



# FINANCE

Mercantile Investments and Finance PLC

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Company Registration No : PB 76 PQ



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UMTJ/DCM

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

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Mercantile Investments and Finance PLC (the Company), which comprise the statement of financial position as at 31 March 2026, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2026 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

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

#### Key Audit Matters

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

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

#### Key Audit Matter

##### Allowances for Expected Credit Losses of loans and lease receivables

Allowances for expected credit losses of loans and lease receivables measured at amortized cost as stated in Notes 23 and 24 respectively, is determined by management based on the accounting policies described in Note 3.2 to the financial statements.

##### This was a key audit matter due to

- the involvement of significant management judgements, assumptions and estimation uncertainty involved in assessing the future recoverability of loans and lease receivables; and
- the materiality of the reported amount of Allowances for expected credit losses.

Key areas of significant judgements, assumptions and estimates used by management in the assessment of the allowances for expected credit losses for loans and lease receivables included determining whether significant increase in credit risk has occurred, use of a broad range of forward-looking macroeconomic inputs and their associated weightings which are subject to inherently heightened levels of estimation uncertainty and subjectivity.

Further information on the key estimates, assumptions and judgements is disclosed in Note 2.11.

##### How our audit addressed the key audit matter

In addressing the allowances for expected credit losses of loans and lease receivables, our audit procedures included the following key procedures:

- Assessed the alignment of the Company's allowances for expected credit losses computations with the underlying methodology and related accounting policies, based on the best available information up to the date of our report.
- Assessing the level of oversight, review and approval of allowances for expected credit losses, policies and procedures by the Board and the management.
- Tested the completeness, accuracy and reasonableness of the underlying data used in the expected credit loss computations by agreeing details to relevant source documents and accounting records of the Company.
- Evaluated the reasonableness of qualitative and quantitative factors used in credit quality assessments and related stage classifications.
- In addition to the above, the following procedures were performed:

For loans and lease receivables assessed on an individual basis for impairment:

- Evaluated the reasonableness of key inputs used in the allowances for expected credit losses made. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries and status of recovery action of the collaterals.
- Tested the arithmetical accuracy of the underlying individual impairment calculations.

For loans and lease receivables assessed on a collective basis for impairment:

- Tested the key inputs and the calculations used in the impairment for expected credit losses.
- Assessed the reasonableness of judgements, assumptions and estimates used by the Management in the underlying methodology and the management overlays.
- Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each scenario.
- Assessed the adequacy of the related financial statement disclosures set out in notes 23,24,3.2 and 2.11.

##### Information Technology (IT) systems related internal controls over financial reporting

Company's financial reporting process is significantly reliant on IT systems and with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by the IT systems, that are compiled and formulated with the use of spreadsheets.

Accordingly, IT systems related internal controls over financial reporting were considered a key audit matter.

Our audit procedures included the following key procedures:

- Obtained an understanding of the internal control environment of the processes and tested relevant key controls relating to financial reporting and related disclosures.
- Involved our internal specialized resources and;
- Identified, evaluated and tested the design and operating effectiveness of IT systems related internal controls, including those related to user access and change management, and identified, evaluated and tested the design and operating effectiveness of IT system related internal controls over financial reporting, relating to user access and change management, and
- Obtained a high-level understanding of the cybersecurity risks affecting the Finance Company and the actions taken to address these risks primarily through inquiry.
- Tested source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.

##### Other Information included in the Company's 2026 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2026 Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

##### Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

##### Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 8913.

24 June 2026  
Colombo

Partners: C K Hulugamuna FCA FCMA LLB (London), Ms. Y A De Silva FCA, Ms. G G S Mananayake FCA, W K B S P Fernando FCA FCMA FCA, B E Wijesuriya FCA FCMA, R N de Saram ACA FCMA, N M Subramaniam FCA FCMA, Ms. L H L Fonseka FCA, Ms. P Y N Sajewani FCA, A A J R Perera FCA FCMA, N I R I Fernando ACA, D N Ganegamage FCA FCMA, C A Yalagala ACA FCMA, Ms. P S Paranawithana ACA FCMA LLB (Colombo), B Vasanthan ACA FCMA, W D P L Perera ACA, M U M Manzor ACA  
Principals: T P M Ruberu FCA FCMA MBA, G B Goudan ACA, D L B Karunathilaka ACA, W S J De Silva BSc (Hons) - MIS MSc - IT, V Shaktivel B.Com CIP  
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## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Audited)

