Financial Wealth

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

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

Financial Management Facets Focused

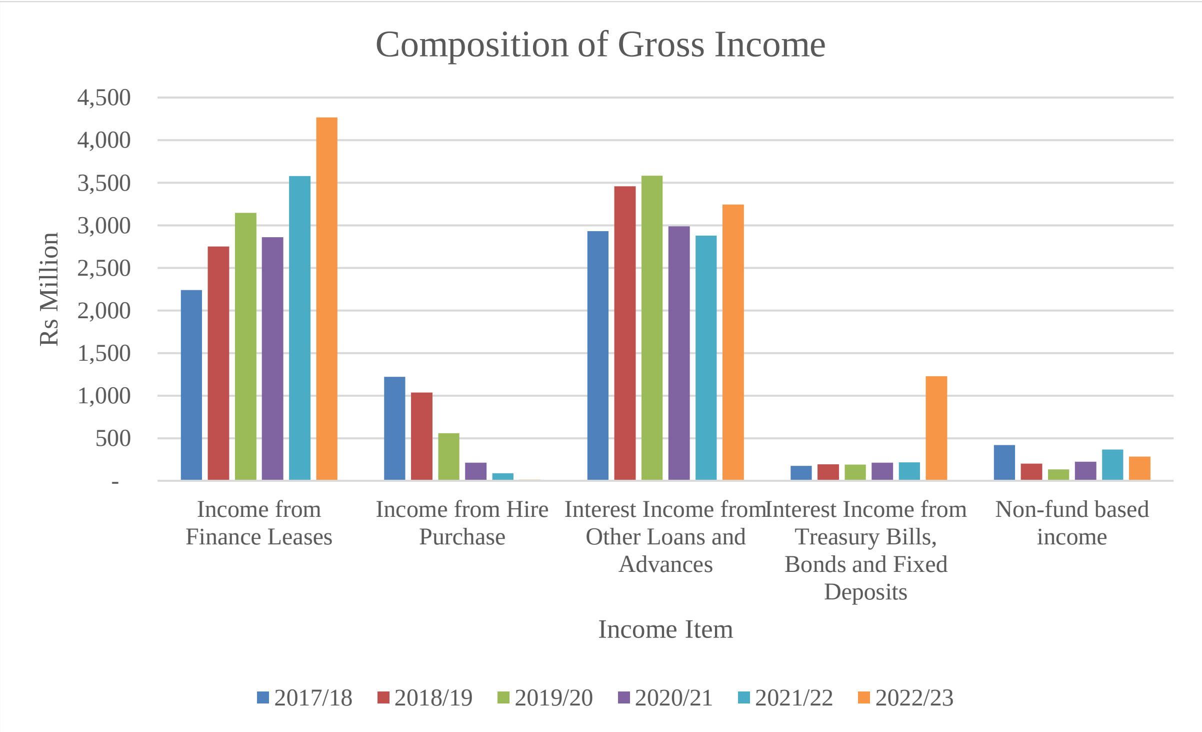
In driving financial capital in tough business conditions, efficient financial management actions played a key part in the following three fundamental facets of:

- Revenue Sustenance
- Treasury Management
- Cost Optimisation

Revenue Sustenance

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

Core Lending Revenue Performance



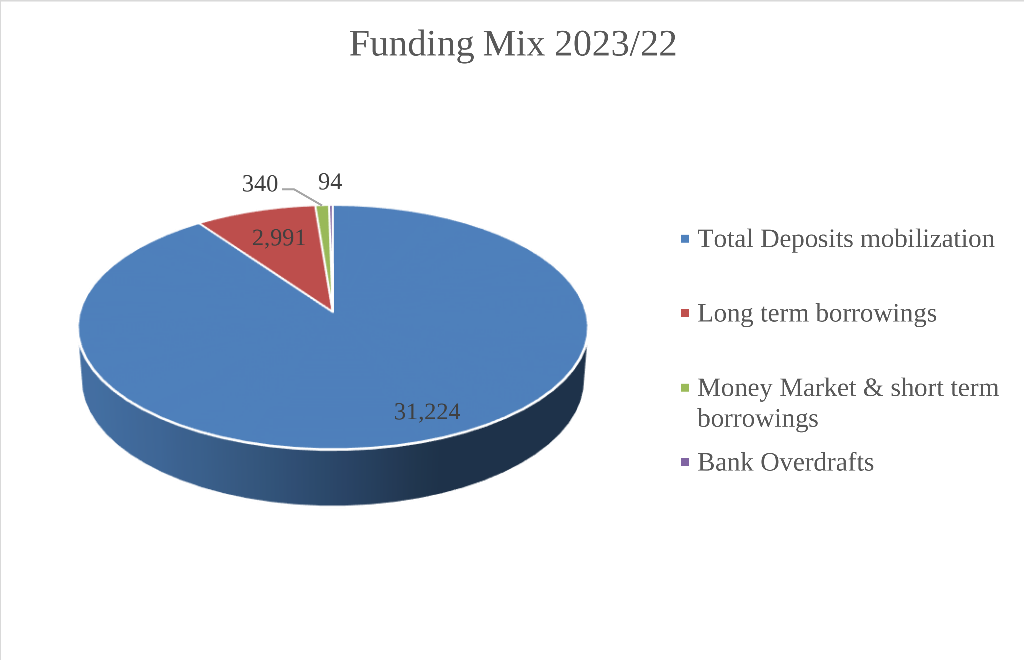
Treasury Management

With the tightening of the monetary policy measures and the escalation of interest rates, cost of funding surged drastically to its highest within a short span of time, though the rates slightly dropped during the latter part of the year with the sanction of the IMF tranche. Thus we continued to prioritise effective fund management, focusing on minimising our funding costs whilst retaining an impeccable liquidity position. Considering the market volatilities and uncertainties, we maintained sufficient contingency funding options to mitigate liquidity and reputational risks. We generated robust returns by investing excess funds in government securities, leveraging on the increase in interest rates during first three quarters of the year. Similarly, we managed to reduce our less–than-one-year maturity mismatch to Rs 2 Bn as at 31st March 2023 from Rs 6.8 Bn reported in the last year, mitigating liquidity risk in the medium term.

