Sustainable Value creation Process (GRI 2-6)

Our Business Model and Approach to Value Creation

MI's Business Model represents the integration of vision, mission and corporate strategy towards achieving key goals and objectives and it is designed to be agile in order to meet evolving stakeholder expectations and stay resilient and successful even during a challenging operating environment. We have embedded strategic sustainable dimensions into our business model, allowing us to strike a balance between financial and non-financial perspectives, in order to enhance our triple bottom line. In order to capture and report the value that we created during a financial year, we adopt an integrated reporting framework that explains how the value creation took place through our unique business model.

Our strong capital mix, which encapsulates both financial and non-financial wealth, is well reflected through our strong and accumulated balance sheet capital, strategic and longstanding alliances, upgraded infrastructure and high calibre competent workforce, along with our brand strength and natural and social capital, and optimally utilised to ensure the achievement of business targets and wider societal aspirations. The value we created as outputs and outcomes are reflected through the business results (refer Capital Management Reports on page 45 of our Annual Report 2022/23) and impacts (refer web content for the Impact Management Report) which are measured, monitored and well-managed to serve stakeholder expectations.

Our Business Model

INPUTS

Financial Wealth

- Shareholder Capital – Rs. 11 Bn
- Deposit Base – Rs. 31.2 Bn
- Borrowings – Rs. 3.5 Bn

Alliances

- New Vehicle Sales Agents – 1,472
- Community Investments – Rs. 1.5 Mn

Human Strength

- Multi Skilled, Talented and Dedicated Workforce – 1,097

Intellect

- Brand Capital Investments – Rs. 25 Mn
- Investment on Training – Rs. 4.3 Mn
- Industry Expertise – 58 Years
- Credit Rating – BBB-(lka) Rating Watch Negative

Infrastructure

- Branch Footprint – 43 Branches
- Fixed Assets – Rs. 3.9 Bn
- ICT Developments – Rs. 123.5 Mn

Nature

- Water Consumption – 13,102 m^3
- Energy Consumption – 1,274,935 kWh

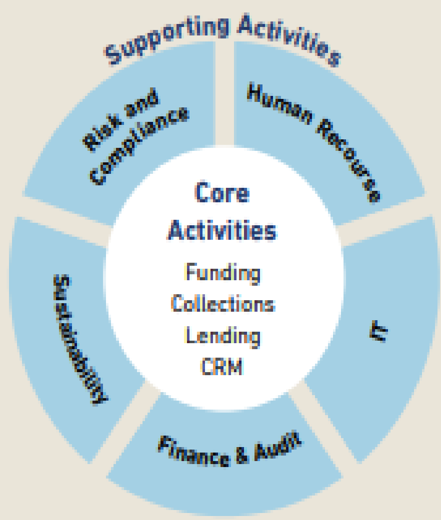
BUSINESS ACTIVITIES

Vision Statement

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

Mission Statement

Deploying resources effectively to bring innovative financial solutions that will enrich our business partners, whilst assuring profitable investor returns by staying ahead in our sphere of business and going forth to create a sustainable future for our employees and society



Value Statements

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

OUTPUTS

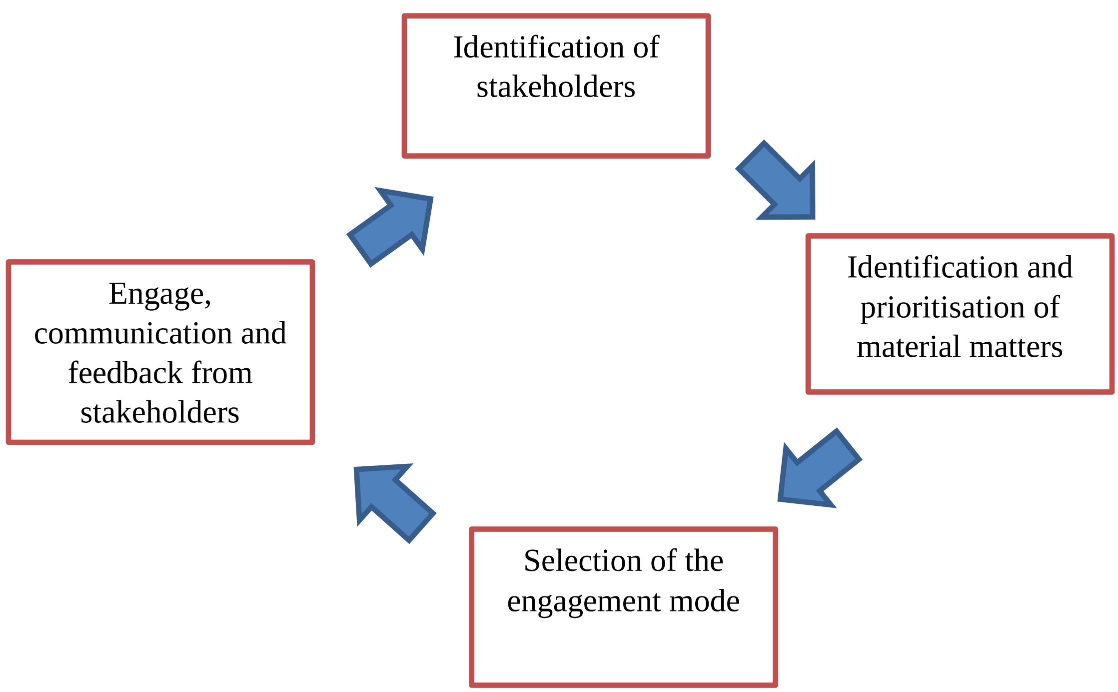
- Lease Finance
- Hire Purchase
- Vehicle Loans
- Term Loans
- Micro Finance
- Gold Loan
- Fixed Deposits
- Savings
- Property Backed Lending

OUTCOMES/IMPACTS	PERFORMANCE
Financial Wealth ➢ Stable and Steady Growth in Financial Position ➢ Growth in Revenue ➢ Sound Liquidity and Capital Adequacy	**Financial Wealth** ➢ Revenue – > Rs. 9 Bn ➢ Profit After Tax – > Rs. 106 Mn ➢ Asset Base – > Rs. 47.6 Bn ➢ Core Capital Ratio – > 16%
Alliances ➢ Cordial & Professional Relationship ➢ Increase in Clientele	**Alliances** ➢ Total Customers – > 200,000 ➢ Leasing Agents – > 14,000 ➢ Deposit Retention – 77%
Human Strength ➢ Enhanced Competitive Strengths ➢ Improved Productivity and Agility	**Human Strength** ➢ No. of Training Programmes – 45 ➢ New Recruitments – 170 ➢ Employee Promotions – 243
Intellect ➢ Nurturing Employee Knowledge ➢ Brand Development ➢ Business Process Reengineering	**Intellect** ➢ IT System Enhancements – 6
Infrastructure ➢ Branch Maintenance ➢ New Branch Openings	**Infrastructure** ➢ New Branch Openings – 1 ➢ Investment in Fixed Assets – Rs. 130 Mn
Nature ➢ Minimising Paper Usage ➢ Reduction in Resource Usage	**Nature** ➢ Paper Recycling – 2,174 Kg ➢ Environmental Initiatives – 2 ➢ Green Lending – Rs. 1.79 Bn

Stakeholder Engagement (GRI 2-29)

