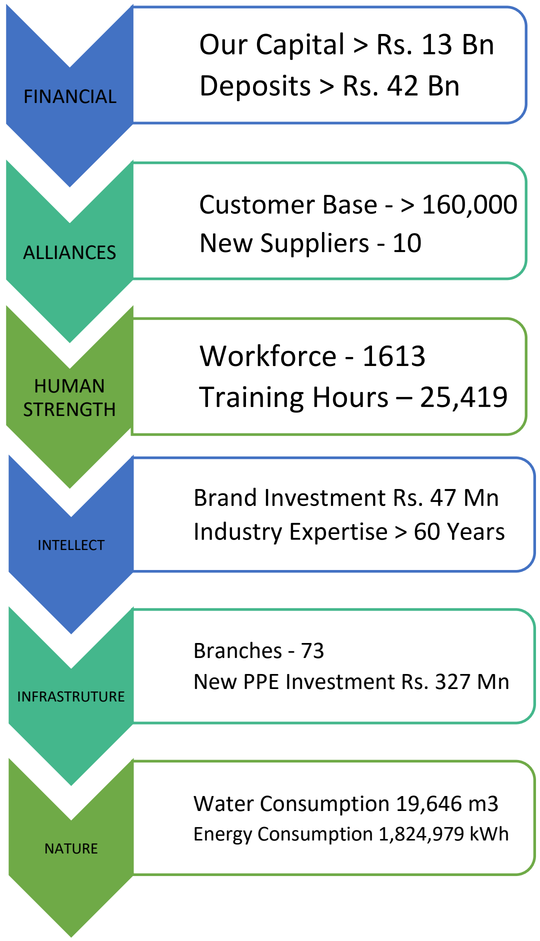
Sustainable Value Creation (GRI 2-6)

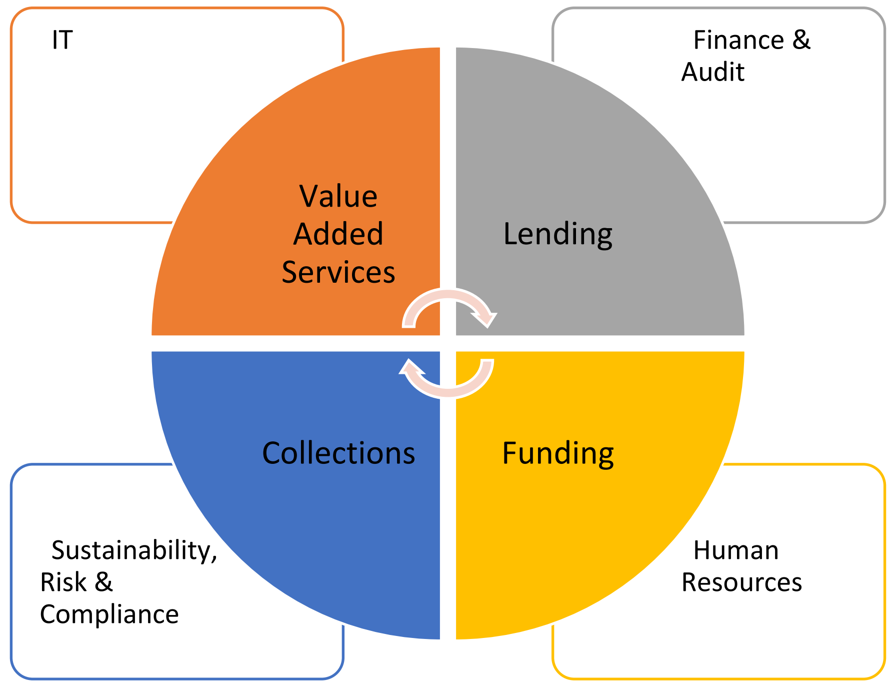
MI's business model serves as the cornerstone of its foundation and pillars, strategically integrating the Company's vision, mission, and corporate objectives to facilitate the envisioned sustainable performance towards creation of stakeholder value. At its core, the model reflects a disciplined approach to resource utilisation, responsible governance, and long-term value generation. We are committed to balancing short-term financial returns with long-term resilience by aligning operational decisions with our overarching strategic intent. Our approach is underpinned by ethical business practices, transparency, and accountability, ensuring that each decision contributes meaningfully to economic stability, social inclusion, and environmental responsibility. Through this integrated approach, we actively respond to stakeholder expectations and evolving market demands, reinforcing our role as a responsible financial institution committed to creating shared value.

Our value creation framework is anchored in the strategic and cohesive deployment of six interrelated capitals. Leveraging our Financial Capital, we ensure robust investment in growth opportunities while maintaining fiscal discipline. Our Alliance Capital enables us to forge strategic partnerships that enhance our market position and competitive advantage. Through the deployment of Human Capital, we cultivate a diverse and talented workforce that drives innovation and operational efficiency. Our careful stewardship of Natural Capital reflects our commitment to environmental sustainability. Additionally, we continuously optimise our Infrastructure Capital to support scalable operations, while our Intellectual Capital comprising proprietary knowledge, systems, and processes provides the foundation for our distinctive market offerings and technological advancement. This holistic approach to capital utilisation enables us to create superior value propositions that consistently exceed stakeholder expectations in an increasingly complex global marketplace.

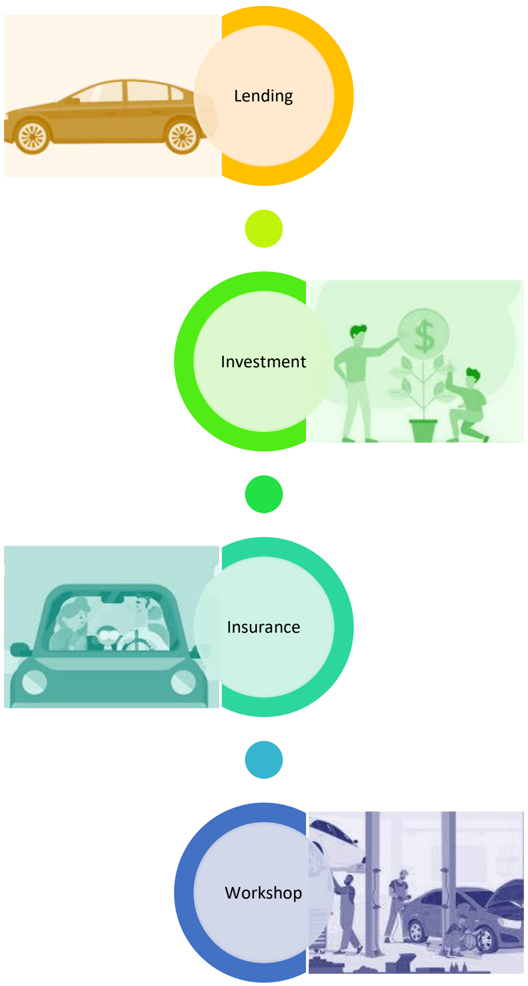
INPUTS



VALUE CREATION PROCESS



SEGMENT OUTPUTS



IMPACT ASSESSMENT

Financial Capital
PAT Growth
Revenue
Capital Adequacy

Alliances
Growth in Clientele
Steady professional Relationships

Human Strength
Enhanced Competitive Strengths
Improved Productivity and Agility

Intellect
Enhanced Brand Equity
Customer Privacy

Infrastructure
Modern ICT solutions
Increase Branch Presence

Nature
Energy Conservation
Green Lending Policies

CAPITAL OUTCOMES

Financial Capital
PAT Rs. 1.07 Bn
Revenue > 11.95 Bn
Capital Adequacy Tier I – 15.6% , Tier II – 17.27%

Alliances
Total Customers > 25,000
Deposit Retention > 87%

Human Strength
Employee Performance Appraisals 815
New Recruitments 865

Intellect
IT System Enhancements

Infrastructure
New Branch Openings 22
Investment in PPE Rs. 4.5 Bn

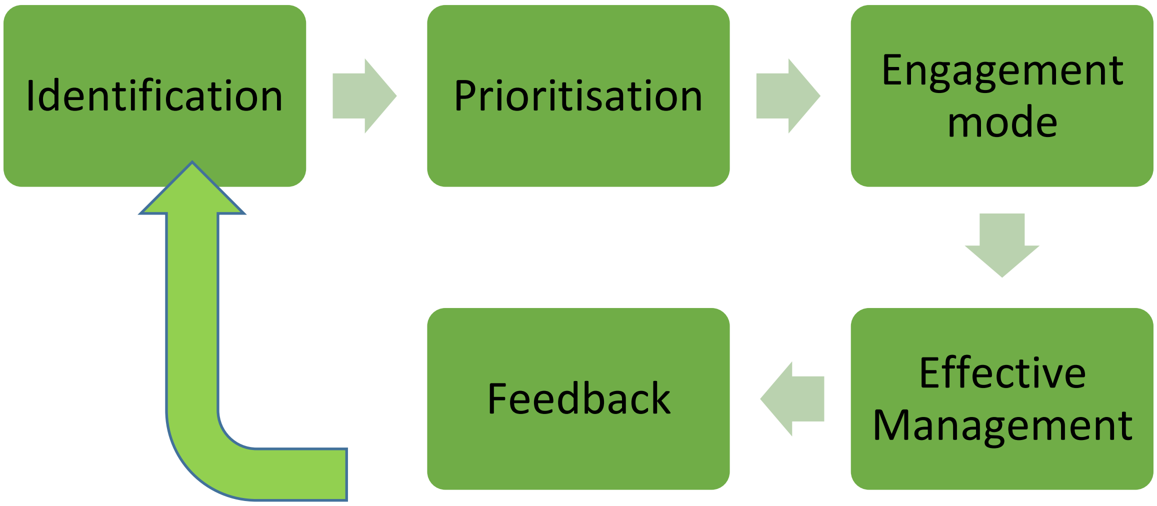
Nature
Recycling of Paper 1380 Kg
Green Lending Rs. 5.9 Bn

Stakeholder Engagement (GRI 2-29)

At the core of our business model lies a robust stakeholder engagement framework that systematically creates sustainable value across our entire business landscape while balancing diverse interests. Our proprietary stakeholder mapping methodology employs a multidimensional analysis to identify, segment, and prioritise six critical stakeholder groups: shareholders seeking competitive returns on investment, customers demanding high-quality products and responsive service, employees seeking meaningful work and growth opportunities, regulators expecting rigorous compliance and transparency, suppliers pursuing mutually-beneficial partnerships, and societal constituents affected by our environmental and social footprint. This comprehensive approach enables us to assess and quantify stakeholder expectations through our continuous Stakeholder Impact Assessment, which informs strategic decision-making at the highest levels of the organisation and ensures resource allocation aligns with our commitment to inclusive and balanced growth.

Our stakeholder satisfaction strategy is built on a strong commitment to consistently surpass expectations in all our stakeholder engagements. We keep our stakeholders informed with adequate and latest information possible, ensuring that shareholders, customers, employees, regulators, suppliers, and societal constituents receive timely, relevant, and accurate updates that address their specific needs and concerns. We have a stakeholder identification and engagement process in ascertaining interests of all stakeholders and mapping them into different segments based on the actual and potential impact. This systematic methodology enables us to prioritise resources effectively and develop targeted engagement strategies that maximise value creation for each stakeholder group. Through continuous refinement of our stakeholder management approach, we have established a business model that not only responds to stakeholder needs but also proactively addresses them in ways that strengthen our competitive position and contribute to our long-term resilience and growth in an increasingly complex business environment.

