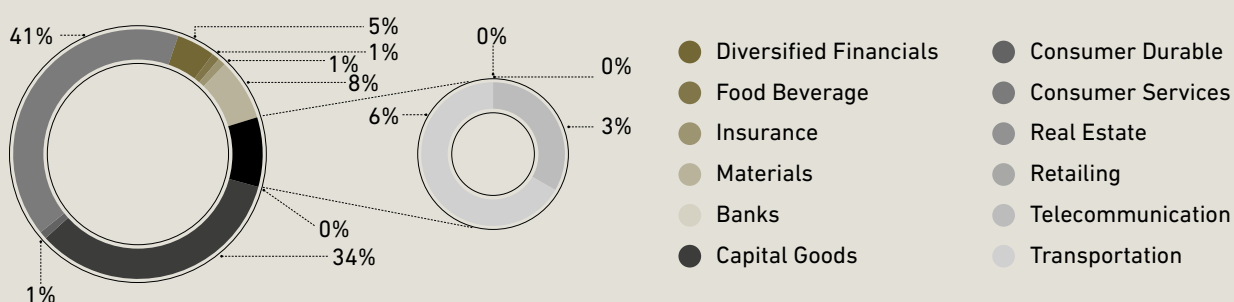
## Notes to the Financial Statements

### 55.5.2 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. 2.5 billion, which has been primarily invested in 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.

#### 55.5.2.A Analysis on Exposure to Equity Price Risk

##### Effect by Each Sector 2022/23



The table below summarises the impact on both the Other Comprehensive Income and on the equity in the event the Market drops to the recorded lowest market prices in last 2 years.

Investment Sector	Market Value at Lowest price (Last 2 Years) (Rs. '000)	Effect to the Other Comprehensive Statement of Income if Market drops to the recorded lowest market price (Rs. '000)	Percentage (%) of effect by each sector
Banks	2,939	2,985	0.39
Capital Goods	272,021	259,332	34.17
Consumer durable	12,666	9,971	1.31
Consumer services	400,218	311,088	40.98
Diversified Financials	72,560	40,383	5.32
Food Beverage	23,166	5,612	0.74
Insurance	5,600	4,380	0.58
Materials	29,340	56,917	7.50
Real Estate	290	130	0.02
Retailing	12,000	2,025	0.27
Telecommunication	73,470	23,250	3.06
Transportation	19,510	42,958	5.66
	923,779	759,031	100.00

#### Commentary

Amidst the prevailing economic turbulence, significant declining of share prices were notably observed during the financial year under review. This trend was mainly driven by economic contraction, high inflation, lower profit margins of corporates and adverse global economic conditions.

## Notes to the Financial Statements

### 55. FINANCIAL RISK MANAGEMENT (CONTD...)

#### 55.5.2.A Analysis on Exposure to Equity Price Risk (Contd.)

The table below summarises the impact on Other Comprehensive Income due to 10% change in equity market prices.

	2022/23 Financial investments - at Fair Value through OCI Rs. '000	2021/22 Financial investments - at Fair Value through OCI Rs. '000
Stress Level	Impact on OCI	Impact on OCI
Shock of 10% on equity price (upward)	168,281	163,199
Shock of 10% on equity price (downward)	(168,281)	(163,199)

#### Commentary

Based on the risk analysis carried out on MI's equity portfolio after considering a possible downward market sentiments resulting especially due to macro economic challenges, the maximum amount of equity risk affect to the other comprehensive statement of income (OCI) stood at Rs. 168.3 million as at the end of 31 March 2023. Total impact to Total Risk Weighted Capital Adequacy Ratio (CAR) would be marginal and keeping yet MI's CAR at 17.64% well above the regulatory limit of 12.5%.

### 55.6 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 178 operational risk section for further details).

#### 55.6.1 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 of the hotel. With the prevailing gradual pick up in tourism post Covid, already business on a sustainable growth trajectory.

#### 55.6.2 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 Alliances section pages 58 to 59, Financial Statements Note 38 which provides a detailed breakdown of defined employment benefit estimates including assumptions made.



# Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT (CONTD...)

### 55.7 Capital Management Risk

#### 55.7.1 Capital Management Objectives

Capital Adequacy being a strong measure to reflect financial health and stability of a finance company is treated as a high priority KPI and critical area of focus by the MI Board. Maintaining the right level of capital is important for the Company due to following reasons;

- Maintenance of a strong capital buffer against unexpected losses and to possess sufficient capital to meet current and future business needs and stakeholder expectation
- To meet prudential minimum capital requirements set by the regulator

MI's Strong capital base 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 the company's capital adequacy position 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.

#### 55.7.2 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	01.07.2022 onwards
Tier 1 Capital	8.5
Total Capital	12.5

### Salient Computational Features

#### Risk Weighted Assets Computation

##### Credit Risk

- Loan Portfolio separation between Performing and Non Performing.
- Asset Categorization based on counter parties risk profile
- Assessment of counter party ratings.
- Level of security underlining the claims.

The risk rates weights applied vary for a) to d) above depending on the level of credit risks.

##### Operational Risk

Under the "Basic Indicator approach" a formula based computation is applied taking historic information to assess the level of operational risk, thereby arriving at the risk weighted amount for operational risk.

Both credit risk and operational risk is combined to arrive at MI's total risk weighted assets.