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

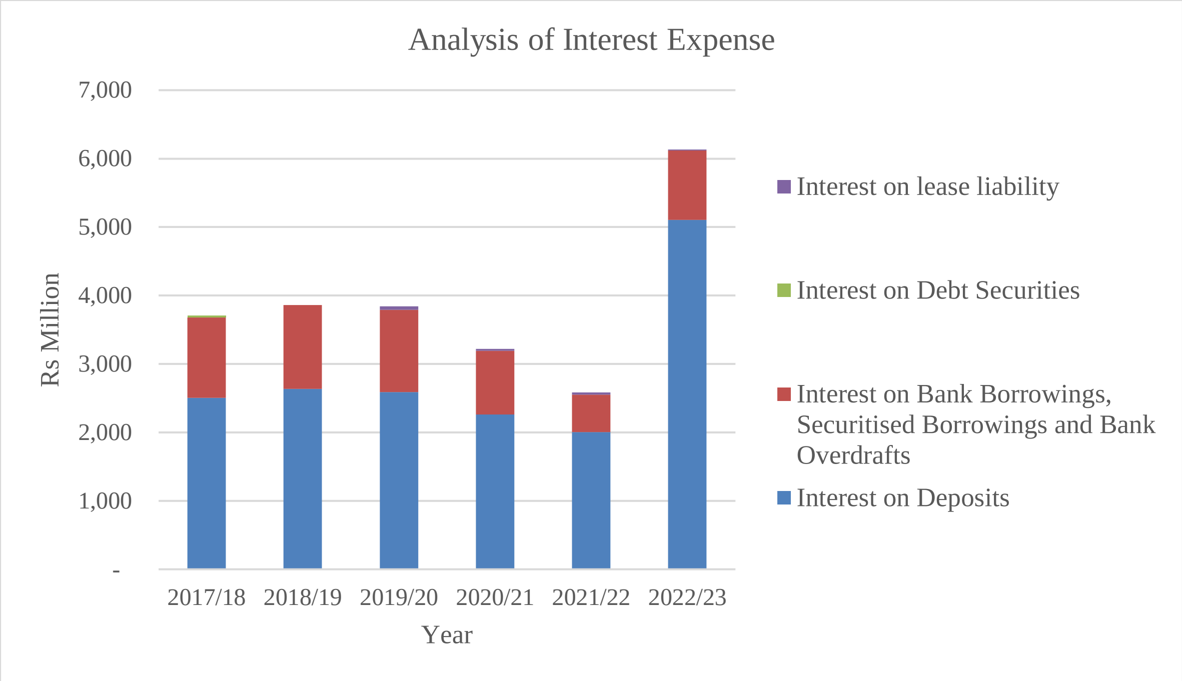
Funding Mix

An optimal funding mix was maintained between deposits and borrowings to minimise funding costs while managing assets and liabilities maturity gaps. The deposits business remained the primary contributor to the funding mix, accounting for 89.7% which reflected a 11.7% upward trend from previous year, fuelled by the increased mobilization of fixed deposits attracted by the phenomenal rise in interest rates above 22%. With bank borrowings costs remaining relatively on the high side, we opted for deposit funding, which saw total borrowings drop year on year.



Funding Cost

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

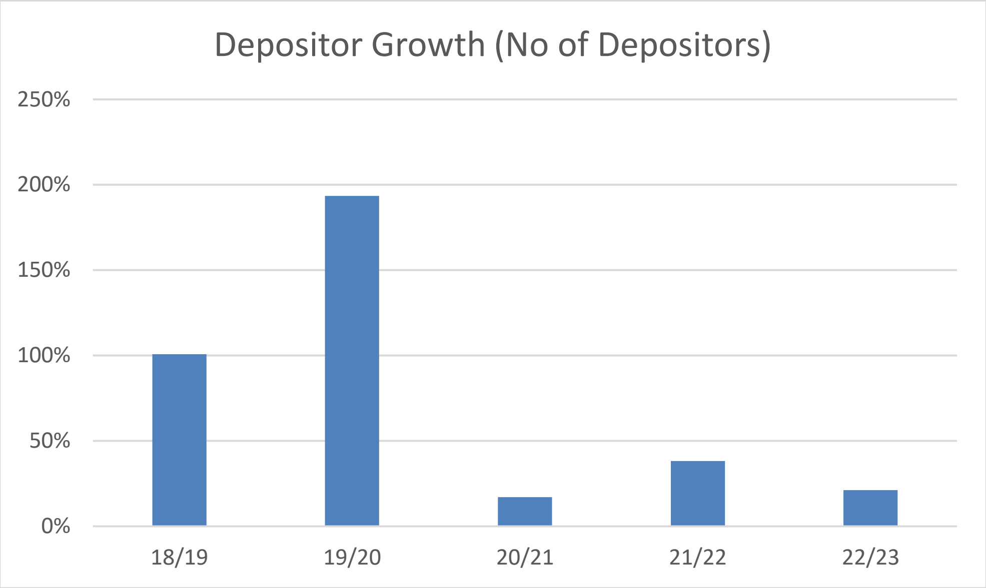


Deposit Funding

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

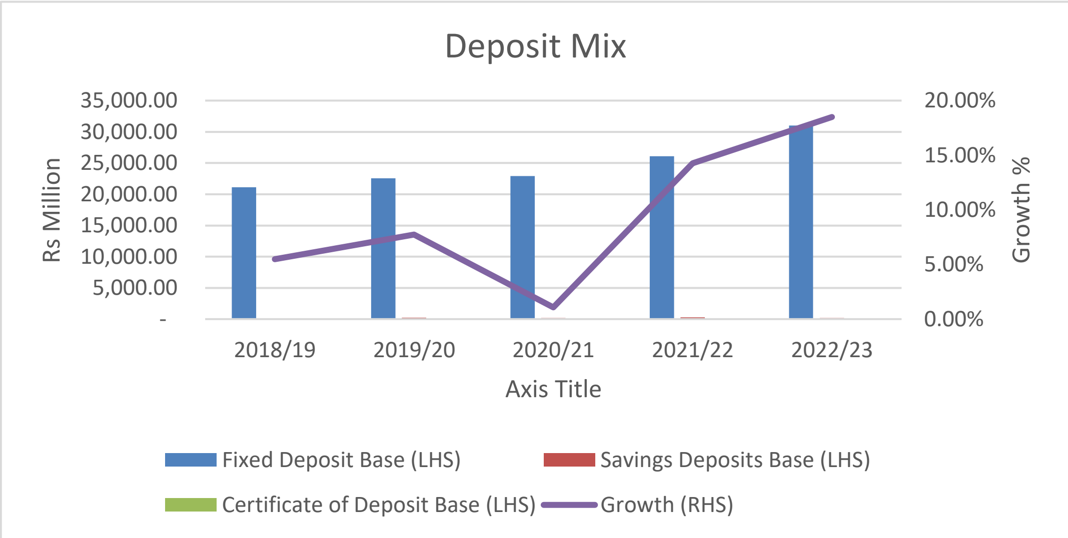
Fixed Deposits

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



Savings Deposits

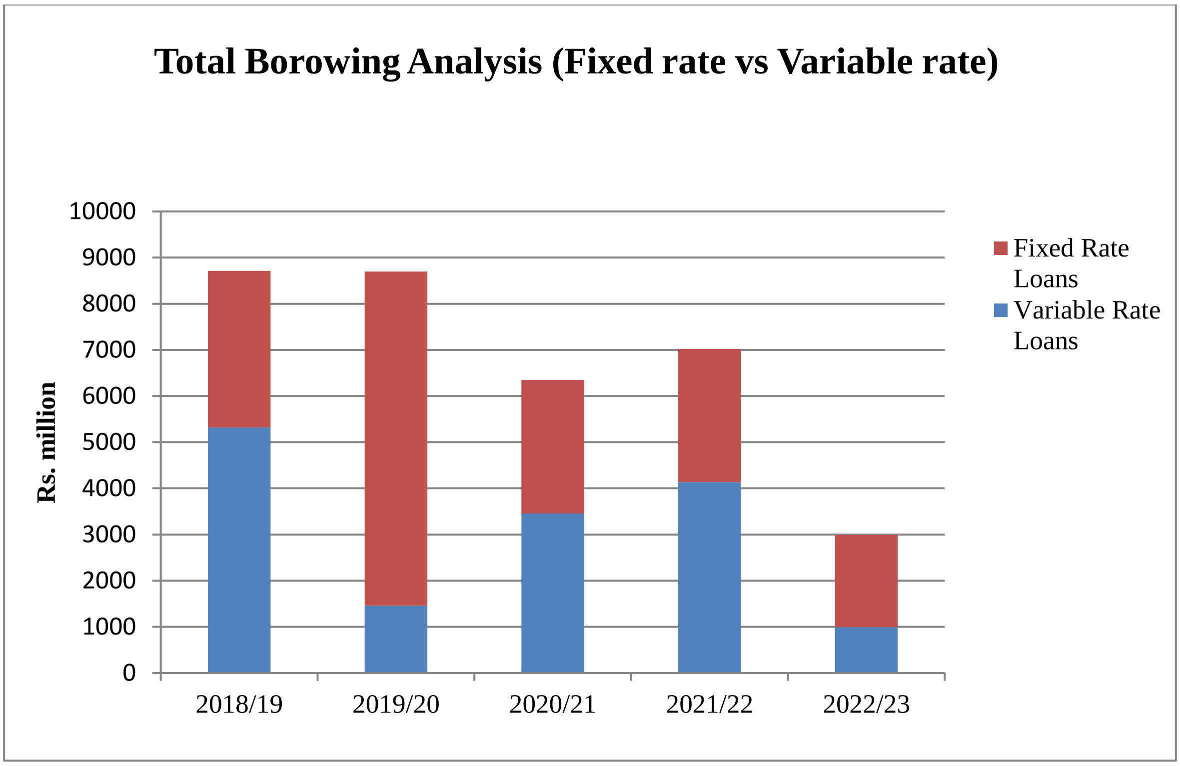
While fixed deposit remained more attractive with the interest rates hikes, MI's savings base reduced from Rs.260 Mn to Rs. 193 Mn by 31st March 2023. Despite this, continued efforts were made to boost the savings base, focusing on greater branch mobilisation, through the micro auto product linked savings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