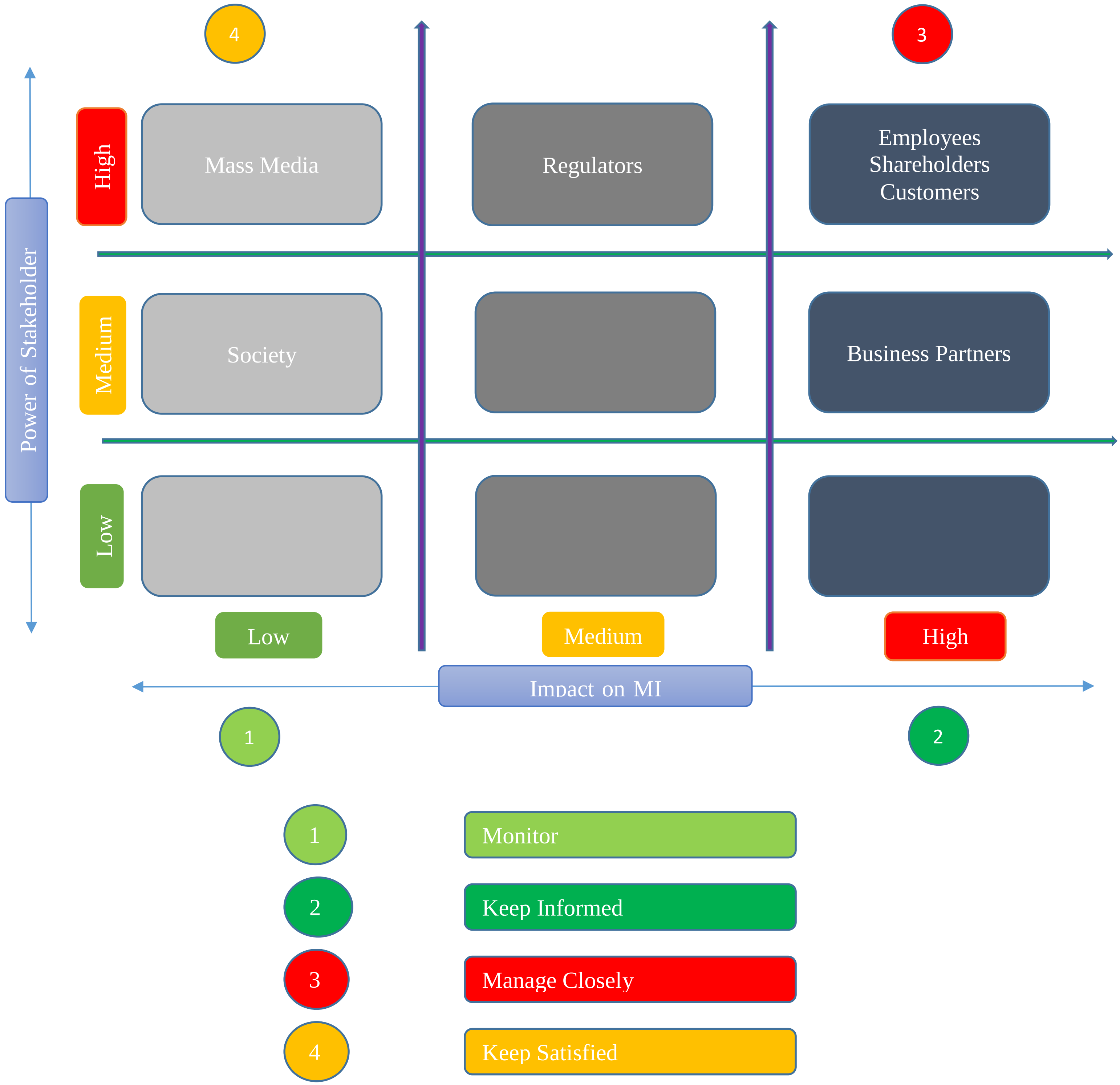
Process of Stakeholder Engagement



Management of Stakeholder Interests

Effective stakeholder management remained a strategic priority throughout the year, underpinning the organisation's commitment to transparency, accountability, and sustained value creation. By actively identifying, engaging, and responding to the interests of key stakeholders including customers, employees, investors, regulators, and the community, MI strengthened relationships and aligned its objectives with stakeholder expectations. Regular communication channels such as stakeholder gatherings, surveys, and feedback mechanisms were enhanced to ensure timely and relevant information flow. This approach enabled the business to anticipate risks, harness opportunities for collaboration, and support decision-making with a well-rounded understanding of stakeholder concerns. As part of our continuous improvement efforts, stakeholder feedback was also integrated into performance reviews and policy development, reinforcing trust and supporting long-term organisational resilience.

Stakeholder Map

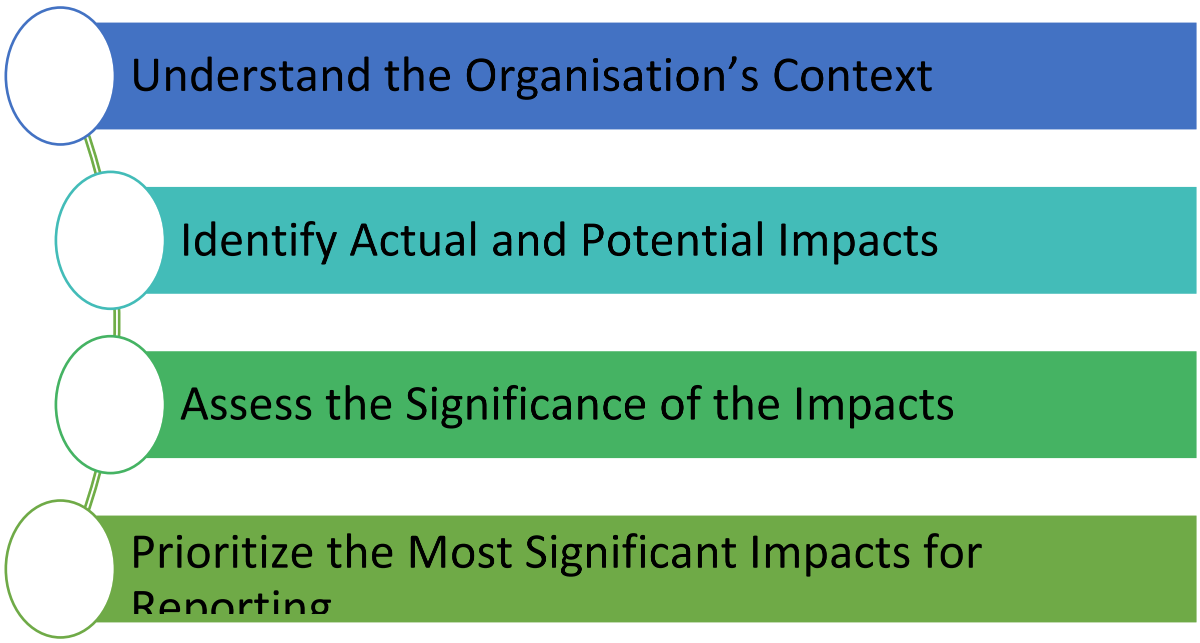


Materiality Assessment (GRI 3-1)

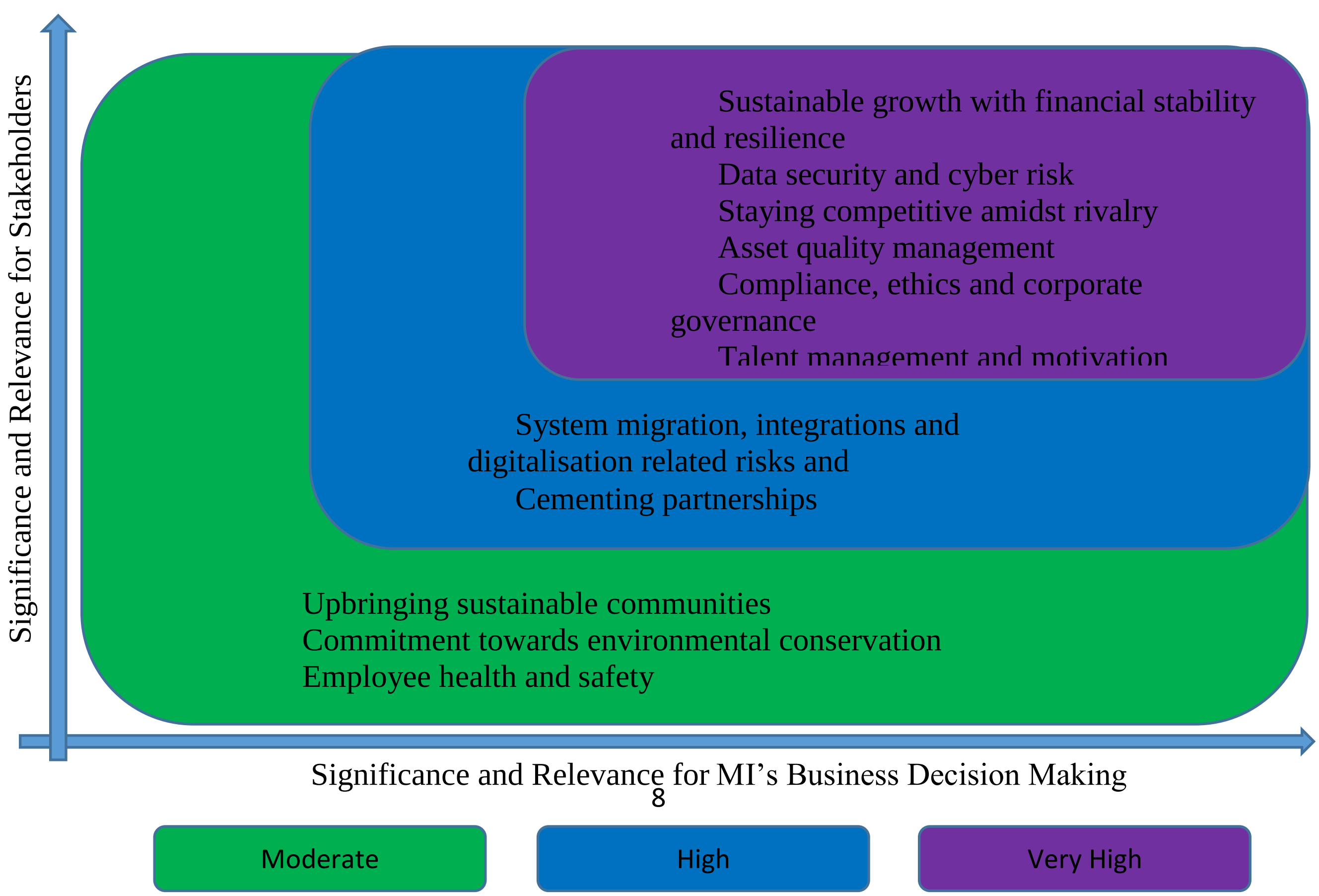
Our materiality assessment is fundamental to our sustainability strategy, providing a systematic framework to identify, prioritise, and address the Environmental, Social, and Governance (ESG) factors most relevant to our business operations and stakeholders. Through a rigorous analytical approach, we delve deep into the layers of our internal and external operational environments, engaging with diverse stakeholder groups including investors, customers, employees, suppliers, regulatory bodies, and community representatives. This comprehensive evaluation enables us to discern most critical issues that could significantly affect our organisation's ability to create, preserve, or erode economic, environmental, and social value for both our Company and its stakeholders.

Aligned with internationally-accepted frameworks such as the Global Reporting Initiative (GRI), Integrated Reporting frameworks (IR), and the United Nations Sustainable Development Goals (UNSDGs), our materiality assessment ensures that our sustainability initiatives and disclosures remain relevant, transparent, and forward-looking. The assessment methodology employs both quantitative and qualitative analysis techniques to evaluate the significance of each identified issue based on its potential business impact and importance to stakeholders. This strategic process not only guides MI's resource allocation and sustainability reporting in an efficient manner but also solidifies the risk management practices we deploy, innovation efforts, and long-term business strategy, ultimately supporting our commitment to creating sustainable value while addressing pressing challenges and topics of local and global importance.

Process of Materiality Assessment



Materiality Gauge Matrix



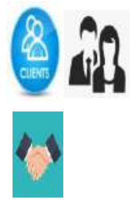
List of Material Topic (GRI 3-2, 3-3)

Material Matter	Why Material?	Materiality Level	Stakeholders Affected	Linked SDG	Linked GRI Standard	Change in Materiality	Management Approach	Reference
Sustainable growth with financial stability and resilience	Following the economic recovery and gradual removal of import restrictions on motor vehicles, it is pivotal to leverage the emerging opportunities to broad base our potential whilst staying financially solid and resilient. With the continuous decline in policy rates and stabilisation of credit risk, the credit cycle embarked on a path of recovery, whilst improving the net interest margins of the sector.				201: Economic Performance	No significant change	During the year, we expanded our market reach by launching 22 new branches and diversifying our product mix by broad basing the Gold Loan portfolio and sustainable financing products. Concurrently we sought to improve our competitive edge and potential through cost optimisation whilst embracing emerging technologies and cutting-edge IT solutions to drive operational excellence. With these commendable strides, MI was able to record a notable Profit after Tax (PAT) of Rs 1074 million (93 % Y-o-Y growth), whilst marking robust growth in loan book and deposit base.	Impact Management Report

					203: Indirect Economic Impacts	No significant change	We continued to extend our financial assistance by supporting those who suffered from financial hardships. We reached out to middle and low-income earners, those who do not have easy access to finance, to uplift their living standards. Moreover, by expanding our reach and widening Gold Loan operations we created new employment opportunities whilst supporting urgent financing needs of people. During the fiscal year, we have recruited 865 employees representing many regions of the country to ensure the equal absorption of multi-talented employees.	Impact Management Report