MI's Tier 1 capital & total capital position as at 31st March 2023 (with comparison) and the capital adequacy ratio position are given in Note 55.7.4.

## Notes to the Financial Statements

### 55 FINANCIAL RISK MANAGEMENT (CONTD...)

#### 55.7.3 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's effective from 1st July 2022.

Capital thresholds for each PCA capital adequacy applicable to LFCs with assets less than Rs. 100 Billion is as follows;

PCA capital category	Capital Adequacy Ratio (CAR)
Well capitalized	CAR $\geq$ 14%
Adequately capitalized	12.5% $\leq$ CAR $<$ 14%
Undercapitalized	9.5% $\leq$ CAR $<$ 12.5%
Significantly undercapitalized	6.5% $\leq$ CAR $<$ 9.5%
Critically undercapitalized	CAR $<$ 6.5%

#### 55.7.4 Total Capital Base Computation

Item	31st March 2023	31st March 2022
Tier 1 Capital	7,701,686	8,613,376
Stated Capital/assigned capital	36,000	36,000
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	857,400	851,400
Audited retained earnings/(Losses)	2,721,856	3,639,546
(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	427,527	1,239,509
Goodwill (net)	-	-
Other intangible assets (net)	9,335	28,235
Other Comprehensive losses	372,519	550,391
Deferred tax assets (net)	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	-	583,808
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	45,674	77,075
Shortfall of capital in Financial subsidiaries	-	-
Tier 1 Capital (after adjustments)	7,274,159	7,373,867
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	45,674	77,075
50% Investment in banking & financial subsidiary companies	-	-
50% of investment in other banking & financial institutions	45,674	77,075
Eligible Tier 2 Capital after adjustments	696,491	665,090
Total Capital	7,970,650	8,038,957

# Notes to the Financial Statements

## 55. FINANCIAL RISK MANAGEMENT (CONTD...)

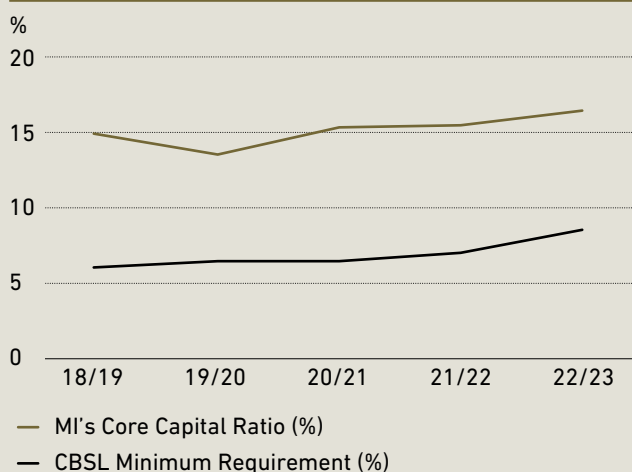
### 55.7.4.1 Capital Adequacy Ratios

As at 31st March		Strategic Plan (Projected 2023)	2023 %	2022 %
Core Capital Ratio =	Tier 1 Capital	> 13%	16.45	15.45
	Risk Weighted Assets			
Total Risk Weighted Capital Ratio =	Capital Base	> 15%	18.02	16.84
	Risk Weighted Assets			

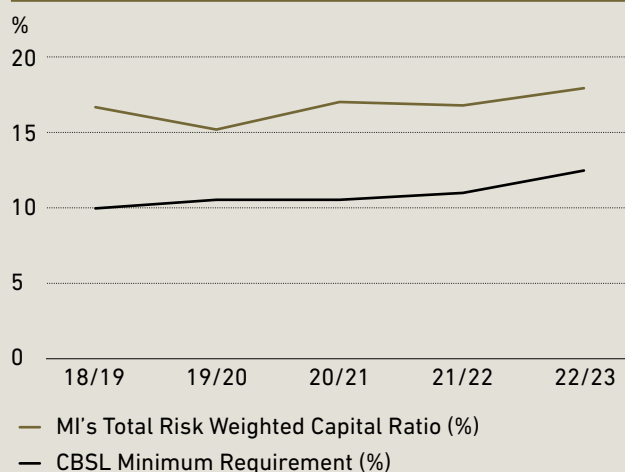
#### Commentary

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 14%, thus safeguarding the "well capitalized" grade status in terms of the regulatory PCA framework.

#### Core Capital Ratio



#### Total Risk Weighted Capital Ratio





# Navigating our Journey



## **SUPPLEMENTARY INFORMATION**

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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 Statement of Comprehensive Income for the year ended 31st March 2023 and the audited Statement of Financial Position 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 16 in 2022/23, 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	-	-	0.00	-	-	-	-	-	0.00
10,001 - 100,000	8	137,220	4.56	-	-	-	8	137,220	4.56
100,001 - 1,000,000	6	2,868,619	95.43	-	-	-	6	2,868,619	95.43
Over 1,000,000	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>16</b>	<b>3,006,000</b>	<b>100.00</b>	<b>0</b>	<b>0</b>	<b>0.00</b>	<b>16</b>	<b>3,006,000</b>	<b>100.00</b>

## Analysis of Shareholders

### Resident / Non-Resident

	31st March 2023			31st March 2022		
	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
Resident	16	3,006,000	100.00	15	3,006,000	100.00
Non-Resident	-	-	0.00	-	-	0.00
<b>Total</b>	<b>16</b>	<b>3,006,000</b>	<b>100.00</b>	<b>15</b>	<b>3,006,000</b>	<b>100.00</b>

### Individuals / Institutions

	31st March 2023			31st March 2022		
	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
Individuals	13	1,757,449	58.46	12	1,757,449	58.46
Institutions	3	1,248,551	41.54	3	1,248,551	41.54
<b>Total</b>	<b>16</b>	<b>3,006,000</b>	<b>100.00</b>	<b>15</b>	<b>3,006,000</b>	<b>100.00</b>

## Investor Relations

### PUBLIC HOLDING

As per the rule No. 7.6 (iv) of Colombo Stock Exchange, percentage of public holding as at 31st March 2023 was 10.10% ,comprising 10 shareholders.(2022 - 6.00% 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.

