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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MERCANTILE INVESTMENTS & FINANCE PLC

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of Mercantile Investments & Finance PLC ("The Company"), which comprise the statement of financial position as at 31st March 2019, and the statement of profit or loss and statement of comprehensive income, statement of changes in equity and, statement of cash flow for the year then ended, notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31st March 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matters

Key Audit Matter	How our audit addressed the matter
Impairment of loans and advances	To assess the reasonableness of the allowance for impairment, our audit procedures (among others) included the following: <ul style="list-style-type: none"> We evaluated design, implementation and operating effectiveness of controls over estimation of impairment of loans to and receivables from other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management We test-checked the underlying calculations and data. In addition to the above, following focused procedures were performed: <ul style="list-style-type: none"> For loans and advances from other customers individually assessed for impairment: <ul style="list-style-type: none"> Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. For loans and advances from other customers individually assessed for impairment: <ul style="list-style-type: none"> We tested the accuracy and completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT system and re-performing the calculations. We also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources. <p>We assessed the adequacy of the related financial statement disclosures as set out in note(s) 23 - 25</p>

Other information included in the Company's 2019 Annual Report

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, or to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

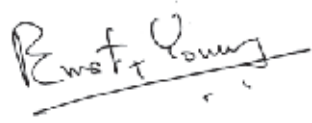
We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and 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 2440.



19th June 2019
Colombo

Partners: W. R. H. Fernando FCA FCMA | M. P. D. Cooray FCA FCMA | R. N. de Saram ACA FCMA | Ms. N. A. De Silva FCA | Ms. Y. A. De Silva FCA |

D.K. Hulangamuwa FCA FCMA LLB (Lond.) | H. M. A. Jayasinghe FCA FCMA | Ms. A. A. Ludowyke FCA FCMA | Ms. G. S. G. S. Manatunga FCA |

Ms. P.V. K.N. Sajewani FCA | N. M. Sulaiman ACA FCMA | B. E. Wijesuriya FCA FCMA

Principal: T. P. M. Ruberu FCA FCCA

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 st March	2019 Rs. '000	2018 Rs. '000
Gross income	7,638,497	6,984,093
Interest income	7,436,054	6,564,038
Interest expenses	(3,861,878)	(3,703,776)
Net interest income	3,574,176	2,860,263
Fee and commission income	94,955	89,797
Net Fee and Commission Income	94,955	89,797
Other operating income	107,488	330,258
Total Operating Income	3,776,619	3,280,318
Impairment charge/(reversal) for loans and receivables and equity investments	(681,648)	(426,353)
Net Operating Income	3,094,971	2,853,964
Less: Operating Expenses		
Personnel expenses	(923,352)	(844,689)
Depreciation and amortization	(99,494)	(93,746)
Other operating expenses	(962,136)	(847,904)
Total operating expenses	(1,984,982)	(1,786,340)
Operating Profit /(Loss) Before Value Added Tax and NBT on Financial Services	1,109,988	1,067,624
Value Added Tax, NBT & DRL on financial services	(403,059)	(283,667)
Operating Profit /(Loss) After Value Added Tax and NBT on Financial Services	706,929	783,959
Share of associate company's profit	79,724	74,812
Profit Before Taxation from operations	786,653	858,771
Less: Income tax expenses	(328,580)	(344,706)
Profit for the year	458,073	514,065
Other comprehensive Income/ (Expenses)		
Other Comprehensive Income/ (Expenses) to be reclassified to profit or loss in subsequent periods		
Changes in fair value of available for sale financial assets	-	(56,158)
Other Comprehensive Income/ (Expenses) to be reclassified to profit or loss in subsequent periods	-	(56,158)
Other Comprehensive Income/ (Expenses) not to be reclassified to profit or loss in subsequent periods		
Changes in fair value of financial investments through OCI	(276,015)	-
Net change in revaluation surplus	-	890,093
Differed tax effect on revaluations surplus on Land & Building	-	(447,581)
Share of other comprehensive income of associates (net of tax)	196,285	(49,323)
Actuarial gain/(loss) on retirement benefit obligation	(24,304)	14,095
Differed tax effect on Actuarial Gain	10,752	(4,278)
Net Other Comprehensive Income/ (Expenses) not to be reclassified to profit or loss in subsequent periods	(93,282)	403,006
Other Comprehensive Income/ (Expenses) for the year (net of tax)	(93,282)	346,847
Total comprehensive income/ (Expenses) for the year (net of tax)	364,791	860,912
Earnings Per Share		
Basic earnings per share (Rs.)	152.39	171.01
Diluted earnings per share (Rs.)	152.39	171.01
Dividend per ordinary Share (Rs.)	-	15.00

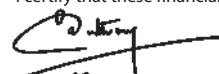
Figures in brackets indicate deductions.