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

Borrowings and Debt Funding

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



Cost Optimisation and Budgetary Control

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

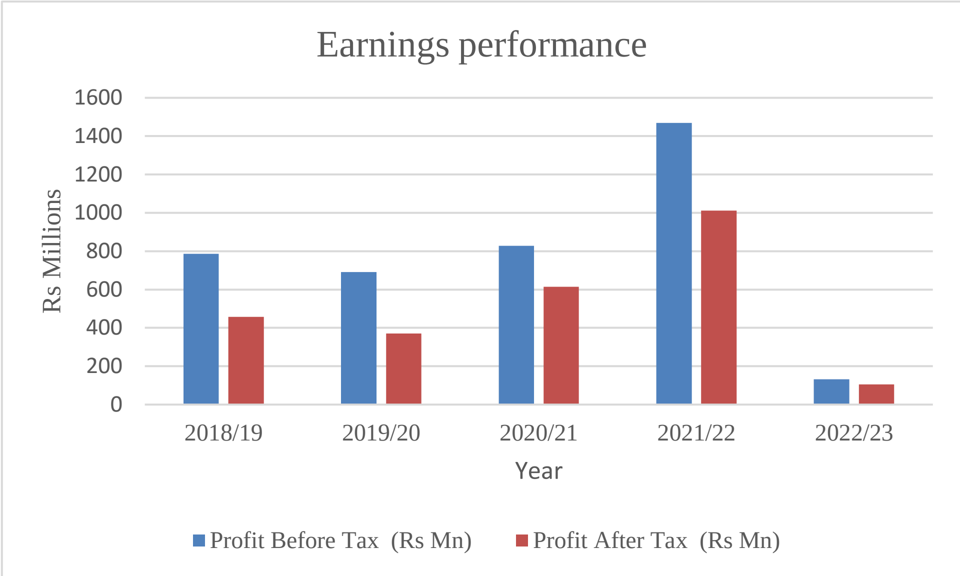
Though we were compelled to revise our budgets and forecasts periodically as we recalibrated our targets to be more realistic, we forged ahead with the right strategy to overcome the prevailing challenges. We kept a close watch on actual costs versus budgeted costs through periodic variance reporting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

Financial Results Review

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

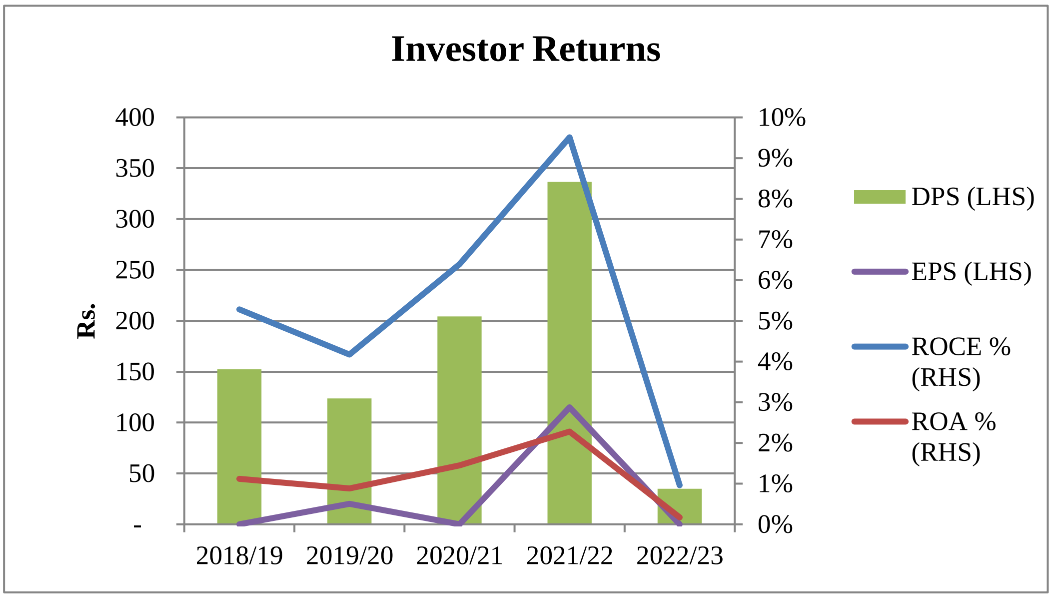
Profitability

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



Investor Returns

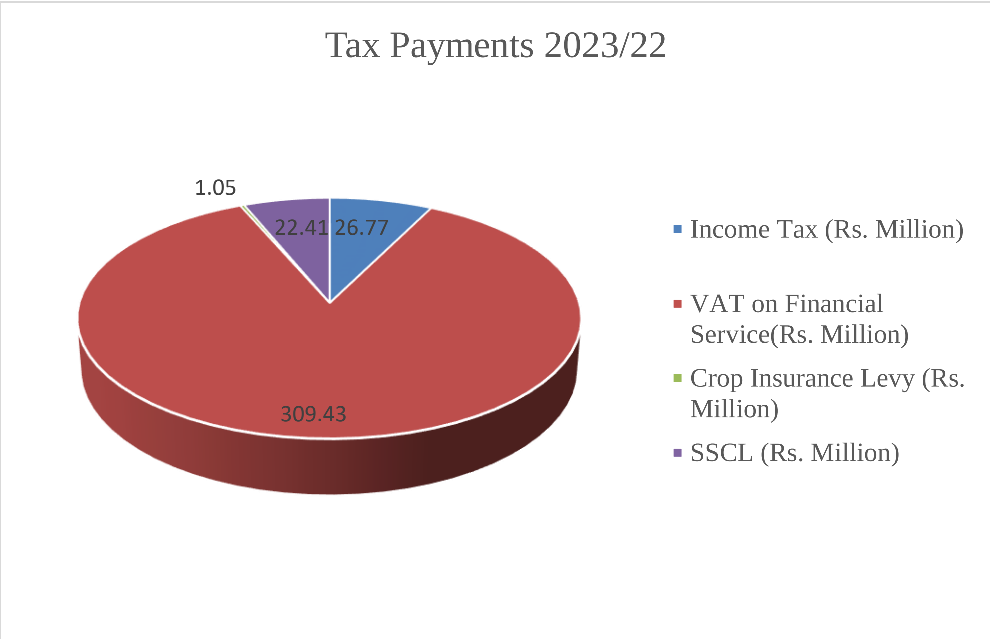
With the decrease in profitability, Return on average Shareholder's Equity (ROE) and Return on average Assets (ROA) dipped from 9.51% to 0.96% and 2.28% to 0.22%, respectively, reflecting explained unprecedented industry challenges and trends. The modest profits posted nonetheless drove shareholder funds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