Asset quality management	In an evolving economic environment, maintaining a high-quality lending portfolio helps mitigate credit risk and ensures consistent income generation. Moreover, the introduction of stringent 90 day non performing categorization by the regulator intensified the pressure on the industry, resulting in a notable uptick in NPL. Hence, ensuring robust asset quality is essential for preserving credit ratings and upholding depositor trust and confidence.				201: Economic Performance	The increased materiality level coincided with the ongoing decline in customers' ability to repay.	Whilst strengthening our recovery measures through our dedicated fully-fledged Call Centre, Special Recovery Force and legal team to manage our NPL level, we unleashed proactive measures as we closely monitored sector wise and group credit exposures, keeping a close eye on repayment trends and borrower behaviour. Whilst adopting customised recovery actions, we prioritised the regular updating of recovery targets, setting ambitious yet achievable goals to optimise our collection efforts and minimise potential losses. With these commendable efforts, MI's 90-day Non-Performing Loan (NPL) ratio stood at commendably low levels of 4.9% from 9.8% recorded previous year, keeping well within set asset quality targeted levels, showcasing the strong	Financial Wealth and Risk Management Report

							quality of the loan book as against the average industry NPL of 11.3% recorded in December 2024.	
Compliance, ethics and corporate governance	Being a highly regulated corporate citizen, each stakeholder expects financial institutions to act with legitimacy and integrity at all times. Promotion of good governance and regulatory compliance is of utmost importance to the sustenance of our reputation as a longstanding finance company. It is pivotal for us to safeguard the trust and confidence among our depositors and creditors.				205: Anti-corruption 207 - Tax	Materiality increased with the unstable economic and political backdrop	We have fostered a culture of integrity and accountability across the organisation prioritising ethical behaviour, transparency, and adherence to regulatory standards. We uphold a compliance culture packed with a strong control environment. We conduct regular training and development programmes to raise awareness among employees about relevant laws, regulations, and Company policies, empowering them to make sound ethical decisions. Furthermore, we maintain a high level of Board awareness, with our governance	Corporate Governance Report Nature

							structures designed to promote independence, diversity, and effective oversight. Through these concerted efforts, we aim to instill confidence among our stakeholders, uphold our reputation as a responsible corporate citizen, and drive sustainable long-term value for our shareholders.	
System Migration, Integration, Digitisation and related risks	While digitalisation and the adoption of new FinTech solutions have emerged as key drivers in enhancing service delivery, accelerating decision-making, and significantly boosting overall productivity, it remains critically important to implement robust and effective control mechanisms. These measures are essential to ensure customer privacy, maintain data				418: Customer Privacy	No significant change	Whilst embracing emerging technologies and cutting-edge IT solutions to drive operational excellence and efficiency, we embarked on a transformative journey by transitioning our core systems and sub-modules to the renowned Scienter e-financials. During the year we successfully completed our entire core system migration, aiming to deliver seamless and personalised experiences to our customers.	Intellectual Capital

	integrity, and protect against increasing cybersecurity threats.						Furthermore, we ensured that stringent protocols are in place to mitigate cyber threats and ensure data integrity. The appointment of a CISO and plans to establish a Security Operations Center (SOC) this year are steps to strengthen data security.	
Talent management and motivation	Being a financial service provider, our employees remain as the true reflection of services that we provide to clients and they are the driving force in our journey of achieving set targets.				401: Employment 404: Training and Education	Increased materiality with the high staff turnover rates and industry wide competition to retain their best talents and manage their capacity, as a cost optimisation strategy.	Whilst proactively retaining our top talent, we simultaneously enhanced our talent pool by drawing in the industry's finest minds, fortifying our core competencies and propelling our growth trajectory forward. Moreover, we continued to upskill our workforce towards improved productivity, whilst grooming multi-tasking capabilities and empowering them to succeed in their career. To support a >43% growth in branch	Human Strength

							network, we strengthen staff count by 35%	
					402: Labour Management Relations	No change	We embraced a strategic human resource management methodology that advocates greater employer – employee interaction through open-door channels. Moreover, our human resource policies are synchronised with labour laws, industry standards, and other statutory regulations, adhering to best practices to guarantee equitable and ethical treatment of employees.	Human Strength
					405: Diversity and Equal Opportunity 406: Non-Discrimination	No change	While recognising employee diversity, MI took a firm approach to avoid employee discrimination. We have assured transparency in all our HR processes of recruitment, training and development and rewarding to build employee trust and confidence irrespective of ethnicity, gender,	Human Strength

							religion, caste or gender of employees.	
					410: Security Practices	No change	We implemented stringent security measures to mitigate the potential risks associated with fraud or theft. This involved engaging outsourced security services including offsite CCTV and sensor monitoring by a reputed vendor and entrusting cash transport risk to a reputable third-party provider. Vigilant oversight was maintained over any suspicious transactions, with the aim of preventing any instances of money laundering activities.	Human Strength
						No change	We always consider human rights as an integral part of our business strategy and any valid stakeholder concerns are addressed properly and escalated from bottom of the hierarchy to the top as required.	Human Strength Corporate Governance Report

					202: Market Presence	No change	Through the inauguration of new branches and the expansion of our Gold Loan operations across our branch network, we've ignited a wave of employment opportunities, fostering a diverse talent pool drawn from various local communities. We consistently prioritised recruitment efforts to mirror the diverse composition of the workforce, particularly emphasising inclusivity across different backgrounds.	Human Strength
Strengthening of partnerships	Fostering mutually beneficial relationships with our stakeholders is paramount to meeting their evolving needs and propelling our business forward, even in the face of challenges.		 		204: Procurement Practices	No significant change	We followed precise and transparent policies and procedures in borrowing and other procurement processes while enhancing the effective utilisation of our six capitals.	Alliances
					417: Marketing and Labelling	No significant change	Clarity and transparency were embedded in our business process, including all marketing and communication channels to protect our customers and business	Alliances

							partners. Furthermore, we broad-based our communication channels through web inquiries, dedicated call centres, hotlines and branch networks to address customer concerns and maintain customer complaints at minimal levels.	
Staying competitive amidst rivalry	The Non-Banking Financial Institution (NBFI) sector demonstrated strong performance, buoyed by a low interest rate environment that spurred rapid credit expansion. Though the import restrictions were gradually released during the latter part of the year propelling vehicle financing, the finance sector sought to diversify its core leasing business to non – traditional lending, including gold lending.				N/A	No significant change	Whilst broad basing our island wide footprint and product mix, MI underwent significant transformation during the financial year to strengthen its business leadership in both its core lending and deposit mobilisation spheres. We revisited our strategic blueprint, meticulously charting the course for the next three years, following a thorough examination of potential market segments and new product offerings. Furthermore, we continued to build trust	Financial Wealth Alliances

							and confidence of our customers by maintaining strong liquidity and capital adequacy levels whilst enhancing customer convenience and satisfaction through improved service levels.With these efforts we were able to record notable 43.5% and 18.5% growth in the loan book and deposit base respectively, further strengthening our market position.	
Upbringing sustainable communities	As we focus on sustainable business growth, we value the wellbeing of the wider community and strived to enhance their living standards which in turn will create sustainable relationships, enhancing our future growth potential.				413: Local Communities	No change	As a long standing and responsible corporate citizen, we continued to extend our financial assistance to low income earners through our microfinance arm, Gold Operation and sustainable financing products while empowering women entrepreneurship.	Impact Management Report

Health and Safety	Even though pandemic-related health risks are easing from the attention of the public, several communicable diseases such as dengue, viral flu, etc. continue to affect public health. Therefore, the importance of improving working conditions and health and safety conditions remained on top as a material concern of business organisations.				403: Occupational Health and Safety	No significant change	Despite being an organisation that poses minimal risks to employee health and safety, we took extra measures to safeguard health and safety of both our employees and customers. Though the pandemic related risks eased out, we never diverged from recommended national health and safety regulations and continued to adopt safety measures.	Human Capital
Commitment to the sustainability of the environment	With the evolving risk of climate emergency effects, MI understands its duty to minimise the harmful effects to the environment while preserving natural resources and promoting the usage of renewable energy.				301: Material 302: Energy 303: Water	No change	We constantly focused on implementing techniques for efficient and effective utilisation of material, energy and water.	Impact Management Report
					304: Biodiversity	No change	We joined our hands with the Wild Life Fund and supported the protection of biodiversity. MI operations did not bring about any negative impact on biodiversity.	Natural Capital Impact Management Report

					306: Waste	No change	Wastage management was properly handled according to town council guidelines.	Impact Management Report

Very High

High

Moderate

Strategy & Resource Allocation

Our Strategy

Amid the dynamic evolution of the financial services sector, MI's strategic priorities for the 2024/2025 financial year were carefully designed to harness emerging opportunities, fortify our competitive standing, and maintain operational resilience in a complex and dynamic environment. Drawing on the momentum of last year's disciplined approach, MI adeptly navigated market volatility by leveraging its strong capital foundation and robust liquidity reserves. This strategic agility enabled us to solidify our resilience while laying the groundwork for sustained, long-term growth.

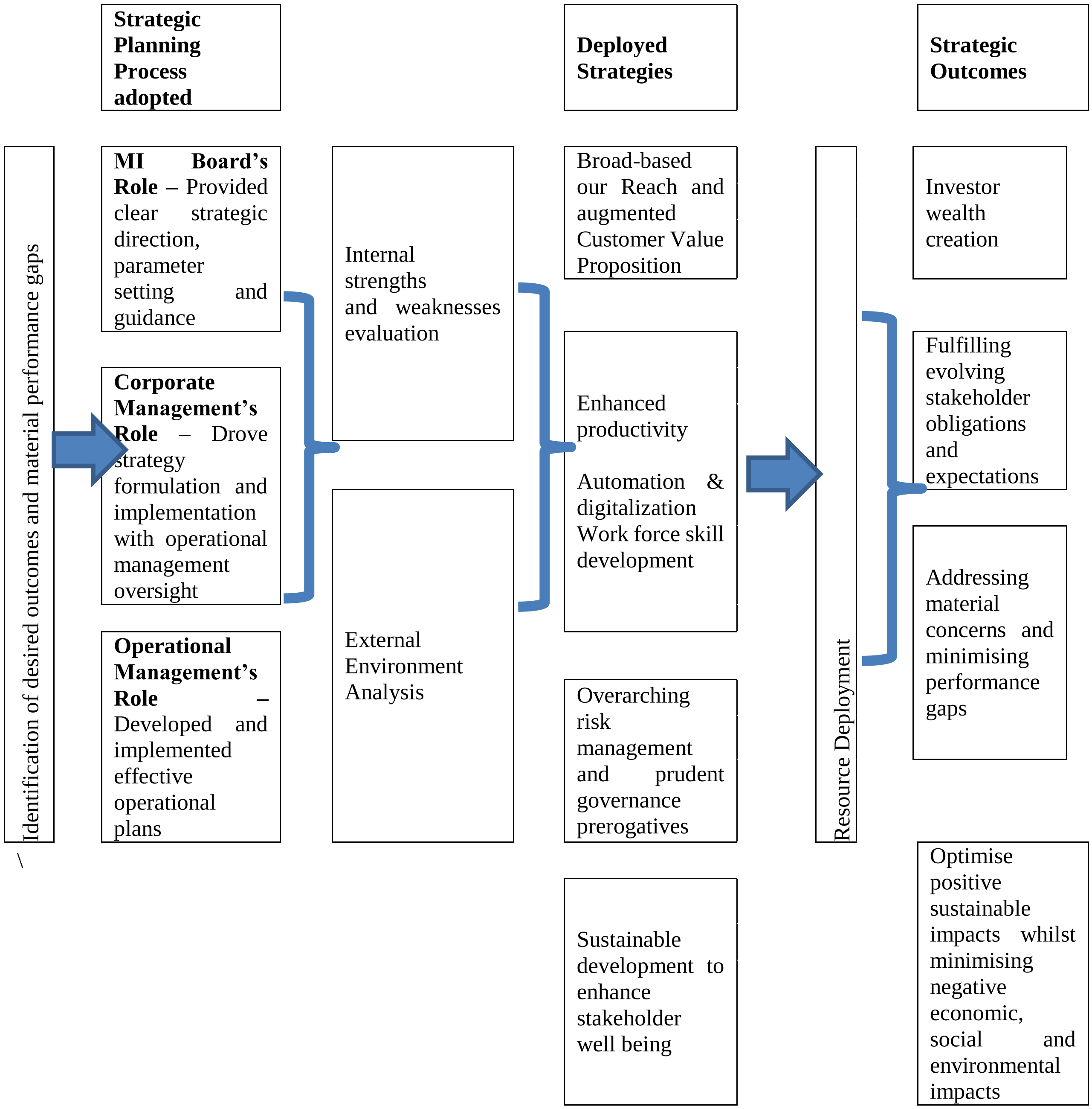
MI's corporate strategy is anchored in a commitment to creating enduring value for all stakeholders, harmonising the expectations of investors, clients, and the broader community. By capitalising on our inherent strengths and proactively adapting to shifting market trends and client needs, MI is well-positioned to deliver sustainable value. Our rigorous annual strategy review ensures optimal resource allocation, amplifying our core competencies, mitigating vulnerabilities, and guiding strategic investments to enhance our operational ecosystem.

As the macroeconomic landscape in the non-banking financial institution (NBFI) sector strengthens with declining benchmark rates, robust credit portfolio growth and persistent deflationary pressures since the beginning of 2024, MI strategically repositioned its operations to achieve sustained profitability. With Sri Lanka's economic recovery accelerating, evidenced by a robust 5% GDP expansion, MI enhanced its strategic framework, prioritising risk-adjusted returns and capital optimisation for stakeholders. Our forward-looking financial strategy for 2024/2025 is engineered to drive revenue and earnings growth by leveraging economic stabilisation, capitalising on sector-wide improvements in asset quality and liquidity metrics, and addressing evolving client demands within a dynamic financial ecosystem.

Our holistic growth strategy encompasses several key pillars: expanding into high-potential markets, enhancing client engagement through cutting-edge digital platforms, introducing innovative product offerings, and delivering exceptional, client-centric service. We have placed strong emphasis on preserving asset quality, optimising operational efficiency, and implementing disciplined cost management mechanisms to strengthen our financial performance. By aligning our efforts with short-, medium-, and long-term objectives, we ensure strategic coherence and adaptability in a dynamic market.

A cornerstone of MI's business model is our unwavering commitment to corporate responsibility, embedding sustainable practices that align with the broader interests of our stakeholders. By pursuing a purpose-driven strategy, MI continues to fulfill its role as a principled corporate leader, advancing toward ambitious goals that deliver meaningful impact.