STATEMENT OF FINANCIAL POSITION

As at 31 st March	2019 Rs. '000	2018 Rs. '000
Assets		
Cash and cash equivalents	1,196,226	763,819
Placement with banks at Amortized cost	241,376	218,102
Financial investments - at Fair Value through OCI	2,863,058	2,768,053
Loans and receivables at Amortized Cost	15,913,287	14,549,748
Finance leases receivables at Amortized Cost	12,722,875	12,016,981
Hire purchase receivables at Amortized Cost	3,308,315	5,368,388
Financial investments - at Fair Value through OCI (unquoted)	70,427	70,427
Other financial assets	499,594	506,326
Inventories	23,231	6,762
Other assets	96,740	104,102
Current tax refunds	-	21,676
Investment in associates	1,267,430	1,006,506
Investment property	198,431	172,795
Property, plant and equipment	2,848,159	2,691,612
Leasehold property	41,207	41,672
Intangible assets	64,211	48,979
Total Assets	41,354,567	40,355,948
Liabilities		
Bank overdraft	186,276	254,238
Deposits due to customers at Amortized Cost	21,176,433	20,073,010
Debt instruments issued and other borrowings at Amortized Cost	8,957,478	9,327,958
Other financial liabilities	955,246	814,105
Current tax liabilities	290,338	-
Deferred tax liabilities	830,950	980,970
Other liabilities	46,870	39,104
Retirement benefit obligations	238,112	183,477
Total liabilities	32,681,703	31,672,861
Shareholders' funds		
Stated capital	36,000	36,000
Revaluation reserve	2,124,535	1,928,250
Statutory reserve fund	736,400	711,400
General reserves	4,086,430	4,086,430
Retained earnings	1,765,028	1,720,522
Fair Value through OCI reserve	(75,529)	-
Available for sales reserve	-	200,485
Total shareholders' funds	8,672,864	8,683,087
Total liabilities and shareholders' funds	41,354,567	40,355,948
Net assets per share (Rs.)	2,885	2,889

Certification

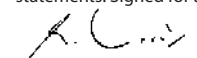
I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Deva Anthony
Chief Finance Officer

The Board of Directors is responsible for these Financial Statements.

The financial statements were authorised for issue by the directors on 19th June 2019. The directors have the power to amend and reissue the financial statements. Signed for and on behalf of the Board by:



Gerard G. Ondaatje
Managing Director
19th June 2019
Colombo



Shermaj H. Jayasuriya
Finance Director

SELECTED PERFORMANCE INDICATORS

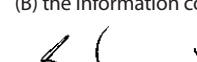
As at 31 st March	2019	2018
Regulatory Capital Adequacy		
Core Capital (Tier 1 Capital), Rs '000	6,467,552	6,027,104
Total Capital Base, Rs '000	7,203,938	6,440,556
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 6%)	*14.98	16.24
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum Requirement, 10%)	*16.69	17.36
Capital Funds to total Deposits Liability Ratio (Minimum Requirement, 10%)	40.96	43.26
Asset Quality (Quality of Loan Portfolio)		
Gross Non-Performing Accommodations, Rs. '000	3,290,483	2,512,587
Gross Non-Performing Accommodations Ratio, %	9.62	7.58
Net Non-Performing Accommodations Ratio, %	2.99	2.32
Profitability (%)		
Interest Margin	10.04	8.76
Return on Assets (before Tax)	2.44	2.26
Return on Equity (after Tax)	5.28	5.92
Regulatory Liquidity (Rs. '000)		
Required minimum amount of Liquid Assets	2,121,837	2,031,099
Available amount of Liquid Assets	3,129,049	2,311,081
Required minimum amount of Government Securities	1,485,822	1,242,297
Available amount of Government Securities	1,691,903	1,329,160
Memorandum Information		
Number of employees	1040	951
Number of branches	32	29
Number of service centers	7	7

*Capital Adequacy Ratio reported on 31st March 2019 is based on the new Capital Adequacy framework requirements effective from 1st July 2018.

Certification

We, the undersigned, being the Managing Director and the Finance Director of Mercantile Investments and Finance PLC certify jointly that:

- (A) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka; and
(B) the information contained in these statements have been extracted from the audited financial statements of the company.



Gerard G. Ondaatje
Managing Director
19th June 2019
Colombo



Shermaj H. Jayasuriya
Finance Director