### The Current status of the company

- Existing Float adjusted Market Capitalization Rs. 789,375,600.00
- Public Holding Percentage 10.10%
- Number of Public Shareholders 10

The Company is not fully compliant with the minimum public holding requirement as of 31/03/2023.

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 2023

Name	% on total capital	No of Shares 2023	% on total capital	No of Shares 2022
Nilaveli Beach Hotels (Pvt ) Ltd	20.94	629,580	20.94	629,580
G.G. Ondaatjie	16.12	484,615	18.85	566,725
A.M. Ondaatjie	16.12	484,615	17.49	525,670
T.J. Ondaatjie	16.12	484,614	16.12	484,614
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	5.53	166,224	2.80	84,114
A.S.G.H.Jafferjee	1.37	41,055	1.37	41,055
S S Jafferjee	1.37	41,055	-	-
P.R. Divitotawela / R.D.Madugalle	0.42	12,525	0.42	12,525
P.R. Divitotawela / A.D.Galagoda	0.42	12,525	0.42	12,525
N.H.V. Perera	0.33	10,020	0.33	10,020
J.A.S.S. Adhietty	0.33	10,020	0.33	10,020
R.M.D. Abeygunawardena	0.33	10,020	0.33	10,020
A.M. Dominic	0.01	151	0.01	151
R.Vaseeharan	0.00	10	0.00	10
<b>Total</b>	<b>100.00</b>	<b>3,006,000</b>	<b>100.00</b>	<b>3,006,000</b>

## Investor Relations

### DIRECTORS' SHAREHOLDINGS AS AT 31ST MARCH 2023

Name	Position	31st March 2023		31st March 2022	
		No. of Shares	%	No. of Shares	%
Mr. G. G. Ondaatjie	Managing Director	484,615	16.12%	566,725	18.85%
Ms. A. M. Ondaatjie	Director	484,615	16.12%	525,670	17.49%
Mr. T. J. Ondaatjie	Director	484,614	16.12%	484,614	16.12%
Mr. S. H. Jayasuriya	Director	-	0.00%	-	0.00%
Mrs. E. D. Wickramasuriya	Director	-	0.00%	-	0.00%
Mr. P. D. D. Perera	Chairman	-	0.00%	-	0.00%
Mr. A. L. N. Dias	Director	-	0.00%	-	0.00%
Mr. M. K. S. Pieris	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.

	2022/2023	2021/2022
Number of transactions	Not Traded	Not Traded
Number of shares traded	Not Traded	Not Traded

### MARKET VALUE

	Highest Rs.	Lowest Rs.	Year End Rs.
2021/2022	-	-	-
2022/2023	-	-	-

### 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
2022-2023	11,016,006	7,815,600	3,903,539,460	0.20
2021-2022	10,974,337	7,815,600	3,826,498,456	0.20



## Investor Relations

### RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS

No any Related party transactions during the year which exceeds 10% of the equity or 5% of the total assets.

### Debentures

The Company did not issue any debentures during the financial year ended 31 March 2023.

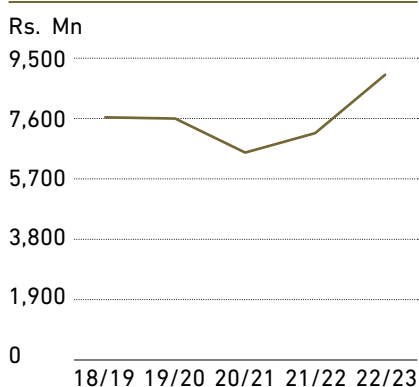
The following table presents the important disclosures made by the company to the Colombo stock exchange during the year 2022/2023

Date of Disclosure	Details of disclosures
5 April 2022	Announcement of Dealings by Directors
30 May 2022	Submission of unaudited interim financial statement for the period ended 31 March 2022
6 June 2022	Submission of Annual Report for the period ended 31 March 2022
21 July 2022	Resolution adopted at the Annual General Meeting
15 August 2022	Submission of unaudited interim financial statement for the 01st quarter ended 30 June 2022
15 November 2022	Submission of unaudited interim financial statement for the 02nd quarter ended 30 September 2022
15 February 2023	Submission of unaudited interim financial statement for the 03rd quarter ended 31 December 2022