The Strategy Formulation Path Set in Motion towards Envisaged Results



Internal Environment Review

Our Strengths	How We Leveraged
Over 60 years legacy	• Recorded highest ever Profit after Tax and shareholder funds through a sustainable grow trajectory, uplifting trust and confidence of our stakeholders, whilst surpassing Rs 70 billion total asset base. • Our unparalleled and personalised customer service has positioned the MI brand as a trusted and enduring business partner since 1964. • Leveraging the company's reputation as a top-tier brand to expand our business operations whilst attracting new and healthy customer base across the island • Strengthening customer bonding and loyalty whilst maintaining solid over 85% deposit retention
Employee Proposition	• Possess 1613 top skilled employees with adequate business acumen • Over 25,000 hours extensive trainings offered • 865 New recruitments with diverse knowledge • Distribution of over Rs 2 billion towards employee benefits
Technology Integration	• Migration to the renowned Scienter e financials system aimed at enhancing overall productivity and operational efficiency • Reinforcing our competitive position by delivering enhanced customer convenience through innovative and digital solutions
Strong Liquidity, Asset Quality & Capital Buffers	• Strengthening investor trust and confidence by maintaining a robust liquidity position throughout the year, whilst recording year-end liquidity ratio of 9.8% significantly exceeding the regulatory minimum requirement of 10%.

	• Maintained "A" grade "Well Capitalized "status with strong capital adequacy ratios well above statutory minimums. • Sustained strong asset quality by effectively reducing the NPL by 50%, reflecting prudent risk management and robust credit oversight practices
Network Development	• Expanded our market presence and reach broad basing our branch network with the addition of over 20 strategically located branches across the island, reflecting a 43% year-on-year growth
Sustainable Business Practices	• Advanced our sustainable financing agenda through the introduction of a diversified range of new product offerings tailored to the renewable energy, agriculture, smart irrigation, and socio-eco-friendly sectors reinforcing our commitment to inclusive and environmentally responsible growth

Focused Areas to Improve

Weaknesses Identified	Our Strategic Approach
Product dependency on Fixed deposit base	• Strengthened the savings portfolio by launching the 'Podiththo' minor savings product, strategically integrating it into the branch network and deploying dedicated product marketing personnel to drive outreach and engagement at the grassroots level
Managing Maturity mismatch	• Focused on long term bank and securitized borrowings whilst managing the funding cost • Offering attractive rates for long term deposits
Functional autonomy among employees	• Cross functional engagement activities monitored through HR department

External Environment Review (PESTEEL Analysis)

Analytical Factor	Key Point	Impact to LFC	Our Approach
Political	Promising Political Leadership and Governance	The recent election of a reform-oriented government with a strong mandate for transparency and accountability has ushered in a more stable and predictable policy environment. This positive shift is bolstering investor confidence, reinforcing regulatory consistency, and creating a more enabling landscape for financial institutions to operate and grow with greater certainty	In response to the improved political and economic stability, we have actively pursued growth through physical presence. Aggressive brand expansion demonstrates our confidence in the regulatory direction and our commitment to expanding access to financial services nationwide.
	Skill driven strategic appointments	Key government positions are now held by respected professionals with proven industry expertise. This trend indicates more informed and realistic decision-making processes, which contribute to better economic stewardship and more credible financial sector policies an encouraging sign for licensed finance companies navigating regulatory frameworks.	We already deployed a highly transparent business structure, which aligns seamlessly with the government's renewed focus on accountability and regulatory integrity. The revised 3-year strategic plan set forth competitive strategy to drive MI into the next phase.
	Easing of Vehicle Import Restrictions with Tax Implications	The government's move to ease vehicle import restrictions marks a notable increment in related credit segments such as vehicle leasing and consumer auto loans.	Strengthened strategic partnerships with importers and agents to effectively capitalize on the growing demand for unregistered vehicle financing, positioning

		However, the continuation of a high tax regime on imports tempers this benefit, limiting demand growth	the company to capture emerging market opportunities.
Economic	Monetary Policy Easing and Streamlining	Whilst the interest rate continued to decend throughout the year, with the introduction of a single policy rate, the Overnight Policy Rate (OPR) has simplified monetary policy signaling, allowing financial institutions to price loans and savings products more accurately	In alignment with the evolving macroeconomic environment, we have recalibrated our product pricing models. This ensures our financial offerings remain competitive, sustainable, and responsive to both market and regulatory signals.
	Economic Recovery Driving Business Expansion	Sri Lanka's economy rebounded strongly in 2024 with a real GDP growth of 5.0% following two years of contraction. This macroeconomic recovery has created a favorable environment for business growth, credit demand, and new market opportunities for finance companies.	Capitalising emerging business opportunities, MI embarked on a journey toward steady and sustainable growth, strategically expanding market reach and diversifying its product offerings whilst recording highest ever Profit after Tax (PAT) of Rs 1,074million marking robust growth in loan book and deposit base.
	Rupee Appreciation & Greater stability in foreign currency fluctuation	The Sri Lankan rupee appreciated by 10.7% in 2024, strengthening import affordability, particularly for vehicle and equipment financing, supporting relevant lending portfolios despite existing tax barriers.	

	Declining Inflation Creating Stability for Lending	Rapid decline in inflation from the astounding levels observed in the last two years eventually led to a deflation of 2.6% by March 2025, curbing the pressure on overhead cost escalation and easing somewhat individual's disposable income levels,	
	Rising Per Capita Income Increasing Consumer Capacity	Sri Lanka's per capita income rose in 2024, reflecting a boost in household purchasing power and disposable income. This trend supports increased demand for personal finance, savings, and investment products.	
Social	Stable Cost of Living Supporting Financial Predictability	Despite global uncertainties, the cost of living in Sri Lanka recorded only a marginal increase in 2024, as indicated by the annual average change in the Consumer Price Index (CPI).	As a long standing and responsible corporate citizen, we continued to extend our financial assistance to low income earners through our micro finance arm, Gold Operation and sustainable financing products while empowering women entrepreneurship
	Rising Nominal Wages Enhancing Credit Affordability	Rise in income levels positively influenced borrowers' repayment capacity and broadened the scope for expanding retail credit products, including personal loans and savings instruments.	To address shifts in demographic trends and income dynamics, we expanded our branch network and strengthened our frontline staff with highly capable professionals. Whilst expanding our reach, we

	Declining Population Impacting Market Potential	Sri Lanka's mid-year population declined by 0.5% in 2024. This demographic contraction could gradually reduce the size of the potential customer base for financial products, particularly in rural and aging segments, requiring companies to adapt with more targeted, customer-specific offerings.	have broad-based our customer base by delivering a more personalized and seamless customer experience.
Technological	Increased Exposure to Cybersecurity Risks	With greater reliance on digital platforms and online transactions, system vulnerabilities have become more pronounced, exposing financial institutions to heightened cyber threats.	To enhance system reliability and ensure compliance with evolving technological standards, we have fully migrated to an industry-accepted core operating system. This migration supports seamless integration, data security, and improved service delivery across all branches. We have set forth high-grade firewall systems and cybersecurity protocols to safeguard against increasing cyber threats and ensure robust data protection
	Emergence of AI-Driven Business Models	The rapid advancement of artificial intelligence (AI) has introduced new possibilities for automation, customer behavior analysis, credit scoring, and fraud detection. These AI-driven models can significantly enhance operational efficiency and decision-making processes within the finance sector.	We have fully digitalized our lending disbursement process, enabling faster turnaround times and a more efficient customer experience.

	Real-Time, Remote Work Technologies	Innovations supporting remote work environments, such as cloud-based systems and real-time collaboration tools, have become more widespread.	Recognizing the critical role of technology in financial services, we invested Rs. 89 million during the year in maintaining and upgrading all computer-related infrastructure.
	Digitally Literate Consumers and Workforce Driving Transformation	The growing digital literacy among both consumers and employees presents a strong opportunity for finance companies to digitize their processes, enhancing overall service efficiency and customer satisfaction.	
Ethical	Regulatory Emphasis on Consumer Protection	Regulatory frameworks have been strengthened towards customer protection, responsible lending, and ethical debt collection, demanding for ethical and transparent business practices	We maintain a highly transparent operational structure across all aspects of our business, ensuring that customers, regulators, and stakeholders have clear visibility into our processes
	ESG and Ethical Governance Integration	Demand for embedding Environmental, Social, and Governance (ESG) principles into business models.	Whilst embedding strategic corporate sustainability into our business model, we have ensured that our lending and operational practices are guided by principles of fairness, accountability, and aligned with the long-term well-being of our clients.
Environment	Growing Demand for Green Lending	The demand for environmentally sustainable financing continues to rise with financing for renewable energy projects, energy-efficient transportation, and environmentally	As part of our commitment to environmental sustainability, we have introduced solar financing products to support the transition to renewable energy. Our

		responsible business practices—positioning finance companies as key enablers in the transition toward a low-carbon, sustainable economy	green lending portfolio has reached 6.6 billion rupees, reinforcing our role in promoting eco-friendly investments and sustainable development
	National Commitment Through 'Clean Sri Lanka' Initiatives	“Clean Sri Lanka” project which reflect, the country's growing national commitment to environmental cleanliness has created opportunities for finance companies to participate in or fund programs that contribute to public environmental welfare and enhance their ESG credentials.	Whilst being conscious of environmental conservation, we have proactively reduced our paper usage and waste, through greater automation of internal processors.
Legal	New CBSL Guidelines and other regulatory amendments	Infusion of stream of regulatory and tax changes will have varying impacts to the business community	Ensured MI’s compliance to various regulatory requirements and made plans for adopting applicable sections in future through close monitoring and feedback Implemented new policies and procedures and conducted training to adhere to evolving regulatory requirements and industry best practices

Resource Allocation at MI

Strategic resource allocation has remained fundamental to MI's operational excellence, underscoring our dedication to sound management and long-term sustainable growth. During the year, we have strategically prioritized our resource allocation to support the expansion of our branch network and IT infrastructure to drive our future potential and competitive edge in the market whilst bolstering operational efficiency and scalability. Additionally, substantial investments in employee development initiatives have fortified our workforce, ensuring they possess the requisite skills and expertise to navigate evolving industry landscapes. As responsible stewards of shareholder value, we have upheld a disciplined resource allocation strategy, carefully balancing near-term priorities with long-term sustainability, to ensure the delivery of sustained, optimal returns for our stakeholders.

Business Lines	Lending	Critical	Critical	Critical	Critical	Critical	Critical	Moderate
	Investments	Moderate	Not Significant	Critical	Moderate	Moderate	Moderate	Moderate
	Deposits Mobilisation	Moderate	Critical	Moderate	Critical	Critical	Critical	Moderate
	Other Ancilliary Businesses	Moderate	Moderate	Moderate	Critical	Critical	Critical	Moderate
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	Critical	Critical	Critical	Critical	Moderate	Moderate	Moderate
	Human Stregnth	Moderate	Critical	Critical	Critical	Moderate	Moderate	Moderate
	Alliances	Critical	Moderate	Critical	Critical	Critical	Critical	Moderate
	Infrastructure	Moderate	Moderate	Critical	Moderate	Moderate	Moderate	Moderate
	Intellect	Critical	Critical	Critical	Moderate	Not Significant	Critical	Moderate
	Nature	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

Critical   Moderate   Not Significant

Capital Management process that drives Stakeholder Value

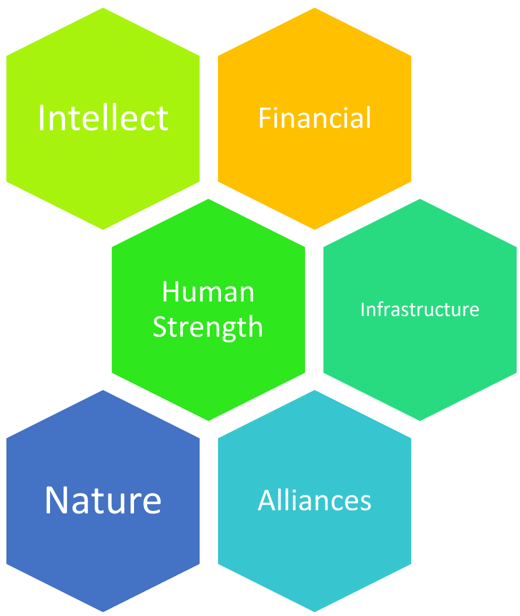
At the heart of MI's value creation strategy lies a disciplined and integrated approach to capital management ensuring prudent stewardship of the company's diverse resources. These resources, collectively referred to as Capitals, encompass both tangible and intangible assets, including financial capital, human capital, intellectual capital, natural capital, social & relationship capital, and manufactured capital.

The year 2024/25 marked a period of strategic transformation and resilience, during which MI effectively harnessed its alliances, intellectual assets, infrastructure, human talent, and natural and financial resources to drive sustainable growth. This multifaceted use of capitals enabled the organization to exceed stakeholder expectations, even in a challenging and fast-evolving industry landscape. MI's capital management framework is designed to be dynamic and responsive, recognizing that these capitals may increase, diminish, or transform depending on internal goals and external conditions. The company emphasizes careful planning to minimize risks and trade-offs, ensuring a well-balanced and sustainable approach to long-term value creation.