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

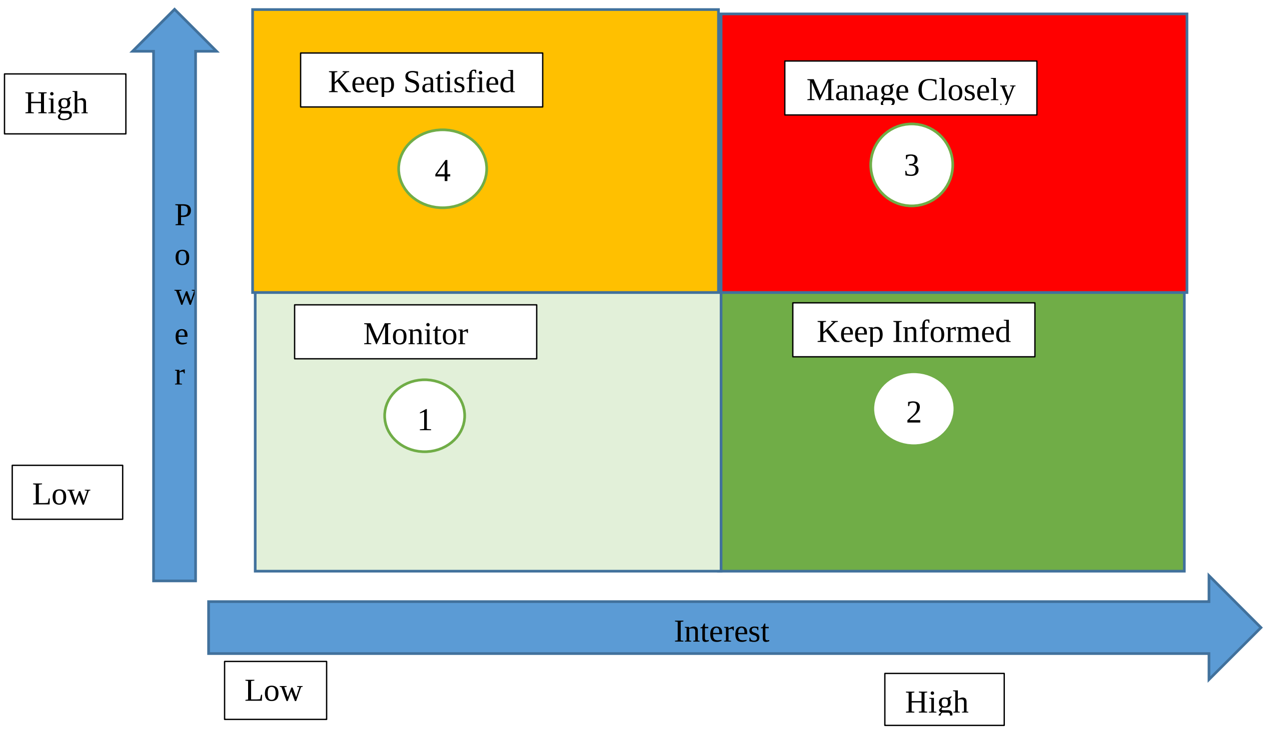
Stakeholder Engagement Process



Stakeholder Management

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

Approach Adopted to Manage Key Stakeholders



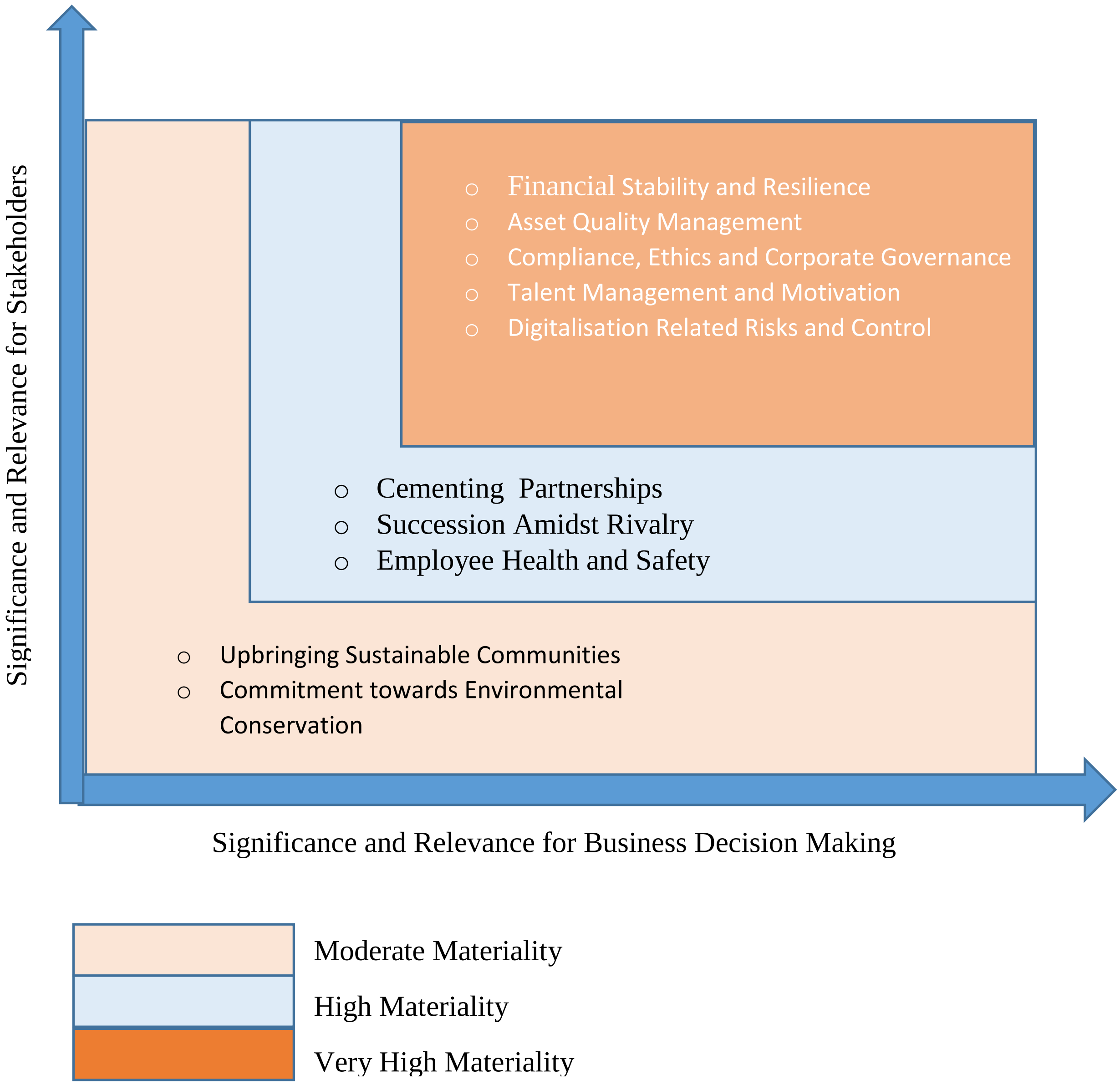
Based on the interest and power vested with each stakeholder segment, we conducted targeted initiatives to manage each group interdependently. We believe such measurements have allowed us to build mutual trust, satisfaction and engagement of high power-high interest stakeholders such as regulators, customers,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

Materiality Assessment (GRI 3-1)

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

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

Materiality Gauge Matrix



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

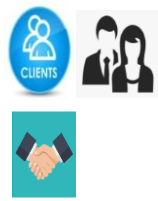
Material Matter	Why Material?	Materiality Level	Stakeholders Affected	Linked SDG	Linked GRI Standard	Change in Materiality	Management Approach	Reference
Staying financially solid and resilient	Amidst the economic contraction, multifaceted challenges coupled with significant pressure on net interest margins, hyperinflationary effects and tax changes, maintaining financial stability and profitability has become paramount important to stay resilient despite these adversities. Whilst the drastic increase in interest rates resulted in a severe				201: Economic Performance	No significant change	While maintaining our financial stability through a strong liquidity position and safeguarding capital position, we continued to gradually pick up revenue generation though posting a XX bottom-line. By expanding our gold loan operations and carefully managing our overheads, we stayed focused on negating repricing hit to the bottom line. Focused on avenues for cost optimisation such as managing the staff count through redeployment and multi-tasking while	Impact Management Report

	contraction in credit demand, the reprising effect of the deposit and borrowings narrowed the sector NIM further , adversely impacting the bottom-line of the industry.						improving productivity. Strengthened our recovery measures to improve collections and manage asset quality.	
					203: Indirect Economic Impacts	No significant change	We continued to extend our financial assistance by supporting to 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 by opening Chunnakam branch and also widening Gold Loan operations we created new employment opportunities whilst supporting their urgent financing needs. MI also generated 170 new	Impact Management Report

							employment opportunities out of which 42 opportunities were offered to the workforce residing outside Colombo.	
Asset quality management	Amidst the intensified macro-economic challenges coupled with increases in tax rates, the LFC sector grappled with the ongoing challenge of managing collections amidst continued deterioration in borrower repayment capacity. Probable risk of decline in vehicle prices will magnify credit risk, further eroding asset quality of the sector.				201: Economic Performance	Increased with the continued deterioration in borrower's repayment capacity and hyperinflationary economic conditions.	We strengthened recovery measures through our dedicated fully-fledged Call Centre, Special Recovery Force and legal team to tackle the escalation of non-performing advances. Through close monitoring of sector wise and group credit exposures, we unleashed proactive measures, which included customised recovery actions, deploying special recovery teams towards problematic arrears clients, while affording solutions to those genuine borrowers to ease hardships in trying	Financial Wealth and Risk Management Report

							conditions. Despite continued deterioration in borrower repayment capacity, we were able to maintain our 120 day NPL at 10.74%.	
Health and Safety	Even though pandemic-related health risks are somewhat easing from the attention of the public, several communicable diseases such as COVID-19 variants, viral flu, monkey pox, etc. continue to affect public health. Therefore the importance of improving working conditions and health and safety conditions		 		403: Occupational Health and Safety	No significant change	Despite being an organisation that poses minimal risk to employee health and safety, we took extra vigilance to minimise the accelerated spread of several communicable diseases. We never diverged from recommended national health and safety regulations which were introduced as a result of the pandemic. The HR division continued to work closely with department heads and	Human Capital