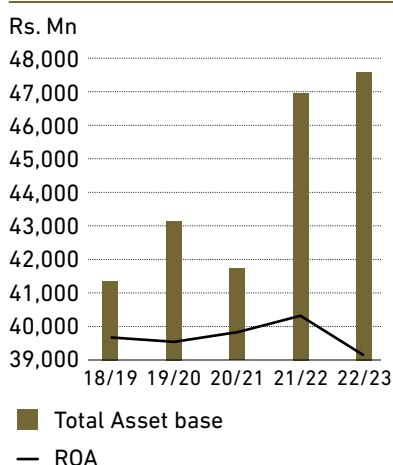
## Decade at a Glance

For the year ended 31st March	2023 Rs. '000	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
<b>Operating Results</b>										
Income	9,035,723	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
Interest expense	6,134,824	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
Non Interest expenses	2,768,079	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
Profit before tax	132,820	1,468,920	827,501	691,791	786,653	858,771	313,679	802,645	911,884	824,331
Provision for taxation	26,767	457,370	213,358	320,082	328,580	344,706	111,664	297,626	280,612	148,969
Net profit for the year	106,053.06	1,011,550	614,143	371,708	458,073	514,065	202,015	505,019	631,272	675,362
Dividends	-	345,690.00	-	60,120.00	0	45,090.00	0	21,042	88,677	30,060
<b>As at 31st March</b>										
<b>Assets</b>										
Liquid assets	5,928,033	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
Investments	2,241,359	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
Debentures	-	-	-	-	-	0	10,200	10,400	10,700	10,700
Advances	32,746,812	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
Other assets	1,105,373	626,453	737,306	640,205	619,565	638,866	656,452	226,532	157,544	419,479
Property, plant & equipment	3,930,649	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
Right-of-use assets	139,667	181,499	180,357	223,255.00	-	-	-	-	-	-
Leasehold Property	39,334	39,802	40,270	40,739	41,207	41,672	42,140	42,609	43,076	43,545
Intangible Assets	9,335	28,235	47,299	45,987	64,211	48,979	12,578	12,386	3,344	3,714
Investment Property	227,219	220,717	237,381	246,166	198,431	172,795	158,340	448,234	198,769.00	-
Investment in Associates	1,255,524	1,334,821	1,234,582	1,260,144	1,267,430	1,006,506	995,977	927,318	794,381	777,127
Total Assets	47,623,304	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
<b>Liabilities</b>										
Bank overdraft	93,518	395,159	86,451	86,567	186,276	254,238	1,092,434	412,472	272,634	279,269
Borrowings	3,866,087	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
Deposits from customers	31,223,715	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
Other liabilities	1,423,978	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
	36,607,298	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
<b>Share Holder's Fund</b>										
Share Capital	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000	36,000
Reserves	10,980,006	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
	11,016,006	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
Total Share Holder's Funds & total liabilities	47,623,304	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