Tax Impact on Profitability

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

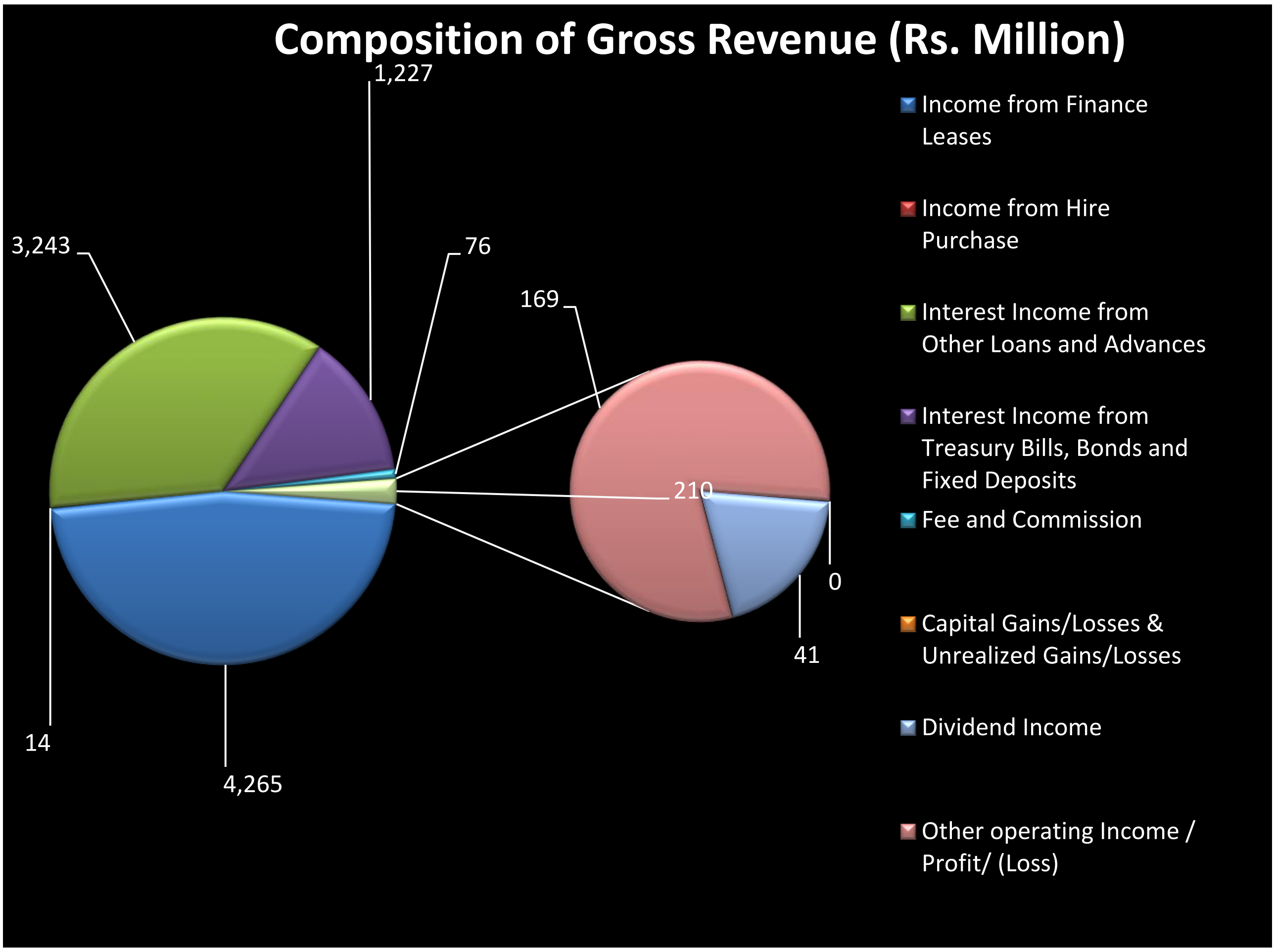
In the backdrop of the decline in operating profits, VAT on Financial Services dipped by 71% to Rs 332 million and SSCL and Crop insurance levy stood at Rs 22.4 million and Rs 1 million for the year respectively. (Refer Financial Statements Note 15.)