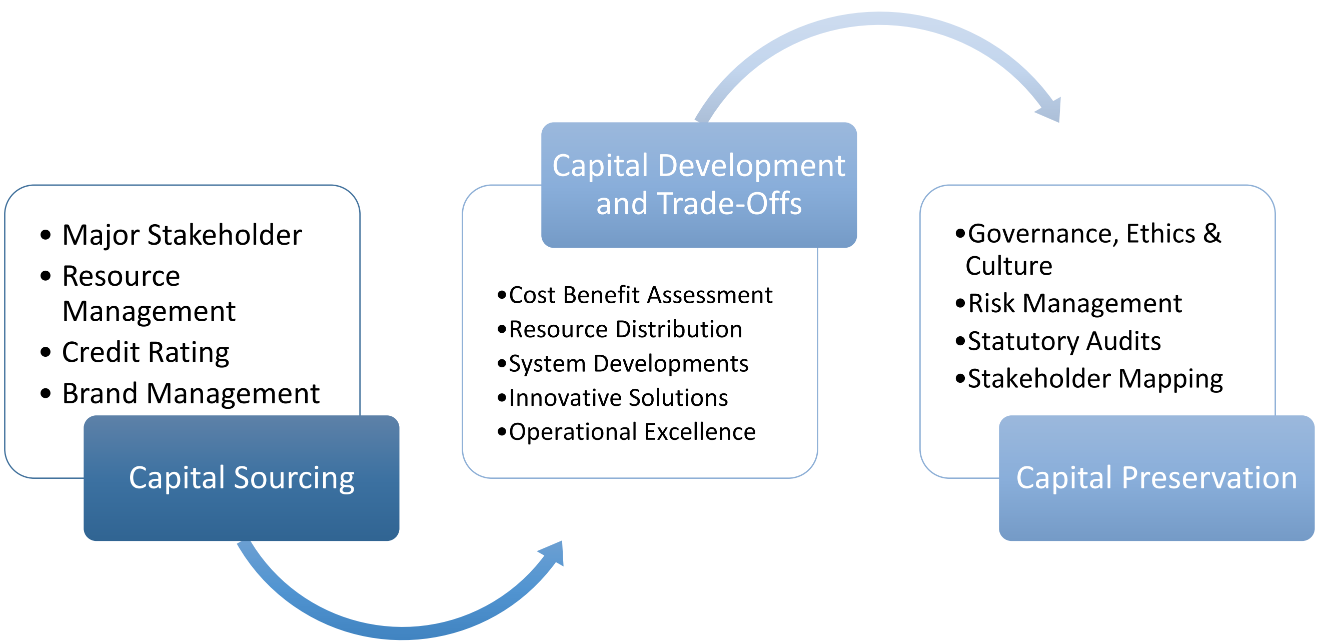
As part of its broader commitment to corporate sustainability, MI integrates comprehensive and strategic thinking into its governance and operations. This allows the Board and management to optimize resource allocation across the short, medium, and long term delivering consistent, resilient, and lasting returns. MI also maintains a deep sense of environmental and social responsibility. The organization actively contributes to sustainable development through its operations, partnerships, and community engagements. This ethical foundation reinforces MI's role as a responsible corporate citizen.

In an industry characterized by volatility and rapid transformation, MI's well-diversified capital base has served as a critical pillar of resilience, enabling the organization to navigate challenges with stability and agility. By leveraging these capitals, MI recorded impressive growth in profitability and asset base whilst delivering positive impacts to the broader economy, society, and environment. This achievement underscores MI's enduring commitment to investors, employees, customers, business partners, and all other stakeholders, a commitment that drives the company's growth, innovation, and sustainability.

Capital management approach



Below is a representation of a structured plan MI has a developed to bolster efficient resource utilization in its value creation strategy. It strives to identify any gaps in the allocation and management of resources and thereby ensures that the returns are maximized. This systematic process is crucial to preserve these valuable resources to future generations. It facilitates the company's growth ambitions without compromising on the positive impact on society through promoting responsible stewardship of resources.



Economic Performance in Global Context

As 2025 unfolds, global economy is at a critical juncture, though signs of stabilization were emerging through much of 2024, after a prolonged and challenging period of unprecedented shocks. Real economic activity has significantly underperformed, with fourth-quarter GDP growth in 2024 falling short of projections outlined in the January 2025 World Economic Outlook. This shortfall has cast a shadow over global growth expectations and set a cautious tone for the current year. Market sentiment has pivoted sharply toward pessimism as uncertainty has gripped financial markets, evidenced by increased volatility indices and risk premiums across asset classes. This uncertainty has been further compounded by the announcement of US new tariffs that threaten to further constrain global trade flows, potentially disrupting supply chains and increasing production costs for multinational corporations. The challenging environment is increasingly evident in labor markets worldwide, where hiring momentum has decelerated across multiple economies and corporate layoffs have accelerated, particularly in technology and manufacturing sectors. These labor market developments have created additional pressure on consumer confidence and spending patterns, with potential downstream effects on retail sales and housing markets that may further dampen economic growth.

On the inflation front, previously encouraging disinflation trends have largely stagnated, with several economies experiencing modest upticks in price pressures despite contractionary monetary policies. An increasing number of countries now find themselves exceeding their established inflation targets, complicating central bank policy decisions and market expectations regarding interest rate trajectories. Core inflation remains stubbornly elevated in many advanced economies, suggesting that underlying price pressures continue to permeate beyond volatile food and energy components. These developments unfold against a backdrop of persistent domestic imbalances including fiscal deficits and debt sustainability concerns and widening policy gaps across major economies, resulting in unbalanced growth patterns that expose potential systemic vulnerabilities. The divergence between fiscal and monetary policy stances in key economies has created additional market uncertainty, while geopolitical tensions continue to pose risks to energy prices and global trade. The confluence of these factors requires heightened vigilance from policymakers and corporate leaders alike as we navigate these complex economic crosscurrents that will likely define the operating environment for the remainder of the year and potentially beyond.

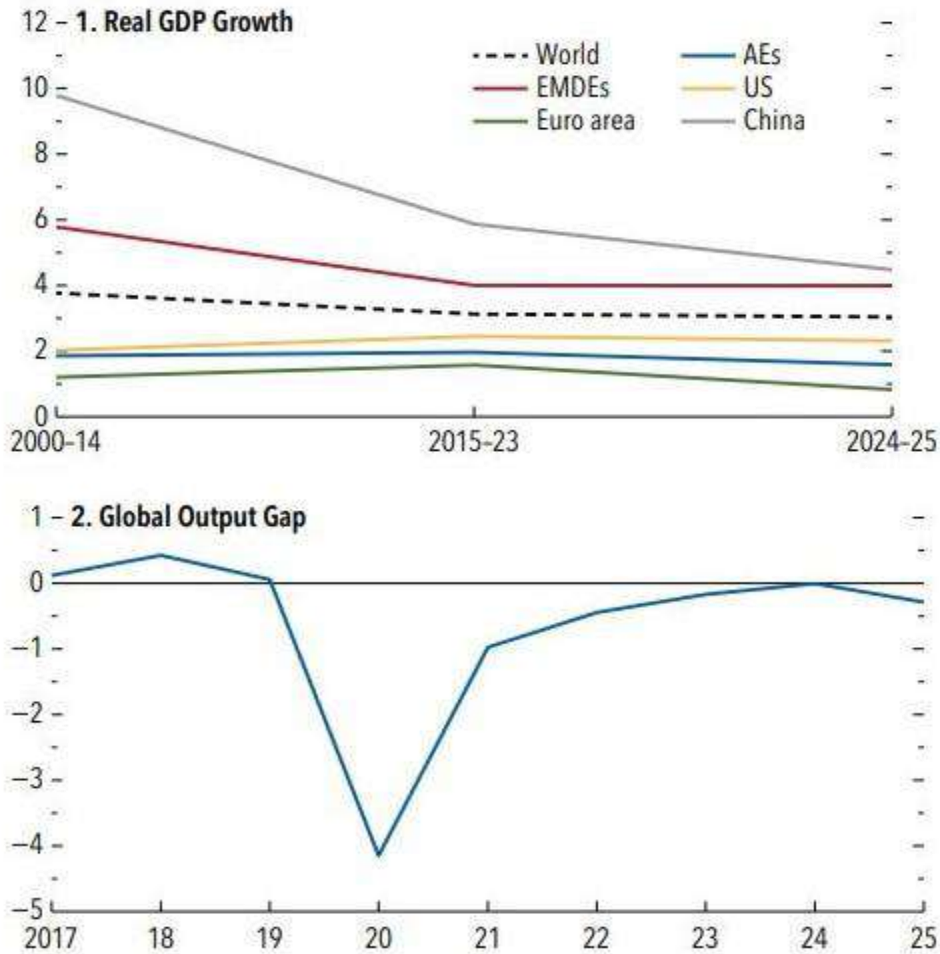


Figure 1 Real GDP Growth Global Output Growth

Source: World Economic Outlook April 2025 - IMF

Asian Economic Progress 2024/25

The Asia Pacific region demonstrated remarkable resilience in the latter half of 2024, with many economies successfully closing significant output gaps that had emerged during the pandemic era, displaying the region's underlying economic strength and adaptability. Despite this positive trajectory, overall performance fell slightly short of projections, primarily due to delayed public investment initiatives following electoral cycles in several key markets and various temporary disruptions to economic activity. This situation was compounded by the U.S. tariff package announced on 2025, disproportionately affected the Asia Pacific region, which stood to face the steepest increase in effective tariff rates globally, creating additional headwinds for export-oriented economies that have traditionally served as regional growth engines.

Consequently, the region's growth outlook has deteriorated substantially, with forecasts based on data through April projecting a deceleration to approximately 3.9 % in 2025 and 4 % in 2026 a marked decline from the 4.6 % achieved in 2024 and considerably below earlier expectations.

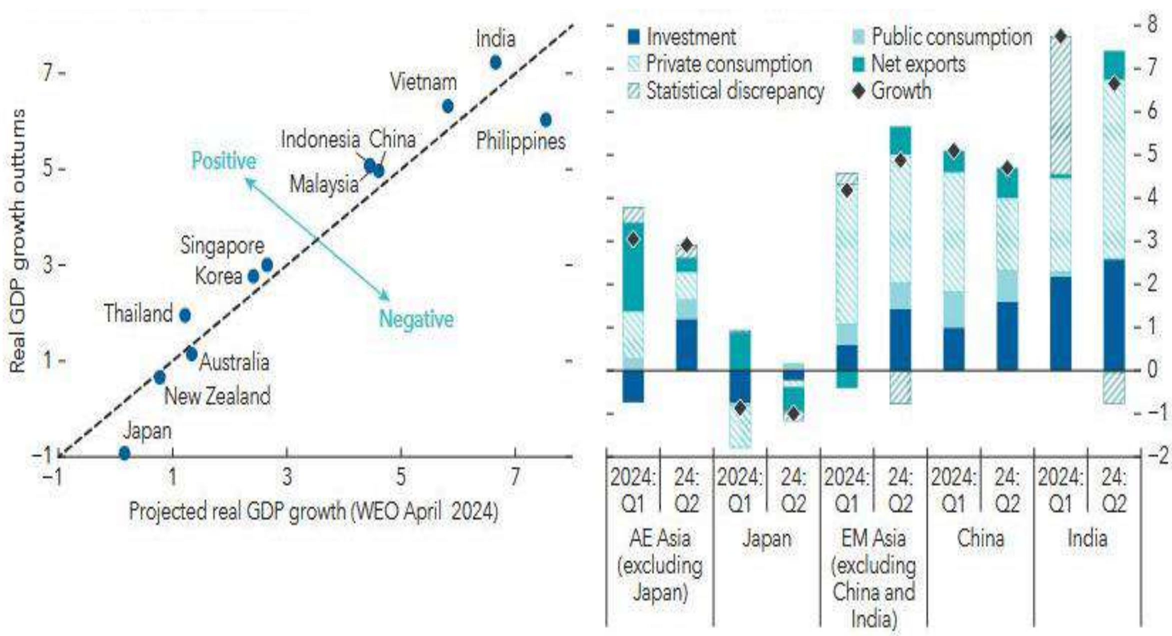


Figure 2 GDP Growth Asia

Source: Regional Economic Outlook IMF

Impact from Global market sentiments to MI

The confluence of global economic headwinds and the weakening growth outlook in the Asia Pacific region presents both challenges and strategic opportunities for MI. Amid signs of stabilization in the global economy during the first half of the financial year and a moderating growth outlook across the Asia-Pacific region, the Sri Lankan economy demonstrated resilience by capitalizing on emerging opportunities—driven by a resurgence in the tourism sector, and renewed momentum in key industry and service sectors. The gradual economic recovery, accompanied by a sustained decline in interest rates and the easing of import restrictions, has fostered renewed optimism across the financial sector—reflected in heightened credit demand, enhanced borrower repayment capacity, and improved asset quality.

Capitalizing on these positive market sentiments, Mercantile Investments strategically expanded its operations by broadening its branch network, achieving monumental growth in profitability and asset quality, while effectively optimizing re-pricing gains arising from the decline in interest rates

Nevertheless, we remain vigilant to emerging uncertainties and potential shocks arising from shifting global trade policy dynamics and escalating geopolitical tensions, given their possible implications for the domestic market and MI's future growth trajectory. As a well-established financial institution, we have maintained resilience by reinforcing our capital buffers and diversifying funding sources, while strategically capitalizing on market consolidation opportunities and delivering tailored financial solutions to clients navigating trade disruptions and market volatility

Sri Lankan Economic Stance

Sri Lanka exhibited remarkable economic resilience during 2024, achieving a broad-based revival across multiple sectors following several years of unprecedented challenges. This recovery trajectory can be attributed to the effectual implementation of corrective fiscal and monetary policy measures initiated in mid-2022, which collectively fostered a more stable economic environment and established the foundation for sustained growth. The economic progression gained further momentum through the ongoing International Monetary Fund - Extended Fund Facility (IMF-EFF) programme, which provided crucial policy guidance and financial support while enhancing the country's credibility in international financial markets. Additionally, the near completion of external debt restructuring negotiations represented a significant milestone in Sri Lanka's economic stabilization journey, helping to restore investor confidence and attract new capital flows essential for long-term development projects and business expansion initiatives across various sectors.