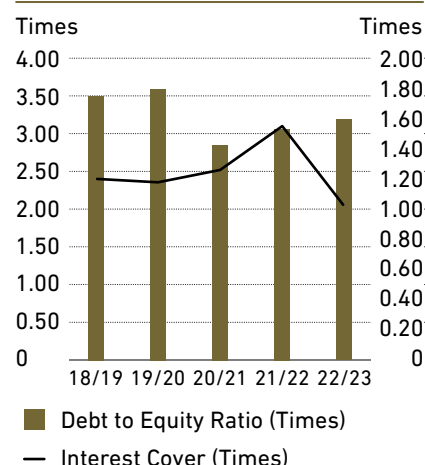
## Gross Revenue



## Total Asset Base &amp; ROA



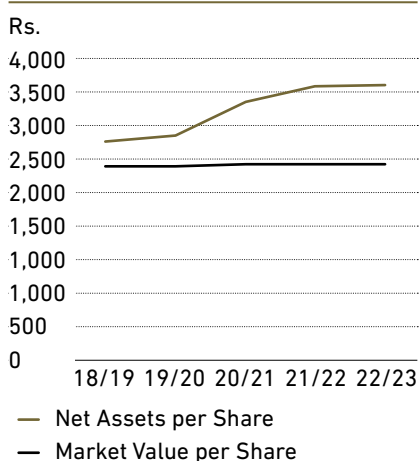
## Debt to Equity &amp; Interest Cover



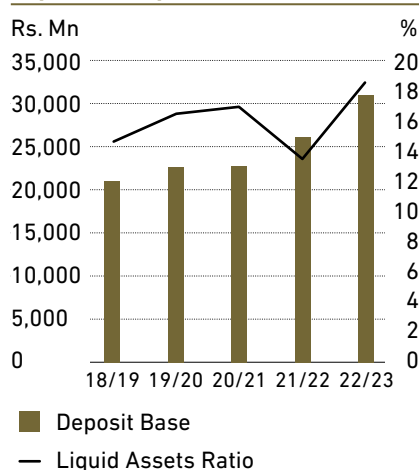
## Decade at a Glance

For the year ended 31st March	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Financial Position</b>										
Total Assets to Shareholders funds - (Times)	4.32	4.28	4.05	4.85	4.77	4.65	4.77	4.44	3.65	3.75
Debt to Equity - (Times)	3.19	3.08	2.86	3.60	3.50	3.42	3.59	3.23	2.53	2.65
Liquid assets as a % of deposits	18.99	13.55	17.07	16.63	9.59	11.51	10.94	11.89	12.93	12.75
<b>Investor</b>										
Return on shareholders' funds - (%)	0.96	9.22	5.96	4.18	5.28	5.92	2.57	6.60	8.11	10.78
Return on Average Assets-(%)	0.22	2.28	1.45	0.88	1.12	1.32	0.57	1.62	2.43	3.02
Assets per share - (Rs.)	3,665	3,651	3,430	2,960	2,885	2,889	2,617	2,546	2,588	2,085
Earnings per Share - (Rs.)	35.28	336.51	204.31	123.66	152.39	171.01	67.20	168.00	210.00	224.67
Dividend per Share - (Rs.)	-	115.00	-	20.00	-	15.00	-	7.00	29.50	20.00
Dividend Cover - (Times)	-	2.93	-	6.18	-	11.40	-	24.00	7.12	11.23
Dividend Payout-(%)	-	0.34	-	16.17	-	8.77	-	4.17	14.05	8.90
Interest Cover - (Times)	1.02	1.57	1.26	1.18	1.20	1.24	1.10	1.38	1.47	1.37
<b>Growth</b>										
Growth in income - (%)	26.77	9.71	(14.63)	(0.37)	9.37	23.71	25.45	4.99	4.65	21.53
Growth in Interest Expenses-(%)	137.21	(19.67)	(16.21)	(0.50)	4.27	18.10	49.46	7.73	(12.08)	18.62
Growth in Other Expenses-(%)	(9.91)	25.44	(20.37)	2.88	22.45	8.55	36.01	9.77	45.87	37.09
Growth In Profit before Tax-(%)	(90.96)	77.51	19.62	(12.06)	(8.40)	180.21	(60.92)	(11.98)	10.62	12.60
Growth in Profit after Tax - (%)	(89.52)	64.71	65.22	(18.85)	(10.89)	154.47	(60.00)	(20.00)	(6.53)	7.07
Growth In Total Assets-(%)	1.33	12.58	(3.29)	4.39	2.47	7.64	10.39	19.56	20.89	10.73
Growth in advances- (Net) (%)	(5.64)	16.69	(9.22)	2.55	0.03	11.48	14.34	28.69	20.27	16.92
Growth in Deposit Base-(%)	18.50	14.26	1.08	7.74	5.50	17.95	7.60	15.27	20.17	35.53
Growth in Shareholders Funds-(%)	0.38	6.45	15.86	2.60	(0.12)	10.37	2.78	(1.61)	24.15	9.81
<b>Statutory Ratios</b>										
Core Capital Ratio - (Minimum 5%)	16.45	15.45	15.31	13.56	14.98	16.24	17.17	19.35	21.70	22.52
Risk Weighted Capital Ratio - (Minimum 10%)	18.02	16.84	17.07	15.25	16.69	17.36	14.26	15.75	15.27	17.32
Liquid assets - (%)	18.82	13.57	17.07	16.63	14.77	11.40	10.81	11.73	12.45	12.78

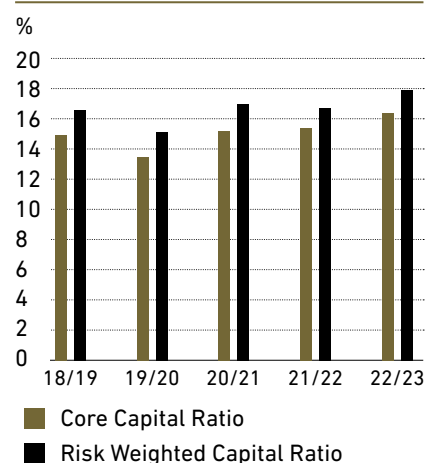
## Net Assets per Share &amp; Market Value per Share



## Deposits &amp; Liquid Asset Ratio



## Core Capital Ratio &amp; 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.

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.