Gross Revenue

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

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

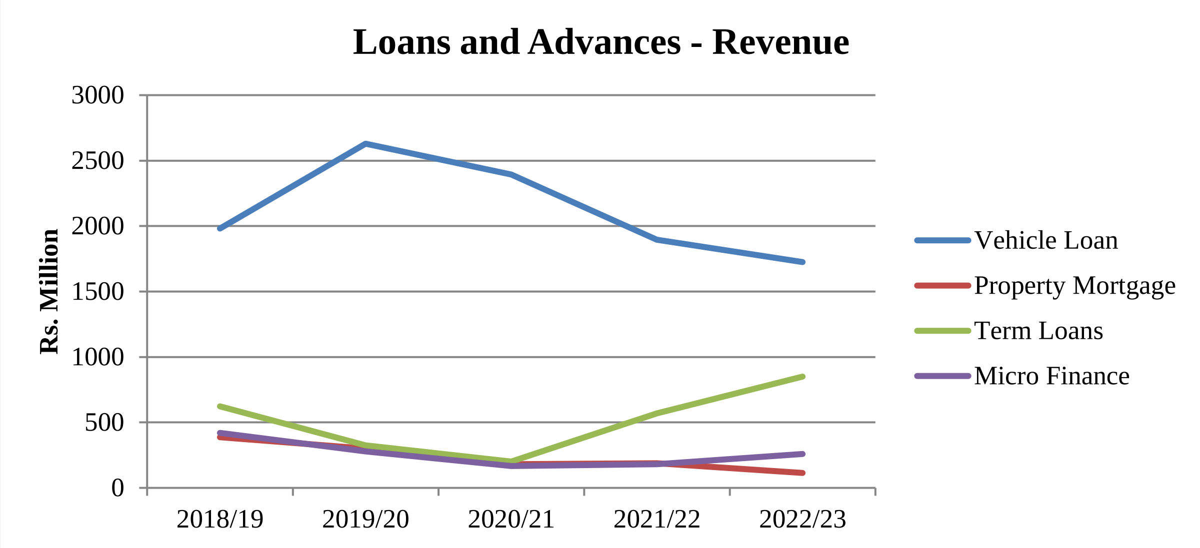


❖ Lease Financing vs. Hire Purchase Revenue

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

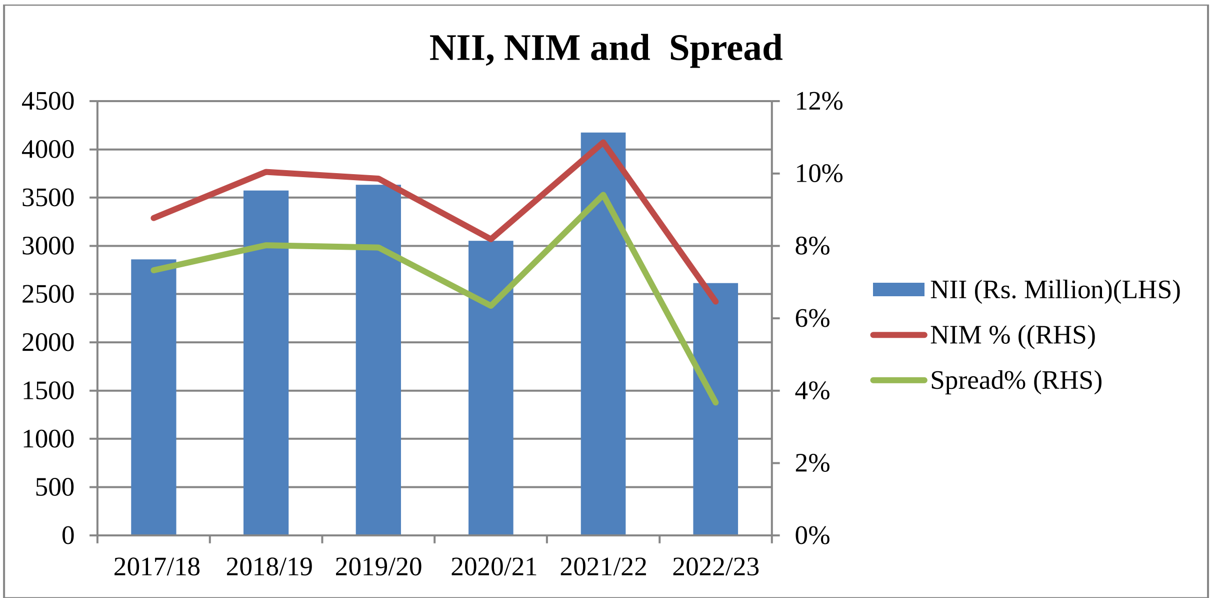
❖ Term-Based Lending Revenue

Term-based lending, which mainly revolved around vehicle loans, property mortgage loans, term loans, pledged loans, microfinance loans and gold loans categorised under the loans and advances portfolio, contributed 43.1% to the core lending revenue, with 12.7 % YOY growth, as the remaining key revenue sources of MI's expanding product mix .



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

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

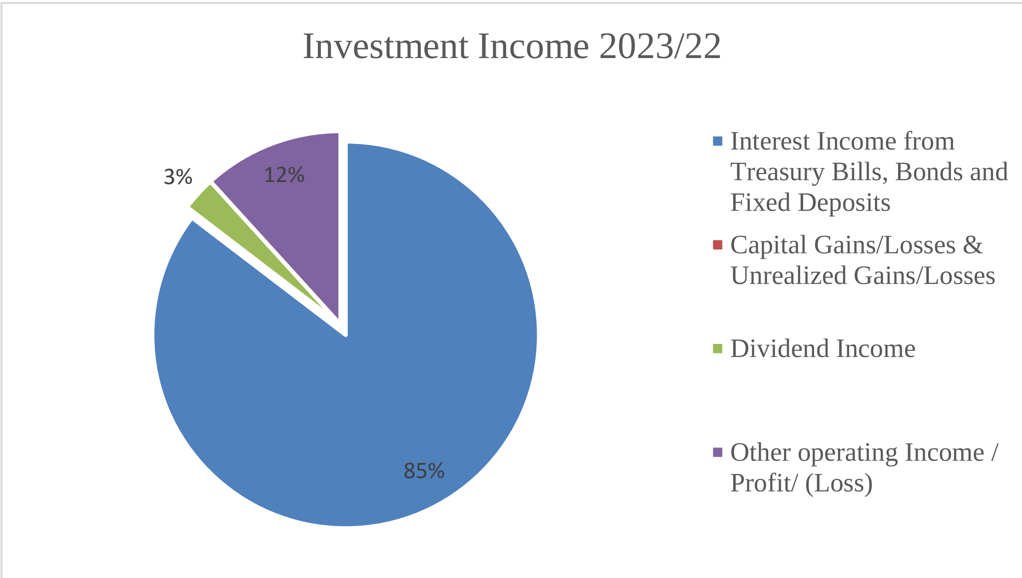


Investment Income

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

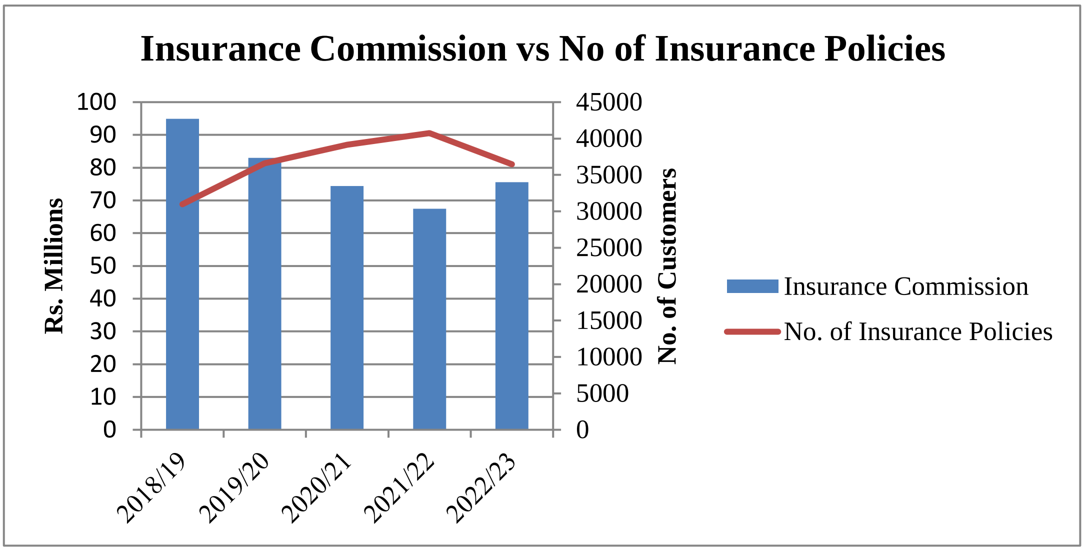
As we continued to explore potential investment opportunities, we were able to reap the benefits from the surge in government security rates, which enabled us to record Rs. 955 million as investment income from government securities. Hence, the total interest income earned through investments increased staggeringly from Rs 215 million to Rs 1227 million with a noteworthy 471.5% YoY growth, together with investments placed in bank deposits and unit trusts, maintained to meet our regulatory liquidity levels and match short- to medium-term funding needs.

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



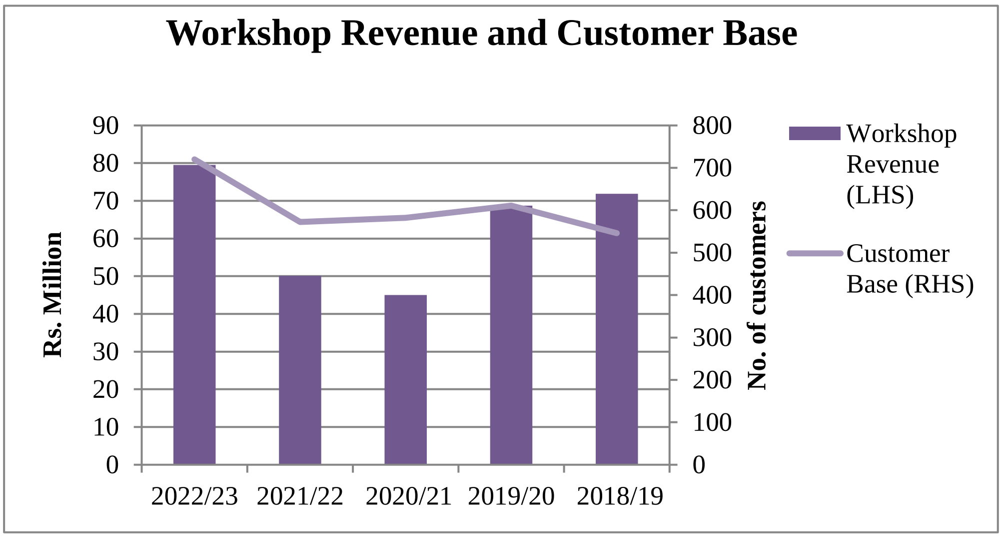
Insurance Services

Insurance referral business income contributed Rs. 75 Mn to gross revenue compared with Rs. 68 Mn recorded for the previous year. Moreover, through a satisfactory track record of recovering insurance claims, which stood at Rs. 71 Mn (Rs. 95 Mn for 2021/22), we sustained sound customer retention levels, whilst attracting new clientele to take up effective insurance covers through the brokering company housed in the MI head office premises.