The external sector of the economy demonstrated considerable stability despite navigating a challenging global environment characterized by heightened uncertainty, supply chain disruptions, and broader regional economic deceleration. This resilience was substantially bolstered by the successful continuation of the IMF-EFF programme and external debt restructuring efforts, which collectively strengthened the country's external position by improving foreign exchange liquidity and stabilizing the domestic currency. Notably, inflation dynamics took a favorable turn with price levels turning negative from September 2024, primarily driven by the significant decline in administratively determined and cost-reflective energy prices. This ongoing temporary period of deflation has delivered tangible benefits to both households and businesses by easing cost of living pressures for consumers while simultaneously reducing production costs for enterprises across the economy, thereby enhancing their operational viability and competitive positioning in both domestic and international markets.

Economic Growth

The Sri Lankan economy demonstrated remarkable resilience and recovery in 2024, achieving a robust 5.0% real economic growth a significant turnaround following two consecutive years of nual contraction that had severely tested the nation's economic foundations. In nominal terms, GDP at current market prices reached Rs. 29,898.6 billion in 2024, propelled by the combination of real economic expansion and a GDP deflator of 3.8%. This economic revitalization translated into substantial improvements in living standards, with GDP per capita increasing to Rs. 1,364,235 in 2024, compared to Rs. 1,244,262 in 2023 a noteworthy advancement attributable to both the growth in nominal GDP and a modest decline in the mid-year population figures.

Examining sectoral performance reveals varied but predominantly positive contributions across the economy's major components. Agricultural activities expanded by a moderate 1.2% in 2024, showing a slight deceleration from the 1.6% growth recorded in 2023, yet still maintaining positive momentum despite various climate-related and structural challenges affecting the sector. The most intense improvement occurred within Industry activities, which reported an impressive 11.0% growth in 2024 representing a remarkable recovery from the substantial 9.2% contraction experienced in 2023. This industrial resurgence was primarily supported by the steady revival of both domestic and external demand conditions, allowing manufacturing, construction, and related sub-sectors to regain operational capacity and market presence after a prolonged period of disruption.

The Services sector, which constitutes the largest component of Sri Lanka's economic structure, exhibited a healthy recovery in 2024 with a 2.4% growth, successfully reversing the 0.2% contraction recorded in 2023. This positive performance reflects the gradual normalization of economic conditions across the country, with improvements in consumer confidence, business sentiment, and overall economic stability contributing to renewed activities in areas such as transportation, financial services, telecommunications, and tourism. The service sector's recovery is particularly significant given its substantial contribution to employment and its interconnectedness with other economic activities, effectively serving as both a catalyst and beneficiary of the broader economic revival. Collectively, these sectoral performances underscore a comprehensive, though uneven, economic recovery that positions Sri Lanka favorably for sustained growth in the coming years, provided that policy continuity and economic reforms remain prioritized.

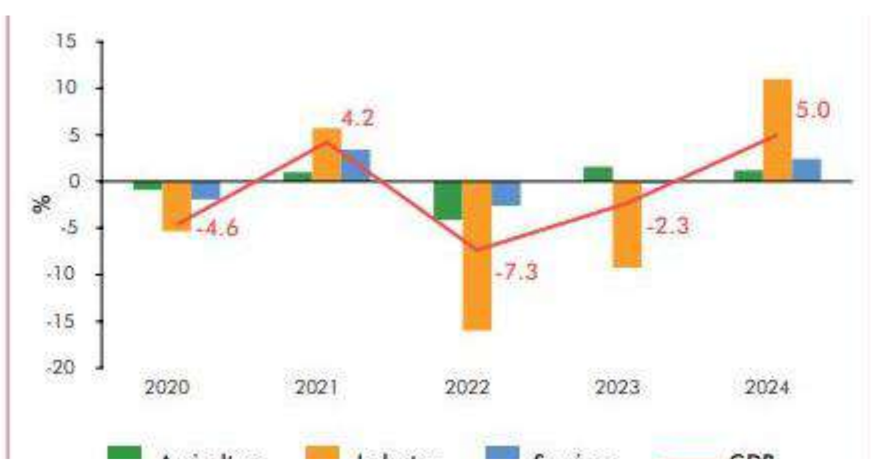


Figure 3 Sri Lankan Economic Growth

Source – CBSL Annual Review 2024

Employment & Population

Sri Lanka's demographic and labour landscape underwent notable shifts in 2024, with the mid-year population declining by 0.5% to 21.916 million, influenced by declining birth rates and migration patterns whilst labour force decreased to 8.316 million in 2024 from 8.408 million in 2023. Despite these contractions, the employment situation showed signs of improvement, with the unemployment rate decreasing to 4.4% during 2024, compared to 4.7% in the previous year, reflecting the economy's capacity to absorb available labour amid improving business conditions. Simultaneously, foreign employment opportunities continued to serve as an important economic outlet for Sri Lankan workers with a 5.8% increase in departures for foreign employment, totaling 314,828 in 2024 compared to 297,656 in 2023 a development that both alleviates domestic employment pressures and contributes significantly to foreign exchange inflows through remittances.

Item	2023	2024 (b)
Household Population '000 Persons	17,306	**17,551 (c)**
Labour Force '000 Persons	8,408	**8,316**
Employed	8,010	**7,949 (c)**
Unemployed	398	**367 (c)**
Unemployment Rate	4.7	**4.4**
Male	3.6	**n.a.**
Female	7.0	**n.a.**
Labour Force Participation Rate (d)	48.6	**47.4**
Male	68.6	**n.a.**
Female	31.3	**n.a.**

(a) Household population aged 15 years and above
(b) Average during the year
(c) These values are derived from the available information as of 28 March 2025, and values may differ from the statistics publish by DCS on a later date.
(d) Labour force as a percentage of household population
n.a. - not available

Source: Department of Census and Statistics

Figure 4 Population, Labour Force

Source: CBSL Annual Economic Review 2024

Inflation

Price stability emerged as a defining economic characteristic in Sri Lanka during 2024, with inflation charting a distinct downward path that culminated in deflationary conditions from September onward. This favorable price trajectory developed despite an initial uptick early in the year, primarily due to the substantial reduction in electricity tariffs implemented in March 2024 and the statistical base effect from the previous year's elevated price levels.

Accordingly, headline inflation (YOY), measured by the Colombo Consumer Price Index (CCPI, 2021=100),was recorded at -1.7% by end 2024 compared to 4.0% by end 2023, while the annual average CCPI based headline inflation in 2024 decelerated to 1.2% from 17.4% recorded in 2023. The National Consumer Price Index (NCPI, 2021=100) based headline inflation also followed a similar path, dropping to -2.0% by end 2024, compared to 4.2% recorded at end 2023, while the annual average NCPI based headline inflation in 2024 decelerated to 1.6%, compared to 16.5% in 2023. The transition to negative inflation in the latter months provided welcome relief to both households and businesses after a prolonged period of challenging price pressures, contributing positively to economic recovery efforts and enhancing purchasing power across the economy.

Figure 5 Inflation – CCPI

Source: CBSL Annual Economic Review 2024

Impact to MI from Sri Lankan Macroeconomic fluctuations

The macroeconomic recovery in Sri Lanka during 2024 created a more favorable operating environment for the finance sector, including microfinance institutions. The return to 5.0% real GDP growth, coupled with improvements in industry and services sectors, supported stronger credit demand from small businesses and households. This broader economic revival enhanced borrower repayment capacity and contributed to portfolio quality improvements, while GDP per capita growth reflected rising income levels further supporting financial inclusion and product uptake across client segments.

Meanwhile, the sharp decline in inflation, turning into deflation from September, eased cost pressures for both borrowers and financial institutions. The reduction in electricity tariffs and overall price stability improved household cash flows and operating margins for SMEs, positively influencing loan performance. Additionally, the decline in unemployment and increased foreign employment departures boosted remittance inflows and income stability, indirectly supporting creditworthiness and expanding the financial services footprint across both rural and urban markets.

Capitalising these positive sentiments and emerging business opportunities, MI embarked on a journey toward steady, sustainable growth, strategically expanding market reach and diversifying its product offerings. We sought to improve our competitive edge through technology and moreover investing on a talented team to reinforce MI's market positioning whilst differentiating service extended from our peers. Though the disinflation mitigated the pressure on corporates on overhead cost escalation, we continued to focus on the cost optimization drive deploying a greater scalable concept aimed at fostering a leaner and more agile operation to improve our profitability level.

External Sector

Exchange Rate

The Sri Lankan rupee continued to appreciate over the past two years, supported by strengthened external sector fundamentals, including a current account surplus and reduced foreign exchange outflows. This appreciation trend reflected improved market confidence and external stability. However, the extent of the rupee's appreciation was moderated by the Central Bank's active intervention in the domestic foreign exchange market to accumulate record levels of foreign reserves. Moreover, with the gradual release of import restriction on motor vehicles and increase in imports in the latter part of the financial year 1.3 % YOY depreciation was observed against US dollar in March 2025.

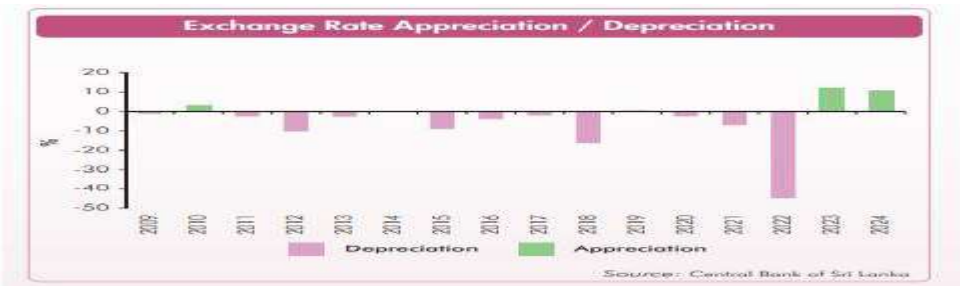


Figure 6 Exchange Rate Fluctuation

Source: CBSL Annual Economic Review 2024

Foreign Direct Investments (FDIs)

Foreign Direct Investment inflows into Sri Lanka remained relatively modest in 2024, reflecting cautious investor sentiment amid ongoing global and domestic uncertainties. Total FDI, including foreign loans to Direct Investment Enterprises (DIEs), amounted to USD 846 million, a slight increase from USD 759 million recorded in 2023. Excluding foreign loans, FDI stood at USD 761 million in 2024, compared to USD 713 million in the previous year, indicating a moderate improvement in equity-based investments despite a still-recovering investment climate.

External Sector Implication to MI

The appreciation of the Sri Lankan rupee in 2024, supported by improved external sector conditions has provided relief in managing overhead costs escalation whilst supporting borrowers, easing their repayment pressures. While MI continued to diversify its product portfolio by introducing gold-backed and sustainable financing solutions, strategic emphasis was placed on vehicle-based lending, capitalizing on the easing of import restrictions. Furthermore, we remain cautiously optimistic about a modest uptick in FDI inflows in 2024, indicating a gradual restoration of investor confidence and growth prospects.

Monetary Policy Stance

In 2024, the Central Bank of Sri Lanka continued to adopt accommodative monetary policy measures to support economic recovery. Key policy rates were lowered by a total of 125 basis points (bps) over three monetary policy review rounds, following a substantial reduction of 650 bps in 2023. In March 2024, the policy interest rate was reduced by 50 bps, followed by a further cut of 25 bps in July, allowing market interest rates to adjust gradually in response to the policy changes. These actions reflect the Central Bank's ongoing efforts to foster a stable and favorable environment for economic growth.

A significant milestone in monetary policy formulation occurred in 2024 with the Central Bank’s transition to a single policy interest rate mechanism. In November 2024, the Overnight Policy Rate (OPR) was introduced as the primary monetary policy tool, replacing the previous dual rate system. Set at 8.00%, the OPR was maintained at this level through March 2025, marking a key shift in how the Central Bank aims to manage liquidity and inflation, while providing clearer guidance for market participants.

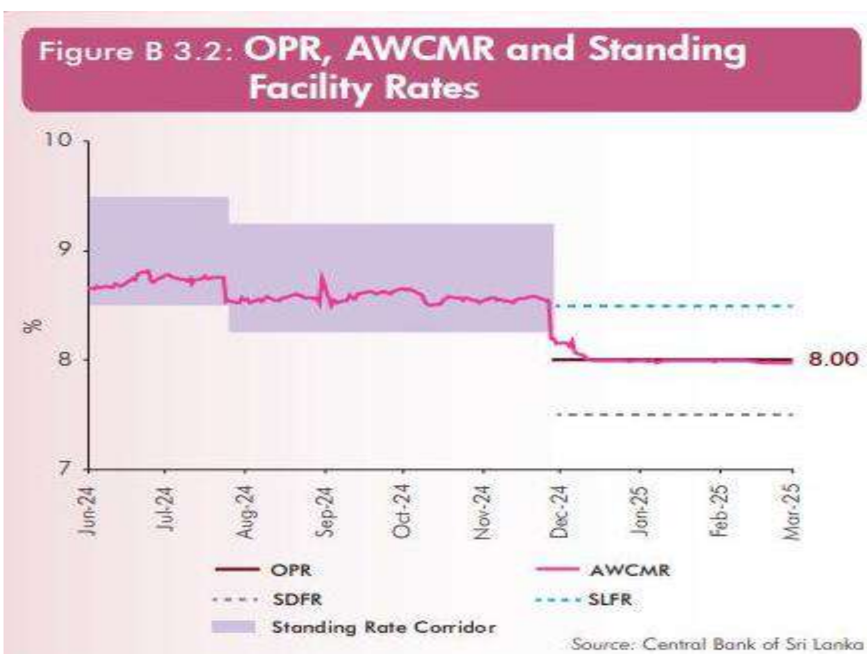


Figure 7 Overnight Policy Rate

Source: CBSL Annual Economic Review 2024

Monetary Policy Implication to MI

As policy rates continued to decline, credit demand showed a steady growth during the financial year. Both traditional loan products and gold-backed credit maintained strong performance, further supported by MI’s strategic expansion of access points across the country .These efforts contributed to a notable 43% growth in the lending portfolio and a 9% increase in revenue. Simultaneously, we proactively managed our funding costs, keeping our funding costs lower in the medium to long term, leveraging on steady margin improvements, from declining funding cost across the sector. Capitalising on the repricing gains we managed to record commendable growth in net interest income of 53%, whilst maintaining a 11.87% healthy Net Interest Margin.