	remained on top as a material concern of business organisations.						branch managers in order to exchange and implement their ideas to uphold working conditions and health and safety of our employees as well as of our customers.	
Compliance, ethics and corporate governance	Being a highly regulated corporate citizen, each and every stakeholder expects financial institutions to act with legitimacy and integrity at all times. Promotion of good governance and regulatory compliance is utmost important to the sustenance of our reputation as a long standing finance company. It is pivotal for us to safeguard the trust and confidence among our				307: Environmental Compliance 205: Anti-corruption 419: Socio-Economic Compliance	Increased with the unstable economic and political backdrop	We have built a platform where our workforce could promote a culture of honesty, fair dealing and ethical business practices which ultimately reflects in our sustainable performance. Our Compliance unit continued to educate and conduct awareness sessions regarding the changes in laws and regulations, especially on AML and transparent business practices. The Board has set the tone from the top to promote culture of	Corporate Governance Report Natural Capital

	depositors and creditors.						good governance and directed by example. Moreover, we always uphold our employee Code of Conduct to reinforce good governance, which MI has always embraced.	
Digitisation and related risks	Whilst Digitalisation and adaptation of new Fin-Tech solutions remained in the forefront as a game-changer to bolster service levels, decision making and improve overall productivity significantly, greater exposure to digitalisation has raised cyber security risks and the need for stringent and effective control mechanisms.				418: Customer Privacy	No significant change	Though multifaceted challenges stemmed from the economic crisis pegged back growth prospects, we continued to invest in upgrading our IT infrastructure, by committing fully to the ongoing system migration. By enhancing digital solutions we hope to yield greater growth potential and stay competitive in this evolving landscape.	Intellectual Capital

Talent management and motivation	Being a financial service provider, our employees remained 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	Increase. Whilst the prevailing economic crisis resulted in skill migration, entities are facing the challenge of retaining their best talents and managing their capacity with the contracted economic operation.	Having understood the importance of building employee resilience during this challenging period, we continued to uphold their mindset and capabilities while focusing on grooming multi- tasking capabilities and empowering them to succeed in their careers even during unprecedented and challenging times. Furthermore, we continued to refine our pool of talent through effective recruitment and retention strategies to drive competition.	Human Capital
					402: Labour Management Relations	No change	We adopt a strategic HR management approach which encourages open door, free-flowing, two-way dialogue policies. Furthermore,	Human Capital

							all our HR policies are aligned to labour laws and industry and other statutory regulations and best practices to ensure fair and ethical employee treatment.	
					405: Diversity and Equal Opportunity 406: Non-Discrimination	No change	While recognising employee diversity, MI took a cautious 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, religion, caste or gender of employees.	Human Capital
					410: Security Practices	No change	We ensured adequate security to minimise the risk levels of fraud or theft. We obtained outsourced security services and also	Human Capital

							handed over the cash transport risk to a professional third party. There was close monitoring of suspicious transactions with the intention of preventing money laundering activities.	
					412: Human rights Assessment	No change	We always consider human rights as an integral part of our business strategy and assured their concerns are addressed properly and escalated from bottom of the hierarchy to the top as required.	Human Capital Corporate Governance Report
					202: Market Presence	No change	Our island-wide branch network has created number of employment opportunities which enabled us to acquire a talent pool from a variety of local communities. As a company that inspires the elimination of discrimination at	Human Capital

							work, we always recruit to reflect the diversity of the workforce, especially a work force that represent various mix of backgrounds. During the year we expanded our presence by opening a new branch in xx and expanding Gold Loan operations across xx branches.	
Strengthening of partnerships	Mutually-beneficial relationships established and nurtured with our stakeholders, are utmost important to satisfy their evolving needs and drive our business to greater heights despite the challenges we faced.				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	Alliances

							our customers and business partners. Furthermore, we broad-based our communication channels though web inquiries, dedicated call centre, hotlines and branch network to address customer concerns and kept customer complaints at minimal levels.	
Succession amidst rivalry	With the rapid increase in interest rates and contraction of economic activities of the county, NBFI sector is faced with slow pick up in revenue, with under par volumes and margins to cover the operating expenses. The rating downgrading of the banking sector, in 2023 has further eroded				N/A	Increased with limited opportunities due to contracted economic activities	To sustain our lending volumes and market positioning, we expanded Gold Loan operations across our branch network whilst locating new branches in target markets. Moreover, we focused more on short-term FD products to minimise the reprising effect, while maintaining xx% growth in deposit base. We continued to build trust and confidence of our	Financial Wealth Alliances

	financial sector confidence of the public depositors creating significant uncertainties of the deposit retention in NBFIs.						customers by maintaining strong liquidity and capital adequacy levels whilst enhancing customer convenience and satisfaction through improved service levels.	
Upbringing sustainable communities	As we focus on sustainable business growth, we value the wellbeing of the wider community and strive to enhance their living standards which in turn will create sustainable relationships enhancing our future growth potential.				413: Local Communities	No change	As long standing and responsible corporate citizen, we continued to extend our financial assistance to low income earners through our micro finance arm while empowering women entrepreneurship. Though we controlled our spending during the year with the prevailing economic conditions, we invested Rs. 1.5 Mn in community development projects	Impact Management Report

Commitment to the environment sustainability	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: Bio Diversity	No change	This year too we joined our hands with the Wild Life Fund and supported the protection of bio-diversity. MI operations did not bring about any negative impact on bio-diversity.	Natural Capital Impact Management Report
					306: Waste	No change	Wastage management was properly handled according to town council guidelines.	Impact Management Report