Workshop Services

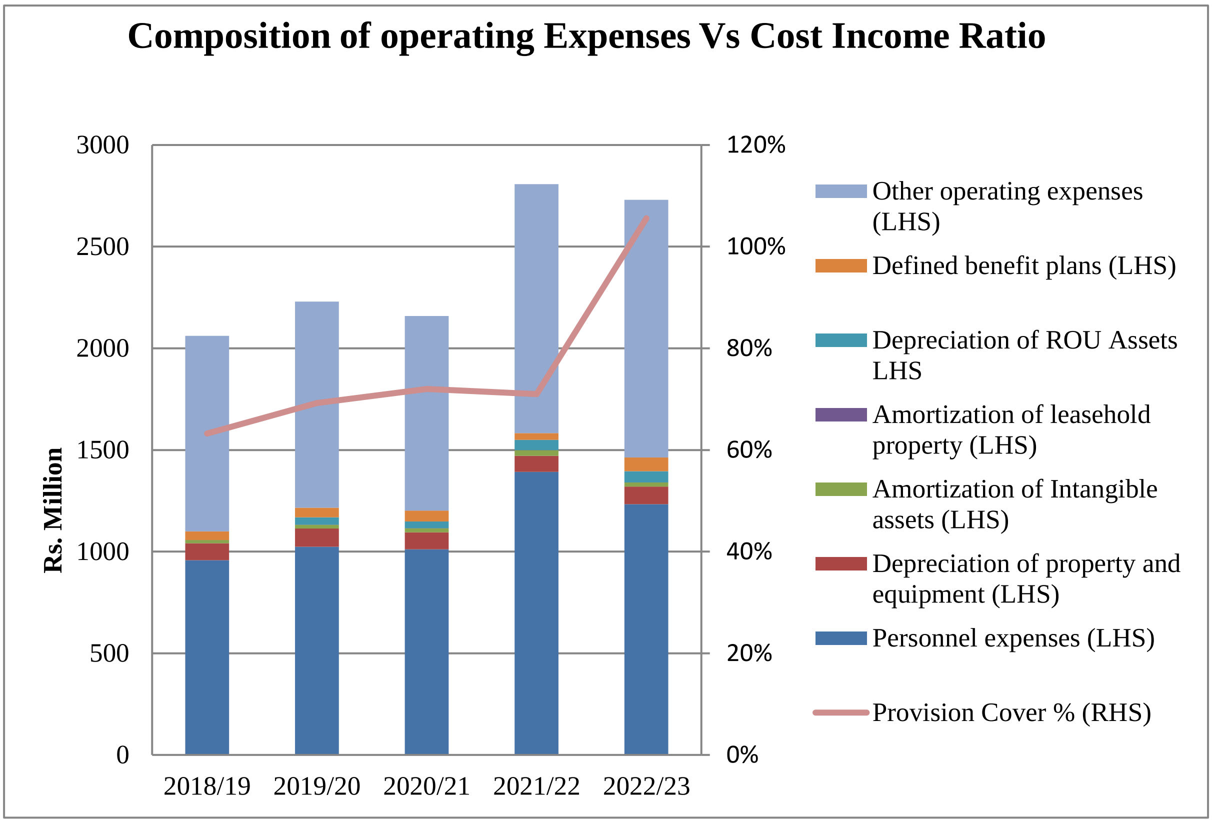
Amidst prevailing macroeconomic challenges, a total revenue contribution of Rs. 79 Mn was generated through our special workshop servicing and repair unit located in Kohuwala, recording a 58.6 % growth against the previous year.



Expenditure Management

Controlled Overhead Cost Escalation

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



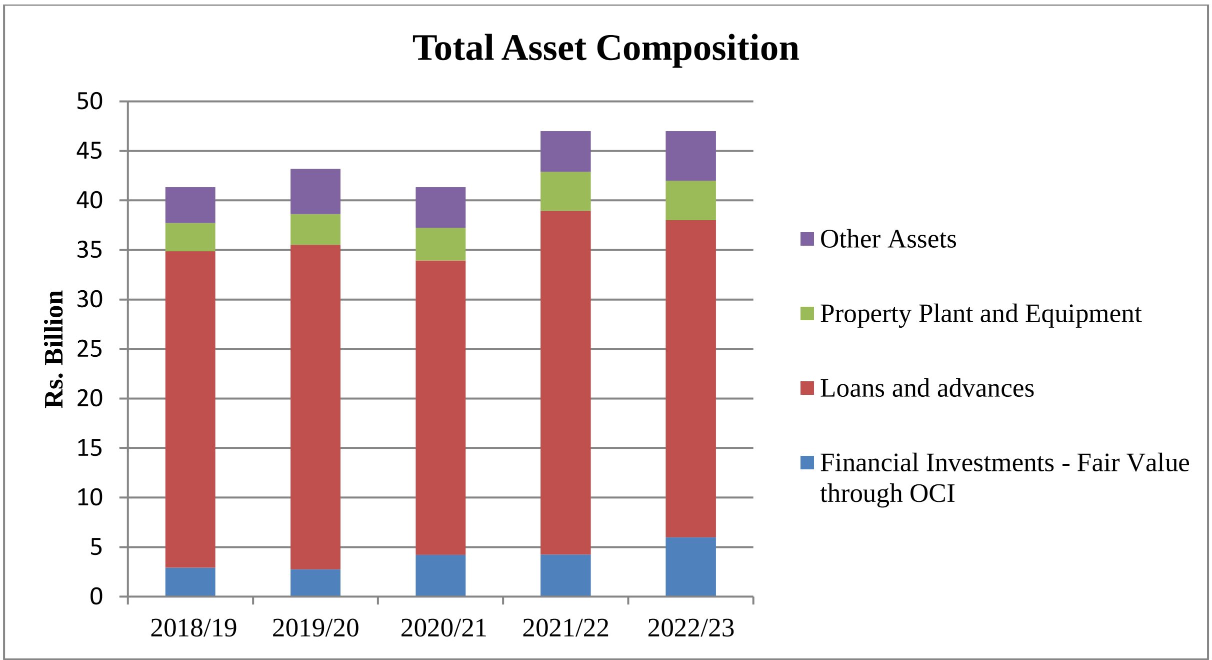
Capital Expenditure

In line with the economic slowdown and challenging operating environment, we were mindful in prioritizing investments in long-term projects. Accordingly, we deployed capital based funding selectivity towards executing medium term core business strategy, prioritising projects based on bottom line growth projections. During the year, we focused on enhancing branch infrastructure which included bolstering IT systems and expanding operational capabilities across the branch network. During the year, we invested Rs. 123 Mn in technology initiatives and Rs. 130 Mn as investments in Property, Plant and Equipment with the aim of amplifying growth potential and future competitiveness. A significant investment will be deployed for the planned IT system migration planned for the next financial year.