Moreover, the introduction of the Overnight Policy Rate (OPR) as the primary monetary policy tool in 2024 has had a positive impact which provided a clear and consistent signal to financial markets, , allowing market participants to make more informed and confident decisions. As the benchmark interest rate, the OPR enables financial institutions, including Mercantile Investments, to accurately price their financial products, ensuring greater consistency in market interest rates. This, in turn, enhances the mobility of funds within the financial system, improves liquidity management, and fosters a more predictable interest rate environment, all of which are crucial for maintaining investor confidence and supporting long-term financial stability. Moreover, the streamlined policy framework helps reduce volatility in interest rates, further stabilizing the financial landscape for both investors and borrowers.

Fiscal Policy

Sri Lanka’s fiscal operations showed marked improvement in the first ten months of 2024, driven by robust revenue growth and prudent expenditure management. The government's total revenue, including grants, surged by 34.2%, reaching Rs. 3,266.9 billion compared to Rs. 2,434.0 billion in the same period of 2023. This increase was primarily supported by higher tax revenues and enhanced collection mechanisms, reflecting the government's efforts to strengthen fiscal discipline. Meanwhile, government expenditure for the period totaled Rs. 4,327.7 billion, with recurrent expenditure accounting for Rs. 3,796.0 billion and capital expenditure and net lending standing at Rs. 531.6 billion. This careful management of spending allowed for a significant improvement in the primary surplus.

As a result, the primary surplus rose to Rs. 830.7 billion in the first ten months of 2024, up from Rs. 225.4 billion during the same period in 2023. The surplus is expected to exceed 1.6% of GDP for the year, comfortably surpassing the IMF-EFF target of 1.0%. This fiscal performance marks a notable achievement in Sri Lanka's ongoing economic stabilization efforts, positioning the country for a more balanced fiscal outlook. Continued focus on revenue generation and efficient expenditure control will be crucial in sustaining this positive trajectory and ensuring long-term economic sustainability.

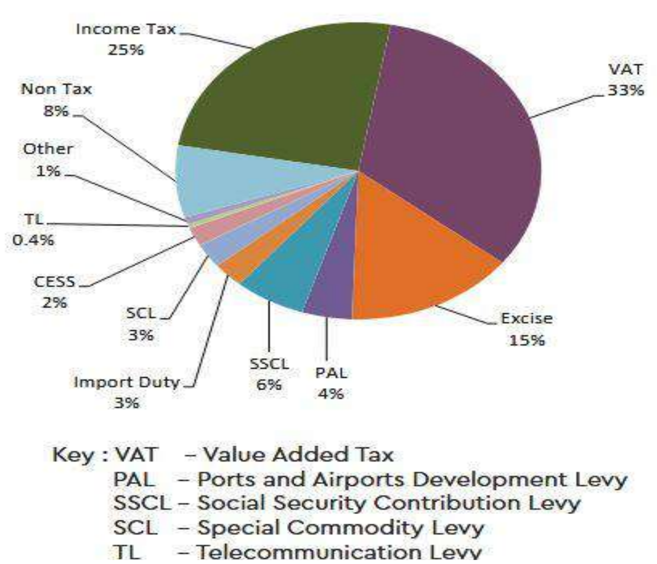


Figure 8 Government Revenue

Source: Fiscal Position Report 2025 – Ministry of Finance

Fiscal policy Implications to MI

The government's improved fiscal performance in 2024, marked by a higher primary surplus and disciplined expenditure management, contributed to greater macroeconomic stability, which positively influenced the financial sector stability. For Mercantile Investments, this created a more predictable economic environment, supporting investor confidence and credit risk assessment.

Though the corporate tax rates remained similar to previous year, with the growth in profitability level, MI's total tax expense which include Income Tax, VAT on financial services and SSCL pertaining to our operations marked a notable increment compared to previous year from Rs. 824 million to Rs 1,270 million a 54% hike YoY.

Financial Sector Performance

The overall performance of the financial sector continued to improve throughout the FY 2024/25.Whist the asset base of the sector grew during 2024 mainly due to the considerable expansion in the loans and advances portfolio, both banking and non- banking finance sector stability was maintained with both capital and liquidity buffers demonstrating its ability to navigate uncertainties and sustain growth momentum even in turbulent times

Non-Bank Financial Sector(NBFI) Performance

The NBFI sector recorded a significant expansion in 2024, whilst exhibiting resilience by maintaining capital and liquidity well above the regulatory minimum levels. The Licensed Finance Companies (LFC) sector comprised 32 finance companies accounting for 5.4% of the total financial-sector assets at end 2024. There were 1,908 branches, of which 1,265 branches were located outside the Western Province catering to the financial needs of many segments, thereby facilitating financial inclusion

LFC sector performed exceptionally well, registering significant asset growth driven by robust expansion in both credit and investment portfolios. Credit activities gained considerable momentum during the first half of 2024, responding positively to improved macroeconomic conditions and market confidence. The sector's investment strategy underwent a notable transformation, with increased allocations to unit trusts, repurchase agreements, and government securities, reflecting a more diversified approach to asset management. Asset quality metrics improved markedly, as evidenced by a declining Non-Performing Loan (NPL) Ratio, which benefited from both a reduction in absolute NPL values and a healthy increase in gross loans and advances, signaling enhanced risk management practices across the sector.

Assets and Liabilities

The asset base of the sector increased by Rs. 235.2 bn in 2024 and reached Rs. 1,930.7 bn, reflecting a growth of 13.9% at end 2024, compared to a 5.7% growth at end 2023. The asset growth was mainly driven by the significant expansion of loans and advances portfolio. Net loans and advances accounted for 74.1% of the total assets of the sector. During 2024, loans and advances portfolio of the sector increased by Rs. 265.4 bn and reached Rs. 1,430.2 bn, indicating a growth of 22.8% at end 2024 compared to a 2.6% contraction in 2023.

Customer deposits continued to dominate the liabilities of the LFCs sector accounting for 54.7%, followed by equity and borrowings at 24.3% and 15.8%, respectively, at end 2024.Deposits increased by Rs. 121.4 bn recording a growth of 13.0% during 2024, and reached Rs. 1,056.4 bn at end 2024. Meanwhile, borrowings grew by 15.3% during 2024, which was equivalent to an increase of Rs. 40.5 bn and reached Rs. 305.4 bn at end 2024

Credit Risk

Analysis of the sector's credit portfolio revealed a significant skew toward vehicle financing and gold-backed instruments, highlighting the sector's continued focus on collateralized lending. Asset quality metrics showed considerable enhancement, primarily driven by a significant reduction in Non-Performing Loans (NPLs), which substantially lowered the perceived credit risk profile of the sector throughout the review period.Gross NPL Ratio of the FCs sector declined to 11.3% at end 2024 compared to 18.0% at end 2023, indicating an improvement in credit quality. Meanwhile, the sector reported an Impairment Coverage Ratio of 41.9% for NPL at end 2024 compared to 32.6% reported at end 2023. Accordingly, the net NPL Ratio improved to 6.6% by end 2024 from 12.1% at end 2023.

Liquidity Risk

The liquidity position of the Finance Companies consistently maintained above minimum regulatory requirements. At end 2024, the overall regulatory liquid assets available in the sector was Rs. 220.9 bn, against the stipulated minimum requirement of Rs. 115.8 bn recording a liquidity surplus of Rs. 105.1 bn at end 2024, compared to Rs. 151.5 bn recorded at end 2023

This remarkable liquidity buffer not only reflects prudent risk management practices across the sector but also demonstrates financial institutions' strategic prioritization of maintaining strong liquidity positions in response to evolving market dynamics. The significant surplus positions the sector favorably to withstand potential market volatilities, meet short-term obligations without disruption to core operations, and capitalize on emerging opportunities while effectively mitigating liquidity challenges that might arise in the financial landscape.

Profitability & Capital Adequacy

The sector's Profit After Tax (PAT) increased by 20.9% from Rs. 49.4 bn in 2023 to Rs. 59.7 bn in 2024, mainly driven by the increase in net interest income. During 2024, the sector reported a net interest income of Rs. 191.8 bn and mainly contributed to the increased profits, recording a notable growth of 24.3% compared to the previous year. Furthermore, non-interest income amounted to Rs. 33.8 bn in 2024 which was a marginal growth of 1.4% compared to 2023. The increase in profitability was reflected in the rise of ROA and ROE to 6.1% and 13.5%, respectively, in 2024 compared to 5.2% and 12.7% in 2023.

The capital base of LFCs sector improved by Rs. 28.3 bn from Rs. 329.1 bn at end 2023 to Rs. 357.4 bn at end 2024, recording a growth of 8.6% during the year. However, core capital and total capital ratios of the sector marginally declined to 20.4% and 21.2%, respectively, at end 2024, compared to that of 21.1% and 22.3%, respectively, at end 2023, but remained well above the minimum regulatory requirement.

Key Performance metrics in the Industry and MI position

	Sector Performance		MI
Indicator	**31-Mar-24**	**31-Mar-25**	**31-Mar-25**
Gross Loans and Advances (Rs Mn)	1,760,729	2,089,956	54,795
Total Investments (Rs Mn)	399,745	363,486	7,656
Liquid Assets (Rs Mn)			
Required Amount	107,969	123,913	4,323
Available Amount	260,005	246,958	8,519
Total Deposits (Rs Mn)	986,961	1,120,673	42,753
Total Borrowings (Rs Mn)	248,548	357,463	11,460
Capital Adequacy (%)			
TIER 1 Capital (Core Capital Ratio)	21.0	19.7	15.6
Total Capital (Total Capital Ratio)	21.9	20.5	17.27
Asset Quality (%)			
Gross NPA to Total Advances	14.7	8.3	4.9
Earnings and Profitability (%)			
Return on Assets (ROA) (Annualized)	5.52	6.6	1.7

Return on Equity (ROE) (Annualized)	12.87	15.1	8.1
Net Interest Margin (NIM) (Annualized)	11.6	12.3	11.8

NBFI Sector impact to MI

Though the NBFI sector recorded a 14% growth in total sector lending portfolio by December 2024, with the persistent decline in policy rates and uptick in credit demand, MI recorded impressive 43% YoY growth by March 2025. Backed by this uptick revenue and decline in funding cost, net interest income was up 53%, helping the company to record a resilient pre- and post-tax profit of Rs. 1607 million and Rs. 1074 million, reflecting an outstanding 96% and 93% Year-on-Year profitability growth. With our staunch recovery efforts coupled with proactive risk management initiatives enabled us to control 90-day NPL at 4.9 % as at the yearend reporting date, compared to the industry average of 8.3% recorded by March 2025. Same time, we continued to maintain a robust liquidity position well above the regulatory norms, whilst ensuring that our capital adequacy ratios consistently exceeded regulatory thresholds, where we maintained Tier 1 capital at 15.6 %and Tier 2 capital at 17.27 % to maintain “well capitalized” A grade statistics uplifting trust and confidence of the stakeholders.

Strategy Actioned

Strategy Execution

Overall Objectives

	Short Term Target		Medium Term Objective			Long Term Goals	
	Net Interest Margin (NIM) > 8%	Cost to Income Ratio < 80%	Asset Quality (NPL) < 10%	Net Profit After Tax > 500 Million	Growth in Customer Base > 15%	Market Share > 3%	Asset Base > 10%
FY 24/25	11.87%	75.61%	4.91%	1,075	18.51%	3.39%	33.26%
Past 3 Year Average	9.04%	87.20%	9.70%	558	19.50%	2.94%	8.56%

Core Strategy 01 – Augmenting and Enhancing the Customer Value Proposition

During the 2024/2025 financial year, Mercantile Investments & Finance Plc remained resolutely committed to enhancing client value, strategically tailoring its financial solutions to meet the dynamic needs and expectations of its clientele in a revitalised economic landscape. Expansion of the product portfolio occurred through scaling Gold Loan operations across the branch network by offering services in 64 locations, complemented by innovative product differentiation to strengthen market positioning. Product mix diversification was bolstered by the introduction of a 'Sustainable Finance' product suite that included solar loans, EV-backed lending, and agriculture equipment funding that commensurate the 60-year celebration held on 14 June 2024. Strategic growth was propelled by the addition of 22 new branches, significantly amplifying MI's market reach and brand visibility nationwide. Targeted investments in cutting-edge technology enhanced operational efficiency, delivering seamless, client-centric solutions that drive convenience, underpin sustainable profitability, and cultivate long-term client loyalty.