## Glossary

### 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.

## Glossary

### 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.

### 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 1 CAPITAL

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

#### TIER 2 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

AGM	Annual General Meeting	HODs	Head of Departments	NIM	Net Interest Margin
ALCO	Assets and Liabilities Management Committee	HP	Hire Purchase	NO.	Number Of
AML	Anti-Money Laundering	HR	Human Resource	NPL	Non-Performing Loans
ASPI	All Share Price Index	HRIS	Human Resource Information System	OCI	Other Comprehensive Income
ATM	Automated Teller Machine	HTM	Held to Maturity	ODS	Ozone Depleting Substances
AWPLR	Average Weighted Prime Lending Rate	IFRS	International Financial Reporting Standard	PAT	Profit After Tax
BCP	Business Continuity Plan	IIRC	International Integrated Reporting Council	PAYE	Pay As You Earn
BN	Billion	IMF	International Monetary Fund	PCA	Prompt Corrective Action
BOD	Board of Directors	IRMC	Integrated Risk Management Committee	PD	Probability of Default
CAR	Capital Adequacy Ratio	IS	Information Systems	PER	Price Earnings Ratio
CASL	The Institute of Chartered Accountants of Sri Lanka	IT	Information Technology	PLC	Public Limited Company
CBSL	Central Bank of Sri Lanka	IUCN	International Union for Conservation of Nature	PR	Personnel Relationship
CCTV	Closed-Circuit Television	KMP	Key Management Personnel	PVT	Private Limited Company
CEFT	Common Electronic Fund Transfer	KPIs	Key Performance Indicators	ROA	Return on Assets
CEO	Chief Executive Officer	KRIs	Key Risk Indicators	ROCE	Return on Capital Employed
CFO	Chief Financial Officer	KYC	Know Your Customer	ROE	Return on Equity
CRO	Chief Risk Officer	L&R	Loans and Receivables	RWA	Risk-Weighted Assets
CSE	Colombo Stock Exchange	LCB	Licensed Commercial Bank	ROU	Right Of Use
CSR	Corporate Social Responsibility	LGD	Loss Given Default	SBUs	Strategic Business Units
DPS	Dividend Per Share	LFC	Licensed Finance Company	SEC	Securities and Exchange Commission
DR	Disaster Recovery	LKAS	Sri Lanka Accounting Standards	SLC	Specialized Leasing Company
ECL	Expected Credit Loss	LKR	Sri Lankan Rupees	SLA	Statutory Liquid Assets
EIR	Effective Interest Rate	LTV	Loan to Value	SLAS	Sri Lanka Accounting Standard
EPF	Employees' Provident Fund	MI	Mercantile Investments and Finance PLC	SLFRS	Sri Lanka Financial Reporting Standard
EPS	Earnings per Share	MIS	Management Information System	SME	Small and Medium Enterprises
ETF	Employees' Trust Fund	MN	Million	SSCL	Social Security Contribution Levy
EVA	Economic Value Addition	NBFI	Non-Bank Financial Institution	UN	United Nations
EY	Ernst and Young	NBT	Nation Building Tax	UNGC	United Nations Global Compact
FTRA	Financial Transaction Reporting Act	NPA	Non-Performing Advances	USD	US Dollar
FVOCI	Fair Value Through Other Comprehensive Income	NII	Net Interest Income	VAT	Value Added Tax
FVTPL	Fair Value Through Profit and Loss			WHT	Withholding Tax
FY	For the Year			YoY	Year on Year
GDP	Gross Domestic Product			YTM	Yield to Maturity
GHG	Greenhouse Gas				
GRI	Global Reporting Initiative				

# Corporate Information

## NAME OF THE COMPANY

Mercantile Investments and Finance PLC

## LEGAL FORM

Public Limited Liability Company incorporated in Sri Lanka under the Companies Ordinance No 51 of 1938 and re-registered under the Companies Act No. 07 of 2007. A licensed finance company under the Finance Business Act No 42 of 2011.

## COMPANY REGISTRATION NUMBER

PB 76 PQ

## TAX PAYER IDENTIFICATION NUMBER

104021794

## VAT REGISTRATION NUMBER

104021794 7000

## REGISTERED OFFICE

No. 236 Galle Road,  
Colombo 3

## HEAD OFFICE

No. 236 Galle Road, Colombo 3  
Telephone: 2343720 – 7  
Fax: 2434524  
Email: mercantile@mi.com.lk  
Website: [http:// www.mi.com.lk](http://www.mi.com.lk)

## BOARD OF DIRECTORS

Pandithasundara Dinuka Dilhan Perera  
(Acting Chairman)  
Gerard George Ondaatjie (Managing Director)  
Shermal Hemaka Jayasuriya (Finance Director)  
Angeline Myrese Ondaatjie  
Travice John Ondaatjie  
Anil Lasantha Naomal Dias  
Eranjalie Deepthie Wickramasuriya  
Malwattage Kanchana Sujeewa Pieris

## CREDIT RATING

Long-term Financial Institution Rating at BBB-(lka) (Rating Watch Negative) by Fitch Ratings Lanka Limited.

## 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)

## 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  
Deva Anthony  
Thusitha Indunil Jayawardana  
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)

## 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)

## 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 Bank PLC



# Branch Network

	Address	Telephone	Fax	Branch Email	Details of Branch Head
1.	Head Office #236, Galle Road, Colombo 03, Sri Lanka	+94-11- 2343720-7	+94-11-2390113	mercantile@mi.com.lk	Kularuwan Jayarathne kularuwan.j@mi.com.lk 0712498231
	Micro Unit #15, Mosque lane Colombo 03, Sri Lanka.	+94-11-2339895	+94-11-2339896		Tharanga Peiris tharanga.d@mi.com.lk 0717327978
	Corporate Department #236, Galle Road, Colombo 3, Sri Lanka.	+94-11-2343720	+94-11-2390113		Niranjana Edirisinghe niranjana.e@mi.com.lk 0710582670
2.	Anuradhapura Branch #521/6, Maithreepala Senanayake Mawatha, Anuradhapura, Sri Lanka.	+94-25-2224886	+94-25-2224887	mianuradhapura@mi.com.lk	Prabhath Weerasinghe prabhath.w@mi.com.lk 0712498597
3.	Akuressa Branch #124, Matara Road, Akuressa, Sri Lanka.	+94-41-2284752	+94-41-2284752	miakuressa@mi.com.lk	Gihan Ganganath gihan.g@mi.com.lk 0712498336
4.	Ampara Branch #975, Browns Junction, D.S.Senanayake Road, Ampara, Sri Lanka.	+94-63-2224255	+94-63-2224255	miampara@mi.com.lk	Kelum Priyankara kelum.s@mi.com.lk 0712498330
5.	Awissawella Branch #93/1 Colombo Road Ukwatta, Awissawella, Sri Lanka.	+94-36-2235722	+94-36-2235734	miawissawella@mi.com.lk	Darshana Piyaratne darshana.p@mi.com.lk 0714158484
6.	Balangoda Branch #27, Haputhale Road, Balangoda, Sri Lanka	+94-45-2287605	+94-45-2287606	mibalangoda@mi.com.lk	Danthika Amarasinghe danthika.a@mi.com.lk 0710577104
7.	Bentota Branch #149 1/2, Colombo Road, Bentota, Sri Lanka.	+94-34-2275402	+94-34-2275403	mibentota@mi.com.lk	Shakthi De Silva shakthi.d@mi.com.lk 0712498362
8.	Chilaw Branch 288/L, Colombo Road, Maikkulama, Chilaw Sri Lanka.	+94-32-2224244	+94-32-2224245	michilaw@mi.com.lk	Nandana Pradeep nandana.p@mi.com.lk 0712498393
9.	Elpitiya Branch # 44C/44D,Pituwala Road, Elpitiya, Sri Lanka	+94-912491300		mielpitiya@mi.com.lk	Chavana Mahage chavana.d@mi.com.lk 0712498389