Year ended 31 March 2026	2026	2025
	Rs. '000	Rs. '000
<b>Gross income</b>	16,610,726	11,708,896
Interest income	15,832,103	10,998,708
Interest expenses	(7,855,428)	(5,206,139)
<b>Net interest income</b>	7,976,675	5,792,568
Fee and commission income	666,329	530,236
Fee and commission expense	(21,214)	(21,238)
<b>Net fee and commission income</b>	645,115	508,998
Other operating income	112,293	179,952
<b>Total operating income</b>	8,734,083	6,481,518
Impairment charge for loans and receivables and other financial assets	(475,898)	(224,648)
<b>Net operating income</b>	8,258,185	6,256,871
<b>Less: Operating expenses</b>		
Personnel expenses	(2,659,751)	(2,093,207)
Depreciation of PPE and Right-of-use assets and amortization of intangible assets	(334,994)	(255,511)
Other operating expenses	(2,286,799)	(1,762,464)
<b>Total operating expenses</b>	(5,281,544)	(4,111,181)
<b>Operating profit before tax on financial services</b>	2,976,641	2,145,689
Tax on financial services	(1,059,410)	(737,622)
<b>Operating profit after tax on financial services</b>	1,917,231	1,408,066
Add: Share of associate company's profit net of tax	212,050	199,266
<b>Profit before taxation from operations</b>	2,129,281	1,607,332
Less: Income tax expenses	(980,716)	(532,665)
<b>Profit for the year</b>	1,148,565	1,074,666
<b>Other comprehensive income/(expenses)</b>		
<b>Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods</b>		
Changes in fair value of financial assets measured at fair value through Other Comprehensive Income (FVOCI)	(6,848)	(8,600)
<b>Other comprehensive expenses to be reclassified to profit or loss in subsequent periods</b>	(6,848)	(8,600)
<b>Other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods</b>		
Changes in fair value of Financial assets measured at fair value through Other Comprehensive Income (FVOCI)	440,257	630,994
Net change in revaluation surplus on Land & Buildings	673,672	-
Deferred tax effect on revaluations surplus on Land & building	(202,102)	-
Share of other comprehensive income of associates (net of tax)	8,493	113,091
Actuarial gain/(loss) on retirement benefit obligation	(48,159)	(65,004)
Deferred tax effect on actuarial gain	14,448	1,465
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	886,609	680,546
<b>Other comprehensive income for the year (net of tax)</b>	879,761	671,946
<b>Total comprehensive income for the year (net of tax)</b>	2,028,326	1,746,612
<b>Earnings per share</b>		
Basic earnings per share (Rs.)	1.91	1.79
Diluted earnings per share (Rs.)	1.91	1.79
<b>Dividend per ordinary share (Rs.)</b>	0.25	0.13

Figures in brackets indicate deductions.