Materiality Level

Very High	
High	
Moderate	

Strategy & Resource Allocation

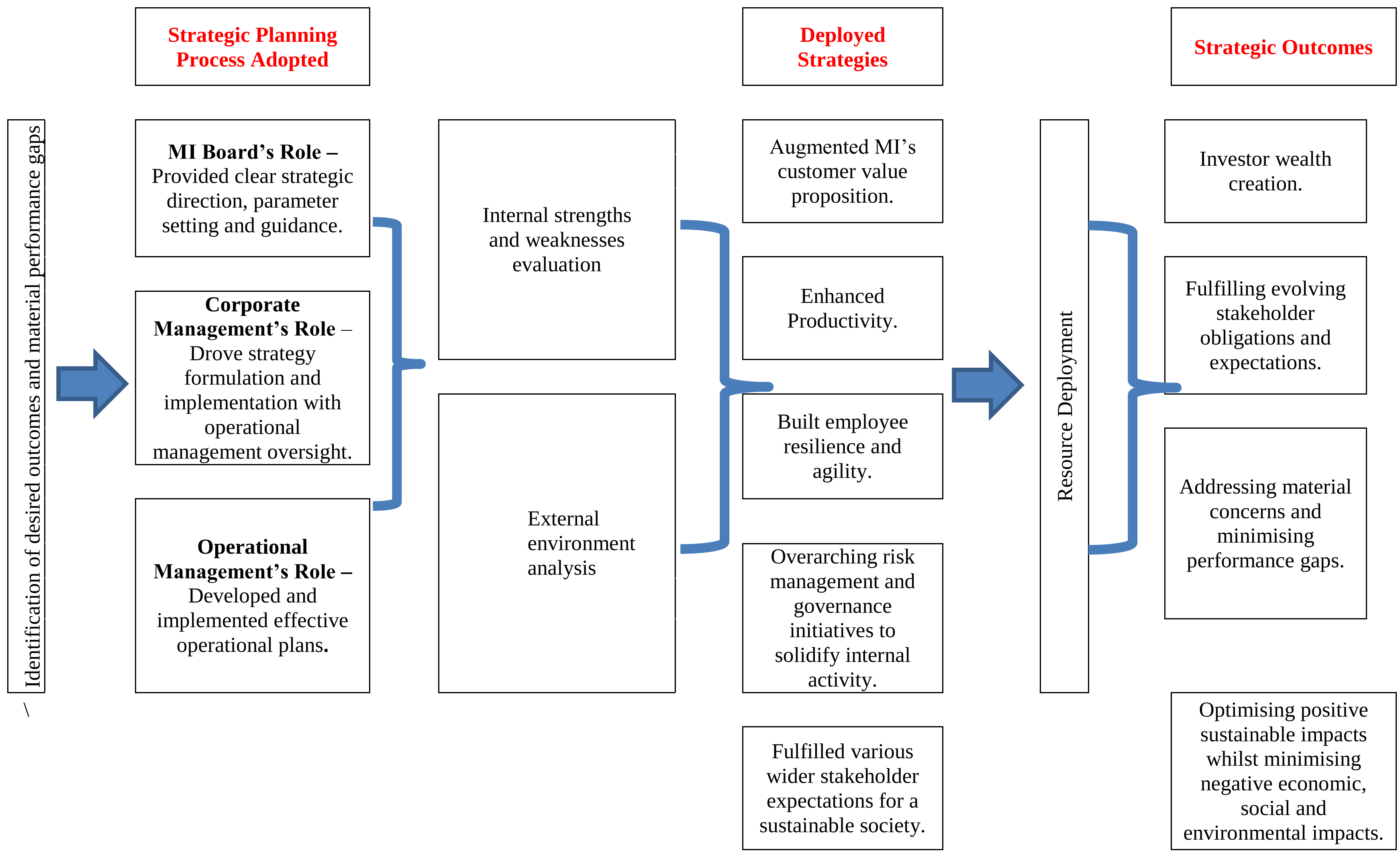
Strategy Executed

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

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

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

The Strategy Formulation Path Executed Towards Resilience and Progress



Internal Environment Review

Our Strengths

Key Strengths	How We leveraged
Over 1,000, high calibre workforce.	Unparalleled and personalised service kept MI's brand close to our customers as a trusted and longstanding financial specialist. Increased productivity through effective employee engagement, multitasking redeployment and continuous training and development. Despite the evolving risk of skilled migration, we managed to retain our talented and high performing employees to drive our business journey during this challenging phase. By implementing a transparent and value-driven performance management mechanism, we enhanced performance levels to fulfill a wide array of customer expectations.
A well-capitalised, financially solid A- grade finance company with a 58-year business heritage.	Continued to build and leverage MI's reputation as a solid, trustworthy finance company to strengthen bonds with and confidence among stakeholders. A solid capital base enabled the company to remain resilient despite unprecedented challenges.

	Business intelligence gained over five decades enabled MI to cater to evolving customer needs. Leveraging on the company’s reputation as a top- tier brand for personalised financial solutions. Leveraged on the MI brand to surpass the gold loans portfolio of Rs 1.2 Bn within the financial year. Expanded our branch footprint by opening services in the Northern Province (Chunnakam) whilst operating 43 branches island-wide.
Solid Liquidity Position.	Preserved sufficient liquidity buffers as a contingent approach amidst economic crisis, whilst assuring trust and confidence among depositors. Enhanced retail deposit base and retention levels.
Tech-Savvy Operating Environment	Enhanced customer convenience and service excellence. Improved productive output via automation. Created strategic advantage and competitive edge.

Our Weaknesses

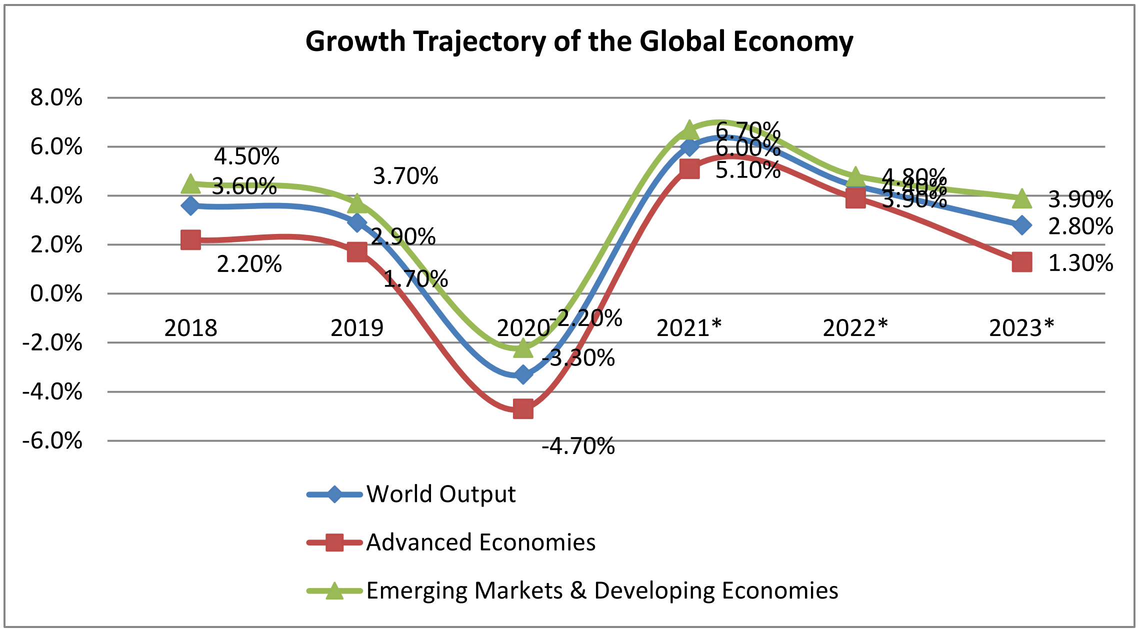
Key Weaknesses to Eradicate	How We Overcame
Fixed Deposits Being the Primary Product Driving the Deposit Base.	• Promoted savings product with the launch of ATM services across the country • Enhanced product features related to fixed deposit product lines. • Created strategic advantage competitive edge.
Short-Term Maturity Mismatch as a Result of Market Volatility and Customer Preference in Short-Term Investments.	• Maintained a healthy retention level of 77% in fixed deposits, negating the withdrawal effect impacting maturity mismatch.
Traditional Platforms in Key Business Processes.	• Accelerated our digital journey. • Expedited system migration to enhance user experience and productivity.

Global Economy

Global economic activity declined during the year owing to the financial sector crisis, surging prices, lingering effects of Russia's invasion of Ukraine and three years of COVID. Despite inflation decreasing as a result of central banks raising interest rates and falling food and energy costs, underlying pricing pressures are proving persistent due to tight labour markets in many economies. The banking sector's weaknesses have come into prominence. Concerns about contagion have grown throughout the larger financial sector, including nonbank financial entities, as a result of the policy rates' rapid climb.

Additionally, it appears that other significant factors that impacted the global economy in 2022 will remain this year, although with different intensities. Debt levels stay high, making it difficult for fiscal authorities to address new challenges. Commodity prices that spiked after Russia invaded Ukraine have leveled off, despite the war raging on and geopolitical tensions growing.

Global headline inflation has been declining since mid-2022 at a three-month seasonally adjusted annualised rate. Accordingly, inflation reduced to 4.7% in advanced economies and 8.6% in emerging market and developing economies for 2022. Overall, global headline inflation is set to fall from 8.7% in 2022 to 7.0% in 2023. Further, according to baseline projections, global economic growth will decline from 3.4% in 2022 to 2.84% in 2023 before leveling off at 3.0% in 2024. A particularly strong fall in growth, from 2.7 percent in 2022 to 1.3 percent in 2023, is anticipated for advanced economies.



Source - World Economic Outlook -IMF 2023

Impact on MI

Whilst Sri Lanka's economy endured its most trying year in post-independence history, the country also confronted multifaceted challenges cascading from global economic contraction driven by supply chain disruptions and heightened global inflation rates. With this array of obstacles and unfavourable economic conditions hampering business growth prospects, Mercantile Investments' strategies were directed towards sustaining market positioning and maintaining asset quality, whilst enhancing productivity through cost optimisation, thereby improving our operating performance.

Curtailed lending and elevated interest cost strained net interest margins, leading to a 88% decline in profitability. However, we controlled overheads through cost optimisation and lean management, despite the adverse price increases of fuel, electricity and other supplies.

National output

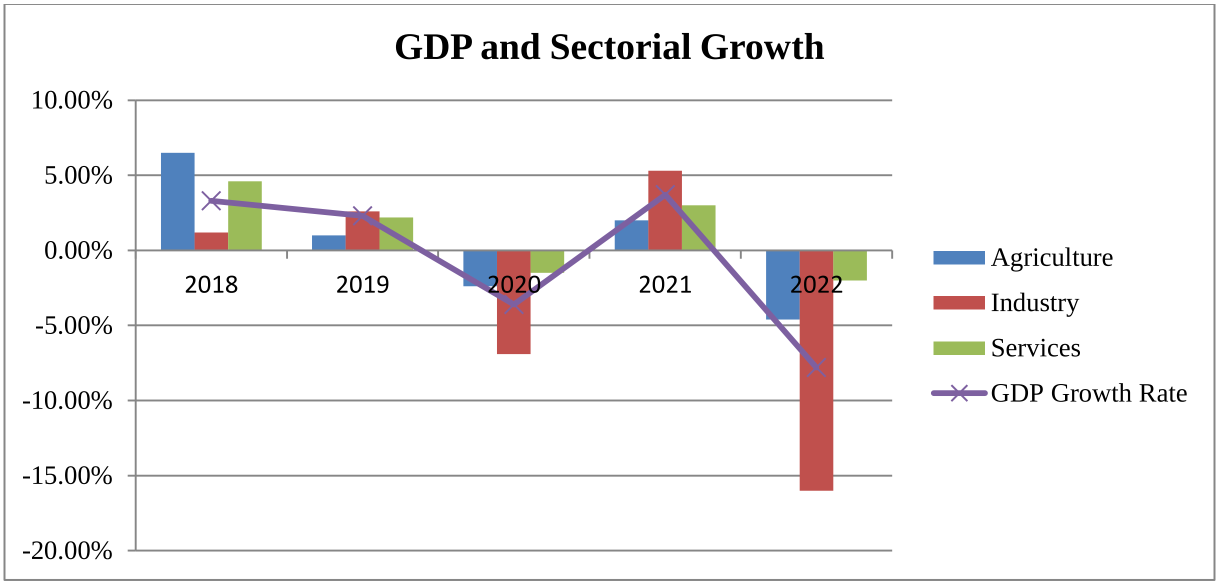
Amidst its worst post-independence economic crisis, the Sri Lankan economy shrank by 7.8%, YoY, in 2022, recording a steep annual decline. However, effective and timely government intervention prevented it from potentially getting worse. The sharp decline in foreign exchange liquidity in the market led to significant price escalations. Consequently, the economic crisis initially disrupted supply in the form of severe shortages of consumer goods, energy sources, including fuel and electricity, and industrial inputs.