## Branch Network

	Address	Telephone	Fax	Branch Email	Details of Branch Head
10.	Embilipitiya Branch #127 C, New Town Road, Embilipitiya, Sri Lanka.	+94-47-2261351	+94-47-2261352	miembilipitiya@mi.com.lk	Dimuthu Mahesh dimuthu.m@mi.com.lk 0712498340
11.	Galle Branch #12, Park Road, Kaluwela, Galle, Sri Lanka.	+94-91-2246387	+94-91-2246388	migalle@mi.com.lk	Subash Niroschan subash.n@mi.com.lk 0712439750
12.	Gampaha Branch #116, Colombo Road, Gampaha, Sri Lanka.	+94-33-2234463	+94-33-2234463	migampaha@mi.com.lk	Vidura Wijewickrama vidura.t@mi.com.lk 0712498226
13.	Gampola Branch #190, Kandy Road, Gampola, Sri Lanka.	+94-81-2076561	+94-81-2076561	migampola@mi.com.lk	Chinthaka Gamanayake chinthaka.g@mi.com.lk 0702579972
14.	Giriulla Branch # 116, Kurunegala Road, Giriulla	+94-37-2050447		migiriulla@mi.com.lk	Buddika Karunarathne buddhika.k@mi.com.lk 0713216967
15.	Godagama Branch #27/B, Dikhathapma, Highlevel Road, Meegoda, Sri Lanka.	+94-11-2752923	+94-11-2752924	migodagama@mi.com.lk	Dilanka Sanjeewa 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.	Jaffna-Chunnakam Branch KKS Road, Chunnakam East, Chunnakam	+94-21-2050430		sinthusan.p@mi.com.lk	Poopalarasa Sinthusan sinthusan.p@mi.com.lk 0712359841
19.	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
20.	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
21.	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
22.	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

## Branch Network

	Address	Telephone	Fax	Branch Email	Details of Branch Head
23.	Kohuwala Branch #28A, Sunethradevi Road, Kohuwala, Sri Lanka.	+94-11-2814181	+94-11-2814181	mikohuwala@mi.com.lk	Harsha Siriwardhane harsha.s@mi.com.lk 0713104180
24.	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
25.	Kottawa Branch #341, High Level Road, Pannipitiya, Kottawa, Sri Lanka.	+94-11-2838145	+94-11-2838146	mikottawa@mi.com.lk	Amila Edirisinghe jayantha.k@mi.com.lk 0717837507
26.	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
27.	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
28.	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
29.	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
30.	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
31.	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
32.	Malabe Branch #742 B, Thalangama North, Malabe, Sri Lanka.	+94-11-2790359	+94-11-2790370	mimalambe@mi.com.lk	Sameera Jayasooriya Sameera.j@mi.com.lk 0703312896
33.	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
34.	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

## Branch Network

	Address	Telephone	Fax	Branch Email	Details of Branch Head
35.	Polonnaruwa Branch #05/142, Tamasha Place, Polonnaruwa, Sri Lanka	+94-27-2227022	+94-27-2227022	mipolonnaruwa@mi.com.lk	Darshana Weerakkody darshana.w@mi.com.lk 0711204864
36.	Puttalam Branch #146, Kurunegala Road, Puttalam, Sri Lanka.	+94-32-2265490	+94-32-2265491	miputtlam@mi.com.lk	Ayal Fernando ayal.f@mi.com.lk 0712321570
37.	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
38.	Rathnapura Branch #654/A, Colombo road, Rathnapura, Sri Lanka.	+94-45-2233188	+94-45-2233188	miratnapura@mi.com.lk	Chinthaka Seram chinthaka.s@mi.com.lk 0712498350
39.	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
40.	Tambuttegama Branch #1, Rajina Junction, Thambuttgama, Sri Lanka.	+94-25-2275276	+94-25-2224887	mithambuttegama@mi.com.lk	Suneth Rathnapala suneth.r@mi.com.lk 07102594851
41.	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
42.	Veyangoda Branch #41, Nittambuwa Road, Veyangoda, Sri Lanka.	+94-33-2246586	+94-33-2246588	miveyangoda@mi.com.lk	Nalin Siriwardene nalin.s@mi.com.lk 0712498312
43.	Wattala Branch #120, Old Negombo Road, Wattala, Sri Lanka.	+94-11-2930793	+94-11-2930794	miwattala@mi.com.lk	Jeewantha Gunawardene jeewantha.g@mi.com.lk 0712498238