## STATEMENT OF FINANCIAL POSITION (Audited)

	31/03/2026	Restated 31/03/2025	Restated 31/03/2024
	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>			
Cash and cash equivalents	9,303,037	2,724,044	2,492,057
Placement with banks at Amortized cost	37,059	37,254	3,460
Financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI) - quoted	6,988,446	7,199,933	6,427,831
Financial assets measured at Fair Value Through Profit or Loss (FVTPL)	349,833	344,772	329,519
Financial assets at amortised cost - Loans and advances	72,166,154	27,972,014	16,591,202
Financial assets at amortised cost - Finance leases receivables	29,710,908	25,260,543	20,302,868
Financial assets at amortised cost - Hire purchase receivables	33,690	80,729	101,631
Financial assets measured at Fair Value Through Other Comprehensive Income (FVOCI) - unquoted	70,427	70,427	70,427
Other financial assets	311,007	284,228	289,256
Inventories	184,749	73,839	101,181
Other non financial assets	271,399	222,488	179,494
Investment in associates	1,937,126	1,716,582	1,404,225
Investment property	236,727	258,390	260,056
Property, Plant and Equipment	5,427,668	4,512,330	4,391,241
Right-of-use assets	599,662	327,439	215,306
Leasehold property	37,929	38,397	38,866
Intangible assets	68,044	51,167	32,094
<b>Total assets</b>	127,733,865	71,174,574	53,230,714
<b>Liabilities</b>			
Bank overdraft	912,248	687,242	317,122
Financial liabilities at amortised cost - Deposits due to customers	62,011,916	42,775,086	36,104,935
Financial liabilities at amortised cost - Debt instruments issued and other borrowings	45,496,293	11,418,919	2,441,542
Other financial liabilities	938,265	590,886	430,673
Current tax liabilities	532,858	194,269	236,812
Deferred tax liabilities	776,260	685,588	750,164
Other liabilities	212,962	94,972	114,914
Retirement benefit obligations	586,182	489,083	396,405
Lease Liability	551,119	401,997	273,077
<b>Total liabilities</b>	112,018,104	57,338,041	41,065,644
<b>Shareholders' funds</b>			
Stated capital	36,000	36,000	36,000
Revaluation reserve - Land and Buildings	2,667,796	2,208,767	2,221,256
Revaluation reserve - Associate Company reserve	726,881	718,388	605,297
Statutory reserve fund	1,171,200	941,400	887,400
General reserves	4,086,430	4,086,430	4,086,430
Retained earnings	6,108,661	4,900,249	3,180,353
Regulatory loss in allowance reserve	-	336,894	1,067,522
Fair Value through OCI reserve	918,793	608,405	80,812
<b>Total shareholders' funds</b>	15,715,761	13,836,533	12,165,070
<b>Total liabilities and shareholders' funds</b>	127,733,865	71,174,574	53,230,714
<b>Net assets per share (Rs.)</b>	26.14	23.01	20.23

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

Deva Anthony

Chief Financial Officer / Director (Non-Board)

The Board of Directors are responsible for these Financial Statements. Signed for and on behalf of the Board by;

Gerard G. Ondaatje

Managing Director  
24 June 2026 - Colombo

Shermal H. Jayasuriya

Finance Director

## SELECTED KEY PERFORMANCE INDICATORS

Item	As at 31st March 2026		As at 31st March 2025	
	Actual	Required	Actual	Required
Regulatory Capital Adequacy (%)				
Tier 1 Capital Adequacy Ratio	10.69%	10.00%	15.59%	8.50%
Total Capital Adequacy Ratio	16.04%	14.00%	17.27%	12.50%
Capital Funds to Deposit Liabilities Ratio	21.87%	10.00%	28.34%	10.00%
<b>Quality of Loan Portfolio (%)</b>				
Gross Stage 3 loan ratio	3.23%		4.91%	
Net Stage 3 loan ratio	1.57%		2.60%	
Net stage 3 loans to core capital ratio	14.13%		14.11%	
Stage 3 impairment coverage ratio	52.53%		48.67%	
Total impairment coverage ratio	2.32%		3.07%	
<b>Profitability (%)</b>				
Net Interest Margin	9.07%		11.10%	
Return on Assets	2.14%		2.59%	
Return on Equity	7.77%		8.27%	
Cost to Income Ratio	72.60%		74.81%	
<b>Liquidity (%)</b>				
Available Liquid Assets to Required Liquid Assets (Minimum 100%)	217.38%		197.68%	
Liquid Assets to External Funds	13.43%		15.57%	
<b>Memorandum information</b>				
Number of Branches	92		73	
External Credit Rating	Long-term Financial Institution Rating at BBB (Ika) (Stable Outlook) by Fitch Ratings		Long-term Financial Institution Rating at BBB (Ika) (Stable Outlook) by Fitch Ratings	

The Company has not incurred any regulatory penalties or been subject to regulatory restrictions on deposits, borrowings, lending, or any other activities during the years ended 31st March 2026 and 2025.

CERTIFICATION: We, the undersigned, being the Chief Financial Officer, Finance Director, Managing Director and the Compliance Officer of Mercantile Investments and Finance PLC certify jointly that:

- (a) the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka (CBSL);
- (b) the information contained in these statements have been extracted from the unaudited financial statements of the Licensed Finance Company unless indicated as audited.

Deva Anthony

Chief Financial Officer / Director (Non-Board)

Shyamali Pamarathna

Compliance Officer

Shermal H. Jayasuriya

Finance Director

Gerard G. Ondaatje

Managing Director