To control the crisis, the government implemented tough but necessary policy measures. These included historically large adjustments to policy interest rates to reduce inflationary pressures and the prioritisation of essential imports to curb foreign exchange outflows. They helped to ease supply-side disruptions, reduce demand pressures and increase access to vital imports like fuel and industrial materials. As a result, the economy gradually stabilised by the last calender quarter of 2023. TheAll three main economic sectors—industry, services and agriculture—recorded declines in 2022.

Overall performance of the agricultural sector was hindered in 2022 by supply-side headwinds, such as severe shortages of agricultural inputs—particularly those of fertilizers and other agrochemicals—significant increases in production costs and fuel supply disruptions. Compared to the 0.9% growth seen in 2021, agricultural operations decreased by 4.6% in value-added terms in 2022.

Much of 2022 saw industry activities hindered by a protracted energy crisis, a shortage of essential raw materials triggered by inadequate foreign exchange liquidity in the banking system and weak demand brought on by a drop in purchasing power. Industrial activity decreased by 16.0% in 2022, compared to the 5.7% growth seen in 2021, despite policy interventions helping to control supply deficits in the latter part of the year.

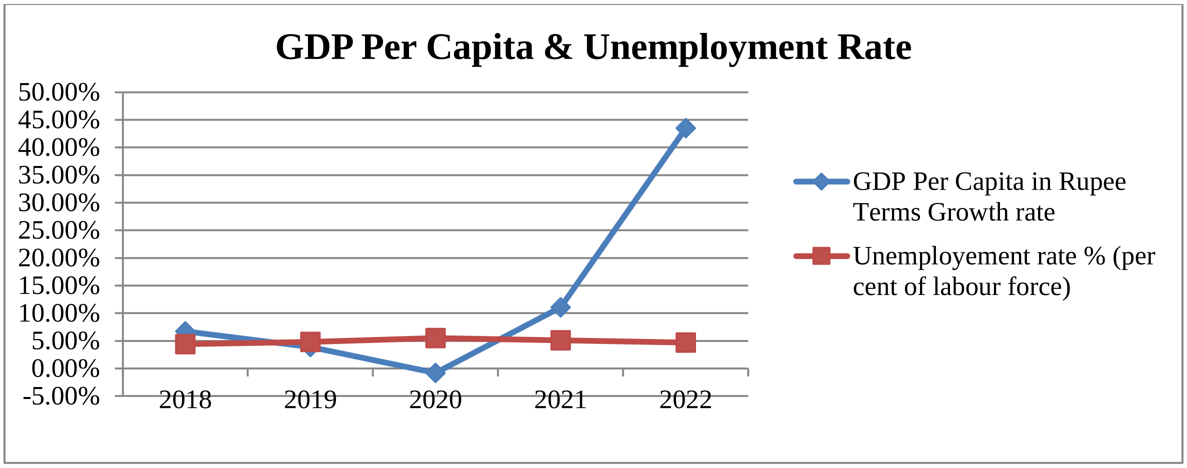
The services sector was also greatly affected by the lengthy energy crisis, limited availability of goods and high inflation. It contracted by 2.0% in 2022 in value-added terms, compared to a growth of 3.5% recorded in 2021. The overall contraction was driven by declines in real estate, insurance, finance, human health and professional services.



Source: CBSL Annual Report 2022

Employment

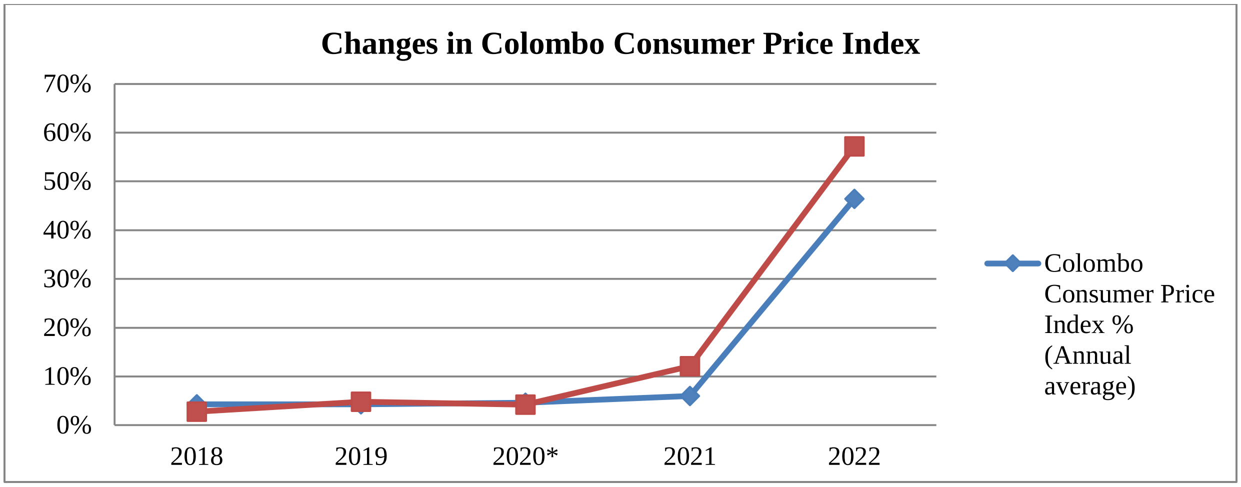
Reflecting a gradual recovery from the pandemic, the employed population increased to 8.148 million in 2022, compared to 8.114 million in the previous year. In terms of employment by major economic activities, industries and services increased to 2.158 million and 3.831 million, respectively, in 2022. Accordingly, the unemployment rate declined to 4.7% in 2022 from 5.1% recorded the previous year. The unemployed population also declined to 0.399 million in 2022 from 0.440 million recorded the previous year. Departures for overseas employment recorded a considerable increase of 154.4%, from 122,264 in 2021 to 311,056 in 2022. This significant surge was partially caused by severe economic difficulties and the hardships people faced..



Source: CBSL Annual Report 2022

Inflation

Due to supply shocks on the domestic and international front, the sharp depreciation of the Sri Lanka rupee against the US dollar and the lingering effects of monetary accommodation over the previous few years, overall price levels as measured by official consumer price indices saw an unprecedented rise throughout 2022. Accordingly, the CCPI (2013=100) increased from 158.4 index points in January 2022 to 243.2 index points in December 2022. Monthly price hikes were experienced in the food and non-food categories, with the non-food category contributing more to acceleration in the CCPI's movement during the period from January to September 2022. The NCPI (2013=100), which recorded 166.0 index points in January 2022, reached 256.3 index points in December 2022. Real wages of employees in the formal and informal private sectors and public sector were eroded owing to a less–than-full wage adjustment to rising prices, while the nominal wages of employees in all sectors increased in 2022 compared to the previous year.



Source: CBSL Annual Report 2022

Impact on MI

The surge in interest rates, coupled with continued import restrictions, fuel shortages, hyperinflation and tax reforms, reduced the demand for new vehicle leasing and other lending facilities whilst eroding borrower repayment capacity and escalating overhead costs. MI's profitability was negatively impacted by the significant increase in funding costs. The repricing effect of the deposit and borrowing base led to a contraction in credit demand and narrowed the interest margins.

IMF programmes such as increased tax reforms, government debt restructuring and other structural adjustments will hamper businesses sentiments in the first quarter of the upcoming financial year, as well, although we expect gradual recovery during its latter part. However, our enduring ability to swiftly adapt to volatile circumstances allowed us to restrategise our efforts in enhancing productivity and cost optimisation, enabling us to record xx % dip in overheads despite hyperinflation and to remain resilient with Rs xxMn after-tax profit recorded for the year.