## Notice of Meeting

NOTICE IS HEREBY given that the Sixtieth (60) Annual General Meeting of MERCANTILE INVESTMENTS AND FINANCE PLC will be held at No. 236, Galle Road, Colombo 3, on 31st July 2023 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 2023 and the Report of the Auditors thereon.
- To re-elect Mr. T J Ondaatjie as a Director in terms of Article 23(7) and 23(8) of the Articles of Association of the Company.
- To re-elect Mr. S H Jayasuriya as a Director in terms of Article 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 authorize the Board of Directors to determine donations.
- To consider and if thought fit to pass the following resolution as a special resolution

RESOLVED that the Articles of Association of the Company be amended in the following manner,

**To delete Article 11 and substitute same with the following,**

A meeting of shareholders may be held either-

- (a) By a number of shareholders who constitute a quorum, being assembled together at the place, date and time appointed for the meeting; or
- (b) By means of audio, or audio and visual communication by which all shareholders participating and constituting a quorum, can simultaneously hear each other (and speak – when required) throughout the meeting

**To delete Article 23 (1) and substitute same with the following,**

The number of directors shall not be less than seven (7) nor more than thirteen (13) in number

**To delete Article 30 (1) and substitute same with the following,**

A quorum for a meeting of the Board shall be the majority of the Board, subject to the provisions in the Finance Business Act Directions No.5 of 2021

- In terms of Rule 7.14.2 (g) of the Listing Rules 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 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

23rd June 2023

**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
4. Amendments to the Articles of Association of the Company are to fall in line with the new Corporate Governance Direction issued by the Central Bank and to facilitate the holding of shareholder meetings virtually if the need arises

# 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 31st July 2023 at 11.00 a.m. at No.236, Galle Road, Colombo 03 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	FOR	AGAINST	WITHHOLD
1) To receive and adopt the Report of Directors and the Statement of Accounts for the year ended 31st March 2023, with the Report of the Auditors there on.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2) To re-elect Mr. T J Ondaatjie as a Director in terms of Article 23(7) and 23(8) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3) To re-elect Mr. S H Jayasuriya as a Director in terms of Article 23(7) and 23(8) 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 authorize the Board of Directors to determine contributions for charities and other donations for the year 2023/2024.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6) To pass the special resolution as set out in the Notice of Meeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our\* hand this ..... day of ..... 2023.

.....  
Signature of Shareholder/s

Note: Please delete the inappropriate words.

### INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy, after filling in legibly your full name and address by signing in the space provided and please fill in the date of signature.
2. If the Proxy Form is signed by an Attorney, the relative Power of the Attorney should also accompany the Proxy Form for registration, if such Power of Attorney has not already been registered with the Company.
3. In the case of a Company/Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
4. The completed Form of Proxy should be deposited at the registered office of the Company at No. 236, Galle Road, Colombo 3, not less than 48 hours before the time of the meeting.

## Voting at Meetings of Shareholders

Article 14 of the Articles of Association of the Company, dealing with voting is quoted below, for information of shareholders:

### Voting at Meetings of Shareholders

1. In the case of a meeting of shareholders unless a poll is demanded, voting at the meeting shall be by whichever of the following methods as determined by Chairperson of the meeting:
  - (a) Voting by voice; or
  - (b) Voting by show of hands.
2. A declaration by the chairperson of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded in accordance with Article 14(3).
3. At a meeting of shareholders, a poll may be demanded by-
  - (a) Not less than three (3) shareholders having the right to vote at the meeting; or
  - (b) A shareholder or shareholders representing not less than ten per centum of the total voting rights of all shareholders having the right to vote at the meeting.
4. A poll may be demanded either before or immediately after the vote is taken on a resolution.
5. If a poll is taken, votes must be counted according to the votes attached to the shares of each shareholder present and voting.
6. The Chairperson of a shareholder's meeting is not entitled to a casting vote.
7. If a poll is duly demanded (and the demand be not withdrawn) it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the person presiding at the meeting may direct and the result of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The person presiding may (and if so requested shall) appoint a scrutiner and may adjourn the meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.
8. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded.
9. No objection shall be made to the validity of any vote except at the meeting or poll at which such vote shall be tendered and every vote to which no objection shall be made at such meeting or poll shall be deemed valid for all purposes of such meeting or poll whatsoever.



# Stakeholder Feedback Form

Your relationship with MI (Please tick 'x' the appropriate box)

Employee	<input type="checkbox"/>	Shareholder	<input type="checkbox"/>	Regulators/Government	<input type="checkbox"/>
Customer	<input type="checkbox"/>	Business Partner	<input type="checkbox"/>	Society	<input type="checkbox"/>

Share your views about the Integrated Annual Report 2022/23 (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:**

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Your Name : .....

.....

Your Tel/Email : .....

Your Organization & Designation (If Applicable) : .....

**Finance Director,**  
Mercantile Investments & Finance PLC,  
No.236,  
Galle Road,  
Colombo 03.  
Tel: +94 11 2343720-7

Minimize waste by informing the Company Secretary to email a soft copy of the Annual Report or log on to our website and view the report.







Mercantile Investments  
and Finance PLC

**Mercantile Investments and Finance PLC**  
236, Galle Road, Colombo 03, Sri Lanka  
Tel: +94-112343720-7 | E-Mail: [mercantile@mi.com.lk](mailto:mercantile@mi.com.lk)