Material Concerns Addressed

*Sustainable growth with financial stability and resilience
*Succession amidst rivalry
*Cementing partnerships

KPI Achievement status

	Actual FY 24/25	Planned FY 24/25	Past FY 23/24
Portfolio Growth			
- Lending	43%	> 25%	13%
- Deposits	18%	> 15%	16%
Growth in Total Customer Base	>160,000	>150,000	>135,000
New Branches Opened/Expansions	22	26	08

Focus area	Strategic actions	How We Geared for Competitive Advantage
Accelerating MI's branch expansion to afford greater access to finance		
Broadening customer engagement to foster stronger partnerships for envisioned growth	● Targeted key economic centres to enhance market positioning and accelerate regional presence. ● Embraced lean management practices, focusing on minimising initial investment costs to shorten break-even periods.	● Successfully expanded by opening new branches across regions at a steady pace. ● Generated new businesses from recently established locations this year.

	- Hired top talent from branch regions to effectively meet local market needs. - Restructured regional operations including reporting structure and operational process enhancements under the new COO's leadership to integrate new branch expansions and recruits with the existing framework, improving oversight and target attainment.	
Strengthening Customer Bonds by Enhancing the Customer Experience		
Focused on retaining customers while simultaneously driving greater customer acquisition by improving experiences through customised solutions to meet pressing demands.	- Adopted a customer-focused strategy, exploring opportunities to provide personalised financial solutions and exceptional service. - Extended gold loan operations across our branch network to address evolving regional financing demands. - Introduced a one-stop-shop experience, offering a comprehensive range of services under a single roof including coupling of insurance services beyond vehicle insurance to other products, including life and mortgage protection insurance, through an	- Fostered customer loyalty and satisfaction through personalised services tailored to diverse needs, driving an expanding customer base. - Maintained a strong brand image by delivering consistent, high-quality service without interruptions. - Enhanced market competitiveness and service differentiation to sustain and preserve market share.

	insurance broker company housed in the same premises. • Continuously enhanced service standards and product offerings by leveraging market and customer insights. • Maintained an active presence on social media to promote appealing solutions and product information. • Established dedicated, specially trained teams to effectively manage customer grievances.	
Being the top of the mind finance brand		
Enhancing brand reputation as a reliable partner and approachable financial expert.	• Unveiling of a commemorative stamp at the 60 year celebration and press briefing held in June 2024 and the launch of an innovative new range of financial products, underscoring the company's unwavering commitment to innovation and growth. • Broadened MI's brand presence by expanding into untapped territories. • Strengthened brand image and identity through active engagement on social media	• Reinforced enduring customer relationships and enhanced brand value as a leading financial solutions provider. Achieved deposit retention rates exceeding 87% and grew the number of depositors by 12%

	and other multimedia platforms. ● Boosted MI's brand visibility by investing in varied marketing and promotional campaigns, while maintaining brand promise and customer trust.	

Core Strategy 02 – Driving Productivity and Cost Optimisation Prerogatives

Guided by the strategic pillars of 'Prudent Growth' and 'Operational Excellence,' the 2024/2025 financial year prioritised transformative efficiency through innovative cost optimisation and productivity advancements. Emphasis was placed on cultivating a streamlined, agile operational framework to navigate cost pressures, while leveraging cutting-edge technological solutions to elevate performance. To bolster workforce productivity, substantial investments were directed toward professional development and robust talent retention initiatives, complemented by the adoption of versatile, cross-functional strategies to effectively mitigate risks associated with employee turnover.

Material Concerns Addressed

* Sustainable growth with financial stability and resilience
*Staying competitive amidst rivalry
*Talent management and motivation

KPI Achievement status

	Actual FY 24/25	Planned FY 24/25	Past FY 23/24
Return on Assets	1.73%	> 1%	1.10%
Cost to Income Ratio	75.61%	< 80%	85%
Training Hours Per Employee	6.16 hours	>5 hours	11 hours

Focus Area	Action Towards Strategy	How We Geared for Competitive Advantage
Resource Optimisation		
Optimising resource use to achieve maximum results.	● Implemented productivity enhancement strategies to improve processing speeds and drive higher business volumes. ● Adopted a lean management approach to optimise resource use, applying a lean branch model for expansions to achieve quicker break-even points. ● Revitalised a cost-conscious culture while promoting the 3R (reduce, reuse, recycle) concept to minimise resource consumption. ● Promoted a paperless work environment through streamlined process improvements including introduction of digital signature for internal approvals. ● Focused on talent retention, development, redeployment, and multitasking strategies to enhance workforce efficiency.	● Established operational benchmarks through increased technology investments and talent acquisition efforts, laying a sustainable foundation for improved cost-to-income ratios over the next 24 months.
Boost employee productivity by motivating them to perform at their peak potential.	● Acknowledge and incentivise multitasking while promoting strategic staff redeployment. ● Improve workforce skills and competencies through ongoing training and development programmes. ● Foster greater employee empowerment to enhance engagement and initiative.	● Enhance MI's profitability while strengthening the Employee Value Proposition (EVP). ● Build a distinctive employee brand centred on diversity and inclusiveness. ● Foster an exceptional workplace with top-tier human resource practices to attract and nurture talent.

	• Implement an effective performance-based reward system to drive motivation and results.	
Leveraging technology to achieve service excellence and enhance productivity.	• Seamless migration of Gold Loan, Microfinance, and remaining modules to the Scienter e-Financials platform to leverage the advantages of an integrated IT solution. • Streamlined processes and increased automation of operational tasks to accelerate delivery times and boost productivity. • Effectively automated the recording of direct bank customer deposits, reducing manual efforts. • Strengthened recovery efforts through a fully-equipped call centre, supported by a web-based portal integrated with the core system. • Shifted most meetings and training sessions to online platforms, enhancing productivity and cost efficiency.	• Boosted competitiveness by enhancing productivity and improving customer convenience. • Strengthened decision-making with timely and enhanced MIS reports delivered to corporate management.

Core Strategy 03 – Robust Risk Management and Governance Prerogatives

In a highly volatile and complex operating landscape, robust risk management and governance remain pivotal to ensuring organisational resilience, stability, and forward-looking adaptability. In keeping to this corporate governance direction, the compliance and risk function was further streamlined with the appointment of two separate officials from 1 July 2024 to effect broad-based best practices to enhance risk oversight and adopt strong compliance over core governance practices. Accordingly, risk mitigation took a proactive approach, adopting sophisticated techniques encompassing comprehensive stress testing analysis, continuous monitoring, and risk appetitive recommendations to address emerging risks. Regular, multidimensional risk assessments were prioritised, with particular focus on navigating the evolving challenges of interest rate volatility and credit risk, given their significant impact on financial performance. The risk matrix and register were refined to implement more rigorous controls within the business model, safeguarding loan portfolio quality and protecting net interest margins from undue erosion. These strategic measures effectively curtailed rising credit risk, maintaining non-performing advances product wise and asset category wise managed based on respective category risk, including sector risks. This enhanced net interest margins, thereby reinforcing resilience against prevailing macroeconomic headwinds.

Material Concerns Addressed

* Sustainable growth with financial stability and resilience
* Asset quality management
* Staying competitive amidst rivalry
* Compliance, ethics, and governance

KPI Achievement Status

	Actual FY	**Planned FY 24/25**	**Past FY 23/24**
New initiatives on risk management	10	8	8
One-year maturity mismatch	Rs. 0.4 billion	< Rs. 4 billion	Rs. 4.9 billion
NPL ratio	4.91%	< 10%	9.81%

Focus area	**Strategic actions**	**Expected competitive advantage**
Cohesive and strong risk management approach to promote a strong risk culture		
Empowering proactive decision-making through robust risk management.	• Developed and implemented a comprehensive stress testing framework to establish appropriate risk appetite thresholds through a formal RAS (Risk Appetite Statement).	Bolstering MI's capacity to stay resilient and proactive amid the challenges posed by the current economic turmoil.

	- Conducted ongoing monitoring of market, reputational, legal, and operational risk profiles to ensure alignment with defined risk tolerance levels. - Established and updated policies and procedures to meet evolving regulatory requirements. - Improved the quality and clarity of risk reporting to the Integrated Risk Management Committee (IRMC) and the Board, facilitating proactive and informed decision-making. - Ensured compliance with the GoAML FIU platform, enhancing the organisation's capabilities in detecting, monitoring, and reporting money laundering activities including the Scientar backed AML module with alert system and PEP screening via the system from the next financial year.	
Asset quality control and credit risk mitigation		
Intensifying credit risk evaluation and recovery actions to preserve satisfactory collection rates and limit non-performing and written-off loans.	Implemented tailored recovery strategies to effectively negotiate with long-outstanding debtors and accelerate collections.	MI's 90-day Non-Performing Loan (NPL) ratio stood at exceptionally low levels of 4.91% from 9.8% recorded previous year, keeping well within set asset quality targeted

	• Enhanced the recovery process through dedicated call center operations, enabling faster collection turnaround. • Closely tracked recovery performance against short-, medium-, and long-term targets, aligning employee incentive schemes with Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs) to maintain the desired asset quality in the loan portfolio. • Strengthened the asset disposal function by restructuring yard operations and expanding the team, while proactively minimising losses from asset disposals.	levels, showcasing the strong quality of the loan book as against the average industry NPL of 8.3% recorded. • Infant loans stayed commendably low below 1% with the NPL of the Gold base at an exemplary low at 0.02%
Managing pressure exerted on net interest margins enjoyed		
Boosting core profitability by effectively leveraging repricing gains.	• Actively managed funding costs by prioritising short-term deposit mobilisation to maintain lower funding expenses over the medium and long term, while mitigating maturity mismatches through long-term borrowings and deposits. • Balanced the lending portfolio by complementing traditional, modest-yield products with higher-yield lending solutions.	• Achieved strong growth in Net Interest Income (NII), driving an improvement in Net Interest Margin (NIM) from 9.79% to 11.87%, well above the industry average. • Maintained the one-year maturity mismatch of Rs. 0.4 billion by blending short term deposit mobilisation with borrowing totaling Rs 11,276 million a 363% YOY growth in borrowing.

	- Maintained an optimal mix of tenors to ensure balance and stability, while strategically leveraging repricing gains. - Promoted loan rescheduling initiatives to regularise irregular accounts and support portfolio health.	

Core Strategy 04 – Upholding the Sustainability Pledge for Societal Wellbeing

The commitment to sustainability remained resolute throughout the 2024/2025 financial year, with a steadfast focus on integrating responsible business practices to address economic volatility, community challenges, and broader Environmental, Social and Governance (ESG) imperatives. As an established financial institution, stakeholder trust and confidence were reinforced through the adoption of sustainable strategies and the cultivation of a distinctive corporate ethos rooted in voluntary, impact-driven initiatives. Emphasis was placed on advancing financial inclusion, particularly for underserved populations, to empower communities and enhance livelihoods, thereby aligning operational objectives with long-term societal and environmental benefits.

Material Concerns Addressed

*Upbringing sustainable communities
*Cementing partnerships

* Commitment towards environment conservation

KPI Achievement status

	Actual FY 24/25	Planned FY 24/25	Past FY 23/24
Green Lending	Rs 5.9 billion	> Rs. 3 billion	Rs 3.5 billion

Focus area	Strategic actions	Expected competitive advantage
Upholding sustainable communities		
Upholding our commitment to social responsibility in pursuit of MI's long-term vision.	● Supported women entrepreneurs and provided financial assistance to underserved and disadvantaged groups through our Microfinance division. ● Allocated funds towards initiatives promoting community wellbeing. ● Ensured responsible disposal of solid and liquid waste in compliance with local council regulations.	● Fostering a sense of corporate belonging and collaboration has elevated our brand image, contributing to a sustainable business foundation.
● **Creating a green corporate etiquette and culture**		
Managing ecological sustainability	● Established a 'Sustainable Finance Committee' and launched solar power-backed financing to promote green lending initiatives. ● Managed natural resource usage in line with cost optimisation efforts. ● Advanced automation and digitisation to support environmentally friendly corporate practices.	● Reinforced our corporate standing and loyalty by maintaining responsible practices that support social and environmental wellbeing.

Sustainable Governance Committee & Road Map Summary

At Mercantile Investments, the Sustainable Governance Committee (SGC) plays a pivotal role in embedding Environmental, Social, and Governance (ESG) principles into the organisation's strategic decision-making and long-term planning. Comprising key leaders and subject-matter experts, the committee ensures that MI operates with integrity, meets regulatory expectations, and drives sustainable value creation across all business areas. Guided by a structured roadmap – spanning foundation-building, implementation of ESG initiatives, performance optimisation, and industry leadership – the SGC steers the integration of ESG into core operations. This approach strengthens MI's commitment to transparency, stakeholder trust, and long-term resilience, positioning the organisation as a responsible and future-ready financial institution.

MI's sustainability roadmap aligns with national green finance policies, UN Sustainable Development Goals (SDGs), Sri Lanka's Nationally Determined Contributions (NDCs), and the Central Bank of Sri Lanka's sustainable finance guidelines. It supports goals like food security, poverty reduction, biodiversity protection, and clean energy access. Key initiatives include:

- Climate Accountability: Conducting GHG Verification under ISO 14064-1:2018 with the Sri Lanka Climate Fund for accurate emissions reporting and carbon management.
- Green Financing: Launching the 'Diriya' Sustainable Biz Loan to fund sustainable agriculture, fisheries, renewable energy, and MSMEs, promoting financial inclusion, green entrepreneurship, and innovation.
- Sustainability Integration: Embedding sustainability through KPIs, environmental and safety policies, employee welfare, and CSR projects focused on education, biodiversity, and community development.

This positions MI as a leader in Sri Lanka's transition to a low-carbon, inclusive economy.