Moreover, MI is optimistic of gradually enjoying improved favourable repricing NIMs, starting from the second quarter of the upcoming financial year; and that increased economic activities will result in higher revenue generation.

External Sector

International Trade and Exchange Rate

Sri Lanka's external sector continued to face severe balance of payments (BOP) pressures, amidst dwindling gross official reserves (GOR), sharp depreciation of the exchange rate and the dearth of foreign exchange in the domestic market, among others. The liquidity shortage constrained the importation of essentials. The government took measures to restructure the public debt aimed at achieving sustainability as part of the process of securing IMF funding. Following historically high depreciation in 2022, the Sri Lanka rupee showed some appreciation in early 2023 owing to curtailed imports and finalisation of the IMF-EFF arrangement. The increase in exports earnings, which benefited from the Sri Lanka rupee's depreciation against the US dollar, resulted in a significant contraction in the external current account deficit in 2022 compared to 2021. Accordingly, the trade deficit reduced to US$ 5,185Mn in 2022 from US$ 8,139Mn in 2021.

Exchange Rate Movements

During the first half of 2022, the Sri Lanka rupee experienced high volatility and recorded the historically largest depreciation against the US dollar before stabilising near the guidance band put in place in May 2022. Accordingly, the 5-currency NEER index declined by 41.1%, while the 24-currency index declined by 40.6% in 2022.

Foreign Direct Investments

There was a notable increase in outflows of dividends from foreign direct investment (FDI) enterprises during the year, compared to the previous year. This was mainly due to some large FDI companies, listed in the CSE, declaring sizable dividends. FDI, including foreign loans, amounted to US$ 1,181Mn in 2022, compared to US$ 779Mn in 2021. Out of the total FDI, including loans, US$ 1,076Mn were for companies registered with the BOI.

Impact on MI

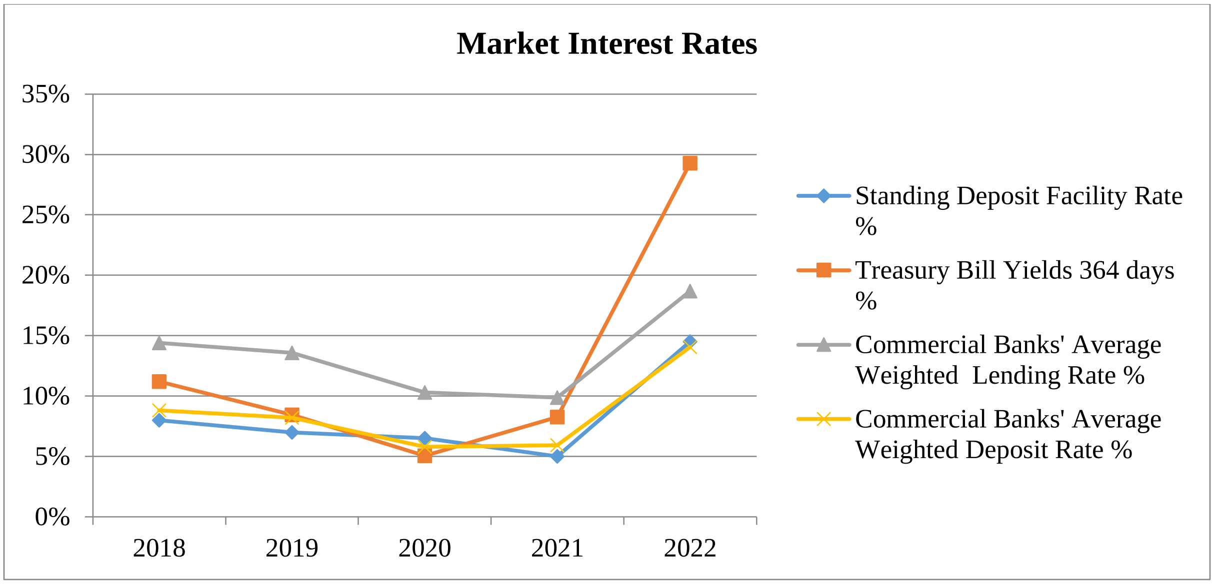
With the continued import restrictions, MI concentrated on the registered vehicle sales market whilst focusing on expanding its nontraditional product mix across the branch network.

We expect a gradual revival of the economy with the easing of the monetary policy alongside declining inflation and rupee stabilisation. MI, like other finance sector players, will face challenges in the first half of the fiscal year 2023–2024. However, we remain optimistic of to capitalising on emerging opportunities.

Monetary Policy

Interest Rates and Liquidity Levels

The CBSL continued with its tight monetary policy stance through 2022 to arrest inflationary pressures and possibly de-anchor inflation expectations. Since the monetary tightening cycle started in August 2021, CBSL's key policy interest rates, the standing deposit facility rate (SDFR) and the standing lending facility rate (SLFR) were raised by 10 percentage points until the end of 2022. These adjustments were aimed at combatting the significant acceleration of inflation in the country and the large anomaly between policy and market interest rates amid external and fiscal sector imbalances. Additionally, maximum interest rates imposed on selected lending products and foreign currency deposits were removed, enabling the effective pass-through of policy interest rate changes to tighten monetary conditions. To support the tight monetary policy stance, overnight liquidity in the domestic money market was maintained at negative levels during 2022, although liquidity required for the operations of the money market was obtained through the standing lending facility (SLF). Liquidity in the domestic money market turned significantly negative in mid-2022 mainly due to the impact of foreign exchange transactions by CBSL to facilitate essential imports as well as the government's external debt service payments.



Source: CBSL Annual Report 2022

Impact on MI

With interest rates remaining high throughout the financial year, MI's funding cost escalated significantly by **, YoY, with the repricing of deposits and borrowings. Moreover, these rising interest rates curtailed credit demand across the industry, narrowing the net interest margins and decelerating loan book growth compared to the last financial year. Alongside the expected easing of monetary policy measures from first quarter 2023/24 financial year and the sanctioning of the IMF tranche, however, it is expected that market rates will move down further, driving credit demand and improving industry margins.

Fiscal policy

The government initiated significant reforms in 2022 aimed at fiscal consolidation and debt sustainability, assisted mainly by the IMF-EFF budget support programme, among others. Budget 2022 proposed ambitious targets for government revenue and expenditure as a percentage of GDP, of 12.0% and 20.8%, respectively. However, these targets became challenging due to lacklustre revenue collection in the first half of the year, reflecting the impact of disruptions to economic activity. Several revenue enhancement measures were introduced in 2022 to reverse the declining trend in tax revenuet and address structural weaknesses in revenue collection.

Through the Budget 2022, the government imposed a retrospective one-off surcharge tax of 25% on individuals, companies and partnerships whose taxable income for the 2020/2021 tax assessment year exceeded Rs. 2.0Bn. Meanwhile, the VAT on financial services was increased from 15% to 18% with effect from January 2022 and the VAT rate was increased from 8% to 12%. The general VAT rate was further hiked from 12% to 15%, effective from 01 September 2022.

Effective from 01 October 2022, a social security contribution levy of 2.5% on turnover was imposed on importers, manufacturers, service providers, wholesalers and retailers, whose annual turnover exceeds Rs. 120.0Mn. Accordingly, revenue from income taxes as a percentage of GDP, increased from 1.7% in 2021 to 2.2% in 2022. The share of direct tax revenue in total tax revenue collection improved to 30.5% in 2022 over 23.3% recorded in 2021. Revenue from corporate and non-corporate income taxes, which includes the surcharge tax, increased significantly by 78.5% to Rs. 488.4Bn in 2022 in comparison to Rs. 273.6Bn recorded in 2021. Revenue from VAT rose by 50.2% in nominal terms during 2022, mainly reflecting the impact of the rise in price levels and upward revisions made to the VAT rate from June and September 2022. Since a majority of revenue enhancement measures introduced in 2022 became effective from the second half of 2022 and beginning of 2023, the full impact on government revenue from such measures is expected from 2023 onwards.

On 12 April 2022, the government announced a debt standstill as an interim measure for identified categories of external public debt, in view of impending large foreign debt service payments which had depleted gross official reserves and squeezed foreign exchange inflows. Simultaneously, the government announced its intention to restructure its foreign bilateral and commercial debt.

Impact on MI

With the imposition of social security contribution levy (SSCL) and the increase in VAT on financial services by 3%, Rs. xxMn additional cost was incurred against profit as SSCL, whilst the VAT on financial services remained high at Rs. xxxMn, despite xx % dip in operating income. The increase in corporate tax from 24% to 30% further curtailed profit after tax, despite the reversal of overprovisions made for the year.