Financial Position, Strength, Blend and Efficiency

Total Assets Position

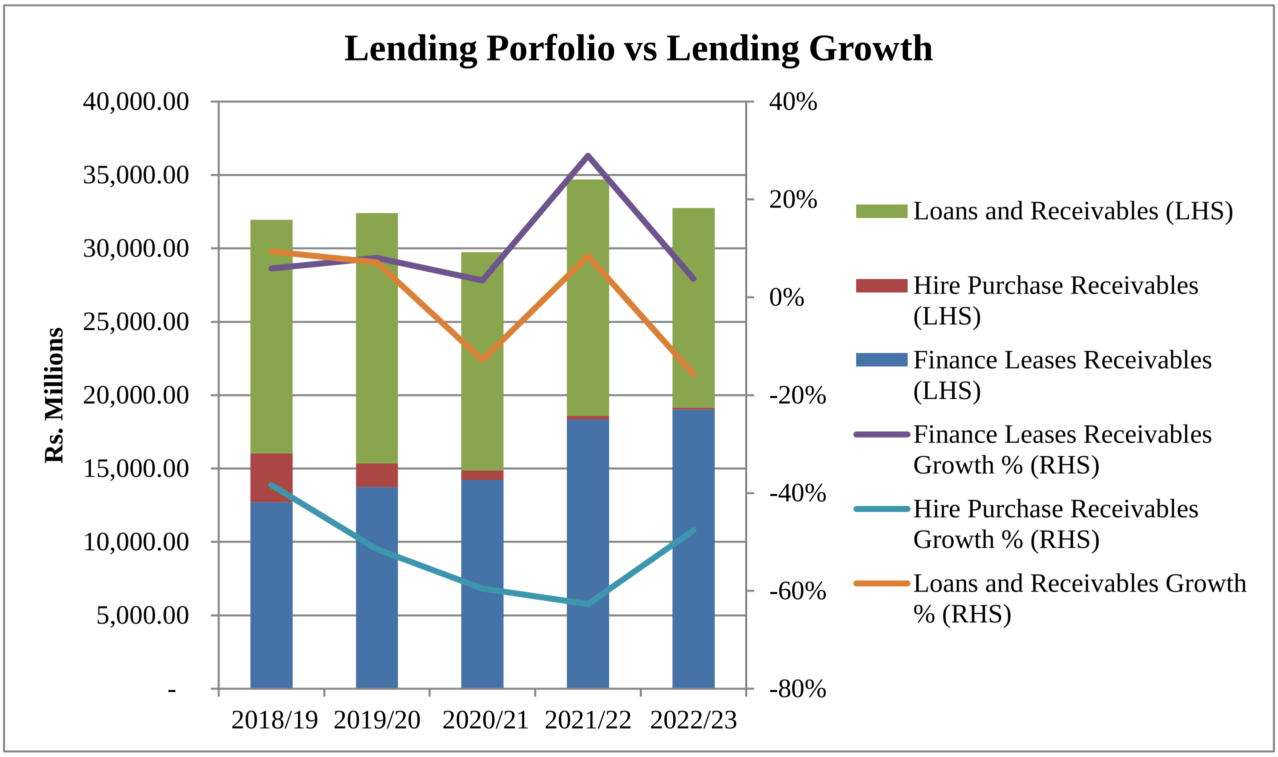
Despite the contraction in credit growth stemming from the cascading effects of the macro – economic challenges, we were able to record a 1.3% YOY marginal growth in the Company's total asset base, reaching Rs. 47,623 Mn, mainly driven by the government securities investments portfolio growth.

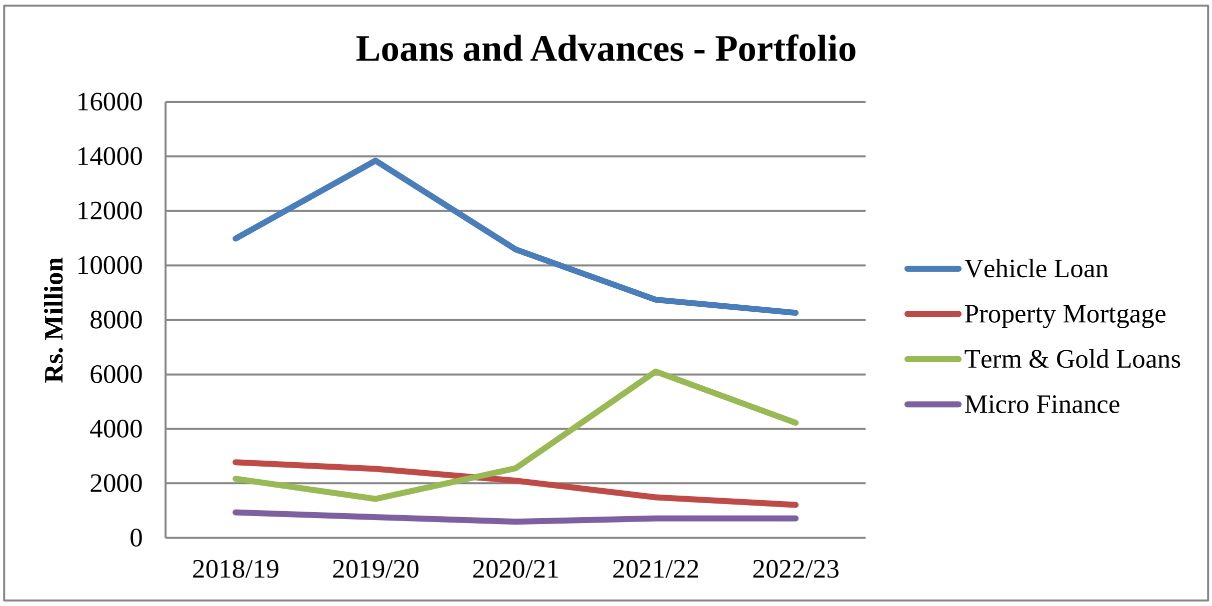


Loans and Advances

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

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





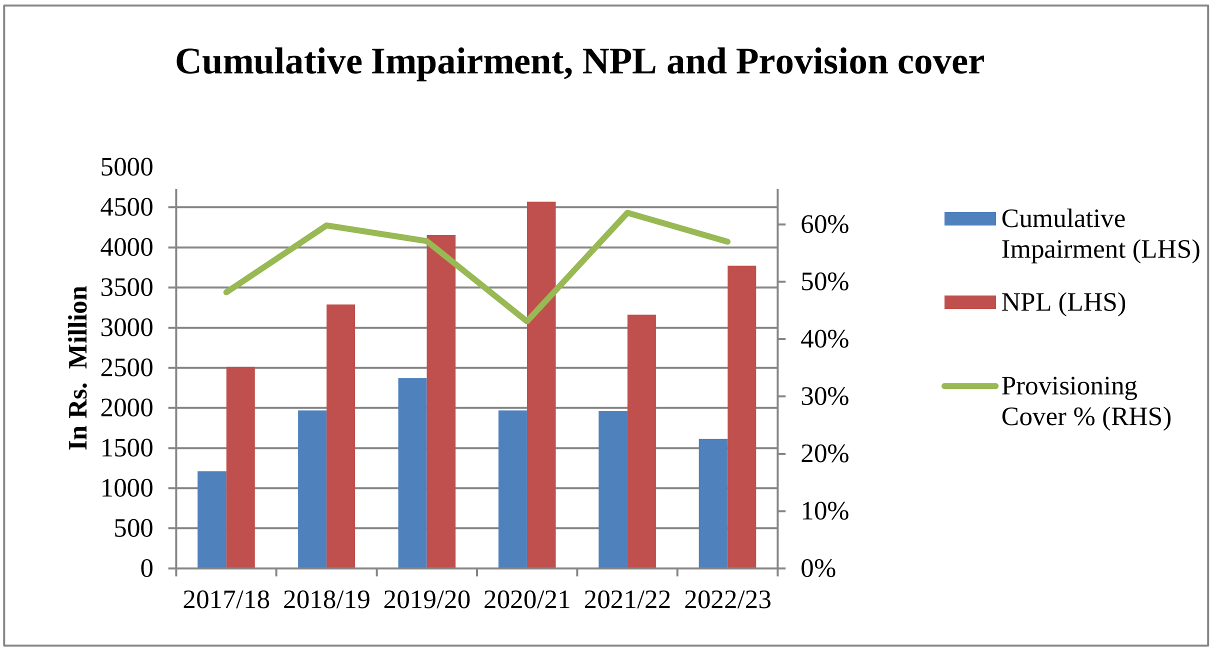
Asset Quality Management

Despite the prevailing macroeconomic pressures and pandemic-led disruptions having a profound impact on the deterioration of borrower repayment capacity, we deployed effective recovery strategies to arrest erosions to asset quality, maintaining our 90 day and 120 day NPLs controlled at 11.97 % and 10.74 % respectively as at 31st March 2023. As we strategized our efforts on improving credit quality, we were able reverse significant impairment charges booked in prior years.