Colombo Stock Market

Despite achieving 10-year-high net foreign inflows of Rs. 30.6Bn, 2022 was a challenging year for the Colombo Stock Exchange. The CSE ended 2022 with the ASPI down 30.56% and the S&P SL20 by 37.74%. Average daily turnover was Rs. 2.97Bn. As a result of unprecedented setbacks during the year, total turnover reduced to Rs. 686,602Mn, recording a drop of 41% in 2021. Market capitalisation stood at Rs. 3847.2Bn while recording a decline of 30% YoY.

Impact on MI

With the lacklustre stock market performance, MI’s equity investment returns were significantly hampered, recording a moderate Rs. xxMn as dividend income and Rs. xxMn as fair value gains for the financial year. However, a modest pick-up in share prices in March 2023 against the sharp decline experienced against previous financial year caused the negative fair value impact to OCI reserve to change from from Rs. xxMn to Rs. xxMn

Financial Sector Performance

The government's announcement in April 2022 to halt external debt servicing on account of bilateral and commercial loans had a significant and unprecedented negative impact on the financial sector's operations and tested its resilience. All ratings agencies downgraded sovereign ratings. The banking sector had a high sovereign exposure, the economy was contracting, there was a severe foreign exchange shortage and inflation was galloping. However, the banking sector's stability was upheld in 2022 despite impending threats brought on by steadily declining credit quality, severe liquidity constraints, low profitability due to significant impairments, and deteriorating capital buffers.

Non-Bank Financial Institutions

Despite the country's economy contracting in 2022, the licensed finance companies (LFCs) and specialised leasing companies (SLCs) sector managed to grow in terms of assets and deposits with adequate capital and liquidity buffers throughout the year. This is despite problems caused by slowing credit growth, deteriorating profitability and an increase in non-performing loans as indicated by stage 3 loans. By end-2022, the sector comprised of 36 LFCs3 and 1 SLC and there

3 Excluding ETI Finance Limited. were 1,834 branches, of which 1,204 branches (65.6 per cent) were located outside the Western Province. Further, 127 new branches were established by the sector during 2022.

Assets and Liabilities

The sector's total assets amounted to Rs. 1,611.2Bn by end-2022, representing 5.2% of the total assets of Sri Lanka's financial system. The asset base expanded by Rs. 123Bn, recording a growth of 8.3% and stood at Rs. 1,611.2Bn by end-2022, compared to the 6.1% growth in 2021. The asset expansion was mainly driven by the growth of the loans and advances portfolio followed by increase in investments and liquid assets. The share of the leasing portfolio in total loans and advances decreased mainly due to the continuation of government restrictions on the importation of motor vehicles to restrict foreign currency outflows.

Customer deposits dominated the liabilities of the LFCs sector at 53.7% of total liabilities. Deposits increased by Rs. 81.1Bn, recording a YoY growth of 10.4% to Rs. 864.4Bn, whilst borrowings declined by 1.0% to Rs. 322.6Bn during 2022.

	Actual Overall 31- Mar-2023 Rs Bn	Actual Overall 31- Mar-2022 Rs Bn	MI's Actual 31- Mar-2023 (as a % of Sector)
Assets			
Accommodation	1,161	1,213	2.8%
Finance Leasing	526	616	3.6%
Hire Purchase	32	24	0.4%
Other Lending	603	573	2.2%
Investments	225	175	2.8%
Others	250	202	3.5%
Liabilities			
Total Deposits	908	801	3.4%
Total Borrowings	287	371	1.2%
Capital Elements	375	334	2.9%
Total Funds	1,570	1,505	2.9%
Others	66	84	3.0%
Total Assets/Liabilities	1,636	1,589	2.9%

Credit Risk

The total gross NPLs/stage 3 loans increased by 66.1% as at end 2022 on a YoY basis, compared to the decrease of 13.9% recorded as at end-2021. As a result of changing the loan classification methodology into a SLFRS-based approach, lapsed debt moratoria and the impact of adverse macroeconomic conditions, the sector's gross stage 3 loans ratio substantially increased to 17.5% as at end-2022 from 11.0% reported as at end-2021.

Liquidity Risk

On an aggregate, the sector maintained liquidity well above the minimum required level during 2022. The overall regulatory liquid assets were at Rs. 184.9Bn as at end-2022 against the stipulated minimum requirement of Rs. 98.0Bn. This was a liquidity surplus of Rs. 86.9Bn as at end-2022, compared to Rs. 66.0Bn recorded as at end-2021.

Profitability and Capital Adequacy

The sector's profitability declined in 2022 compared to the previous year. Profit after tax (PAT) reduced by 21.0% from Rs. 55.6Bn in 2021 to Rs. 43.9Bn in 2022, mainly due to a substantial increase in interest expenses. The decrease in profitability was reflected in the significant drop in the return on equity (ROE) to 12.6% and return on assets (ROA) before tax to 3.7% in 2022, compared to 20.2 per cent and 5.4 per cent recorded, respectively, in 2021.

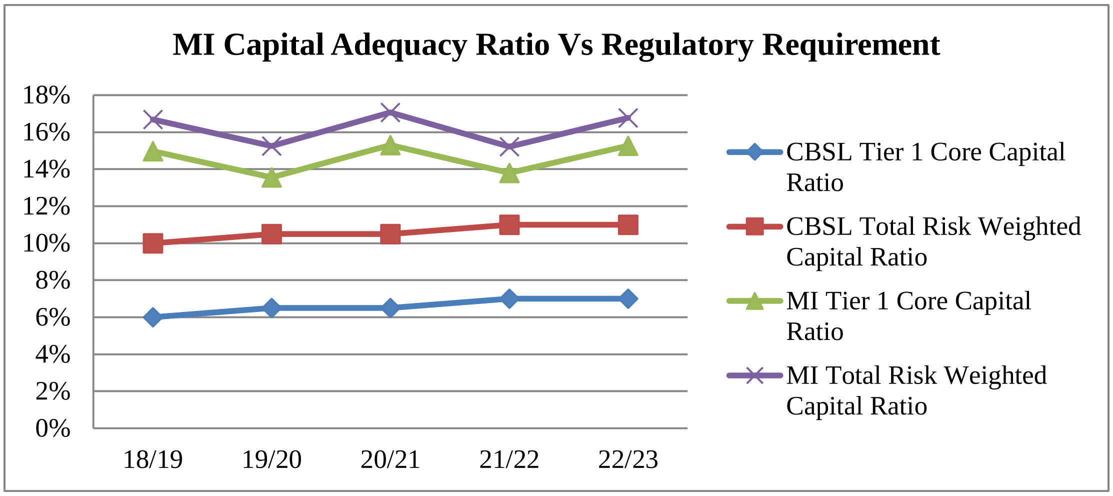
However, the sector showed resilience with capital maintained well above the minimum regulatory requirement on an aggregate level during the year. The capital base improved to Rs. 317.5Bn as at end-2022 compared to Rs. 251.6Bn recorded as at end-2021, mainly due to retained profits by several large LFCs during the previous financial year.

	Actual Overall (YTD) 31- Mar-2023 Rs Bn	Actual Overall (YTD) 31- Mar-2022 Rs Bn	MI's Actual 31- Mar-2023 (as a % of Sector)
Interest Income	307	210	2.8%
Interest Expense	192	82	3.2%
Net Interest Income	115	128	2.3%
Non-Interest Income	47	43	0.2%
Non-Interest Expense	96	80	2.8%
Loan Loss Provisions (Net)	14	6	2.0%
Profit Before Tax	52	85	0.3%
Tax	20	25	0.1%
Profit After Tax	31	60	0.3%

Impact on MI

The NBFI sector was hit with high cost of funding from the soaring rate risk, curtailed credit demand, hyperinflation, deterioration in purchasing power and credit worthiness. These brought down revenue and asset growth across the industry. Despite this, we remained resilient, recording a modest post-tax profit of Rs. xxMn. Although our strategic targets were curtailed with the unprecedented and converging challenges, we regularly reviewed and recalibrated our growth targets to realign our strategies to sustain our market positioning and asset quality whilst maintaining healthy liquidity levels throughout the year.

As we continued to retain our excellent capital adequacy position as a "A" grade and "Well-Capitalized Finance Company," our core capital ratio and total risk-weighted assets ratio both stood at 16.45% and 18.02%, respectively, well above the regulatory capital requirements, uplifting trust and confidence among our depositors and other stakeholders.