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

Impairment Charges

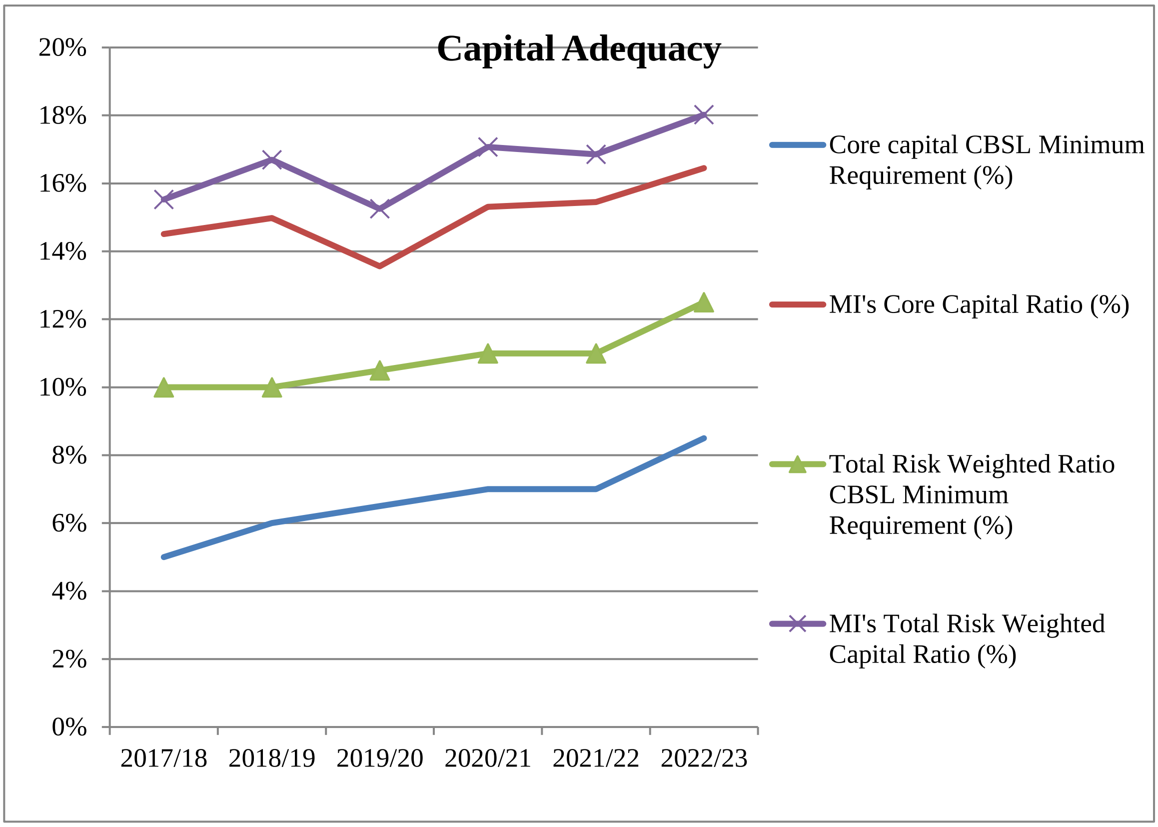
As we relentlessly focused our recovery efforts on controlling arrears clients and escalation of NPL levels and the contraction in loan book, we were able to make impairment reversal of Rs. 276 million, indicating a notable 87% reduction Year-on-Year. By building up the required provisioning in past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



Capital Strength

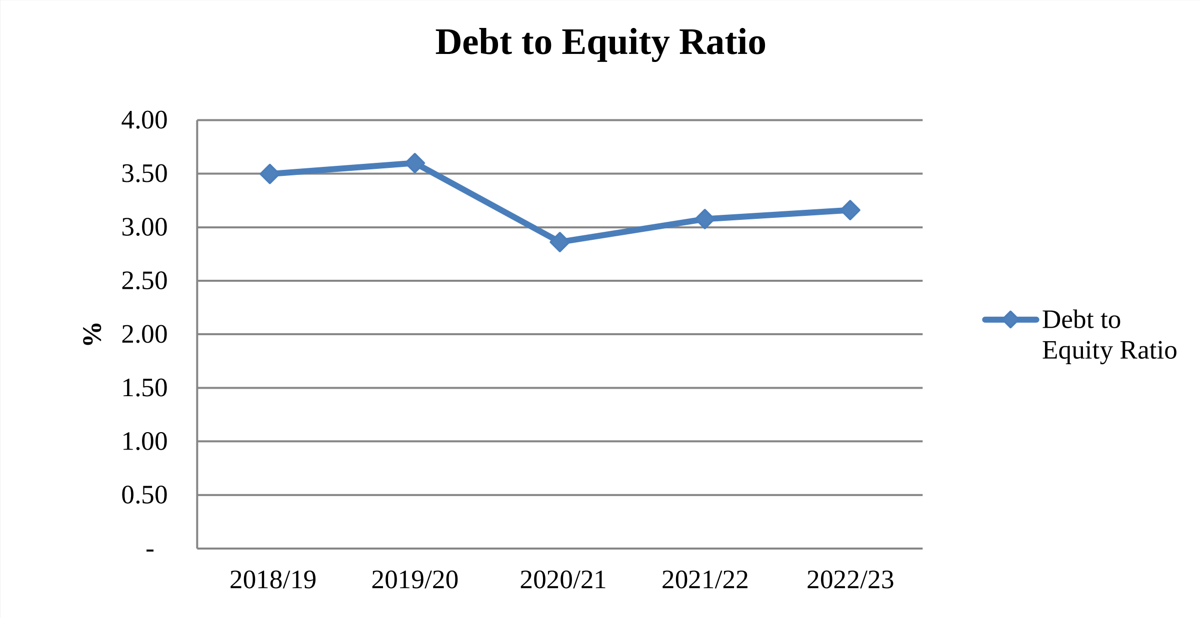
Regulatory Capital

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



Debt to Equity

MI's Debt to Equity ratio showed only a marginal increase from 3.08 to 3.16 by March 2023 with the 1.6% growth in the assets base, which was partly financed from borrowings. With the inherent nature of the industry of mobilising deposits to fund core business activities, right debt levels were maintained satisfactorily in keeping with accepted industry norms and safety standards.



Liquidity

❖ Short- and Medium-Term Liquidity

Despite the upward trajectory in interest rates, and the recovery delays observed with the macroeconomic challenges, MI continued to maintain a solid liquidity buffers throughout the year, providing the much-needed stability to MI's overall operations, whilst managing the trade-off between liquidity and profitability levels. MI's strong liquidity position as at the balance sheet date stood at 19.41% (13.23% in 2022), above the regulatory limit of 10%. (Refer pages 304 to 306 of the Notes to the Financial Statements for a detailed ratio breakdown).

❖ Long-Term Liquidity

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

Cash Flow Position

Amidst the tightening of monetary policy measures and prevailing macro-economic challenges, we managed our cash flows effectively, maintaining sound liquidity levels throughout the financial year, balancing the short-term and long-term funding needs of the

Company optimally. Total cash and cash equivalents (including the placements with banks not under lien) as at the reporting date stood at Rs 1,697 million, compared to Rs 286 million recorded for the previous year, apart from the contingency funding lines kept amounting to Rs 2.7 billion by 31st March 2023.

❖ Cash Flow from Operating Activities

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

❖ Cash Flow from Investing Activities

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

Cash Flow from Financing Activities

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