MI Capital Adequacy Ratio Vs Regulatory Requirement
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
18/19
19/20
20/21
21/22
22/23
CBSL Tier 1 Core Capital Ratio
CBSL Total Risk Weighted Capital Ratio
MI Tier 1 Core Capital Ratio
MI Total Risk Weighted Capital Ratio

PESTEEL Analyses

Factor	Impact on the LFC Sector	MI's Approach
Political	• Political volatility stemming from the loss of public trust and confidence since the mass protests arising from 2022 supply shortages and hardships, though stabilized with the appointment of the new President • The restriction on vehicle imports remains in force and continued to adversely impact the NBFI's core traditional lending. • Extensive tax reforms covering corporates and individuals resulted in further deterioration in peoples' purchasing power and general living standards of communities as well as the contraction in business growth and bottom line. • Local debt restructuring process continued to heighten future uncertainties, especially interest rates and other market financial parameters.	• While adhering to heightened fiscal policies, MI's proactive strategic approach enabled the Company to stay resilient, with receptive strategic changes and tactical plans including proactive treasury actions. • Broad-based product mix dynamics pursuing for alternative lending opportunities and expanded Gold loan operations across the branch network

Economic	• Sri Lanka faced its worst economic crisis since independence with the default of foreign debt service obligations emanating from the recurrent foreign exchange shortages and depreciation of the Sri Lankan rupee, downgrading the country's credit rating and risk premium. • Severe tightening of the monetary policy measures from April 2022, resulted in the rapid escalation of interest rates heightening the pressure on net interest margins of the NBFI sector, though dipping marginally by the end of the financial year • Inflation recorded an all-time high of 73.7% (YoY NCPI), creating hyperinflationary economic conditions, further deteriorating purchasing power and living standards of communities, escalating the credit/default risk across the finance sector. • Sri Lanka's GDP recorded 7.8% steep contraction, curtailing the credit growth and profitability of the NBFI sector.	• Our strong capital strength, liquidity position and the longstanding customer bonding allowed us to remain resilient, despite the adversities. • We stayed committed in improving our margins, focusing on high yield lending products while deploying strategy to keep cost of funding lower in the medium and long term, leveraging on margin improvement with the anticipated drop in rates. • While focusing on cost optimization to combat hyperinflationary effects, we stayed committed in resource optimization strategy to utilize the excess resources encountered with the curtailed credit demand, by redeploying staff and resorting to selective recruitment.

Social	• Contracted economic activities coupled with supply shortages, import restrictions and hyperinflation have deteriorated living standards, impacting demand for vehicle ownership and savings habit. • Increasing demand for skilled migration has created a vacuum in the job market creating difficulties in attracting and retaining best talents. • General public dissatisfaction and political concerns has created continued social unrest disrupting the economic revival. • Changing stakeholder expectations towards sustainable and eco-friendly products and initiatives. • Social media and digital based transacting pick up has led to emerging prospects. .	• Whilst embedding strategic corporate sustainability ideologies into our business model, we extended shared growth opportunities to our stakeholders to enrich livelihoods and community living standards. • Despite the adverse economic conditions, we continued to invest in technology to provide convenience and from a wider perspective, extended focused initiatives to support community wellbeing. • We safeguarded our employees' job security and their mental wellbeing
Technological	• Aggressive deployment of digital and online technology by the industry to facilitate contactless transaction. • Increased emphasis on capitalising on Artificial Intelligence, Robotic Process Automation (RPA), Internet of Things (IoT), cloud computing, big data as a competitive advantage to enhance customer convenience and productivity	• We broad-based our payment platforms, ATM operations and process automations to enhance productivity and customer experience. • We stayed committed to expedite planned migration to the advanced external IT solution to strengthen MI's IT landscape.

	. • Evolving risk of cyber security threats and customer data protection with digitalization	• Further strengthened our fully-fledged Call Centre with the latest technology upgrades to expedite recoveries while enhancing intelligence gathering process. • Automated several core business and operational functions to improve productivity. • Upgraded IT security systems and reduced the risk of cyber security threats.
Ethical	• Increased corporates' attention on fostering culture of ethics, right corporate values, and good governance practices across the industry. • Enhanced requirement of voluntarily compliance with rules, regulations, and ethical standards.	• MI's operations continued to be underpinned by its underlying corporate values, transparent actions and solid governance initiatives and voluntarily practices to safeguard stakeholder interests.
Environmental	• Surging need for environment conservation business practices due to climate emergency. • Evolving demand for sustainable financing and green lending such as Solar Power, electric and hybrid vehicle financing	• Stayed committed towards sustainable financing whilst promoting green lending. • Continued to reduce GHG emissions with the aim of becoming a carbon neutral entity in the medium term.

	• Establishment of local and global partnerships and alliances to develop and implement strategies to protect eco systems and Environmental, Social, and Governance (ESG) • Increased attention on enhanced financial and non-financial disclosures about environmental impacts. • Enhanced corporate focus on building customer bond and loyalty through greener environment practices	• Whilst minimizing the resource usage, implemented several environment conservation business practices such as the 3 R concept, lean management practices and, environmentally friendly waste management initiatives to minimize negative environmental footprint. • Continued to invest in environment conservation projects, whilst preserving bio-diversity in expanding our branch footprint
Legal	• Heightened regulatory controls over Non-Banking Financial Institutions to curb corporate failures and irregularities. • Enhanced regulatory requirements on Corporate Governance and regulatory capital needs, Technology Risk Management and resilience demands structural changes and wider compliance requisites	• Close monitoring and feedback to Board by compliance unit on company's compliance to various regulatory requirements • Introduced new policies and procedures and provided training to comply with the emerging regulatory needs and best practices.

	• Stream of new directions from regulator to improve governance and sector stability. • Introduction of extensive tax reforms have elevated regulatory compliance requirements Introduction of extensive tax reforms have elevated regulatory compliance requirements	• Improved staff awareness on money laundering activities, suspicious transactions and other risk mitigation actions to comply with FIU guidelines.

Strategy Deployed

Table of Overall Objectives

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

Core Strategy 01- Augmenting Customer Value Proposition

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

Material Concerns Addressed

*Financial Stability and Profitability
*Succession amidst Rivalry

*Ceenting Partnerships

KPI Achievement status

	Actual FY 22/23	Planned FY 22/23	Past FY 21/22
Portfolio Growth			
- Lending	-5.64%	20%	16.7%
- Deposits	18.5%	15%	14%
Total Customer Base	>106,000	>80,000	>78,000
Deposit Retention Total Customer Base	77%	>80%	>78,000
New Branches Opened/ Expansions	1	5	3

Focus area	Strategic actions	How We Geared Competitive Advantage
Strengthening Lasting Customer Bonds by Extending Service Beyond Expectations		
Leveraging Digital Transformation to Enhance Customer Convenience.	• Expanded our digital channels to enhance customer reach, by introducing CEFTS and CDM mCash and IPG facilities. • ATM solutions to enhance customer convenience. • Expedited system migration to meet evolving customer demands and offer integrated business solutions • Continued partnership with SITS (Sampath IT Solutions) to enhance features for the evaluation of gold loans system	• Transforming MI operations to an advanced platform to stay competitive in the market place, offering faster and wider services to customers. • Widened customer reach, satisfaction and retention.

	towards user experience in gold loan transacting.	
Customer Retention and Attraction by Enhancing Customer Experience and Being a Trusted Financial Partner.	• Deployed a customer-centric business approach, exploring avenues to offer personalised and unique customer service • Extended our physical outreach by opening new branch at Chunnakam. • Expanded gold loans operations across our branch network to facilitate evolving financing needs. • Brought the One-stop-shop experience with our array of service available under one roof. • Continuous improvement of service standards and product offerings through market and customer intelligence. • Staying active on social media platforms to share product information and other offerings.	• By executing personalised service and catering to varying needs, built on customer loyalty and satisfaction. • Upheld the brand image by offering uninterrupted and high-quality service. • Strengthened market competitiveness and service differentiation to sustain market share.

	• Assigned specially trained, dedicated teams to handle customer grievances.	
Being the Top-of--Mind Finance Brand		
Elevating Brand Image and Identity as a Friendly Financial Specialist.	• Expanded our brand presence, extending our reach to the Northern Province, as well. • Reinforced our brand image and identity by staying active on social and other multimedia platforms to share product information and other offerings. • Elevated our brand by spending Rs 25 million through diverse marketing and promotional campaigns, while upholding brand promise and customer trust.	• Strengthened the long standing customer bond and brand value as a top of the mind financial solutions provider.

Core Strategy 02- Enhancing Productivity

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

<u>Material Concerns Addressed</u>

*Financial Stability and Profitability
*Succession amidst Rivalry

KPI Achievement Status

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

Focus Area	**Action Towards Strategy**	**How We Gained Competitive Advantage**
People Strategy Towards Resource Optimisation		
Use of Minimum Resources to Maximise Desired Outcomes.	• Reinvigorating the cost conscious culture while promoting 3 R concept to minimize resource consumption. • Limited branch expansion, seeking viable market segments. • Encouraged paperless working environment through process improvements. • Continuous focus to manage the optimum liquidity levels and funding mix to minimize high interest cost.	• Created a sustainable platform to improve MI's resilience during this challenging period whilst maximising future potential.

	• Reduced wastage through lean management practices.	
Enhance Employee Productivity by Inspiring to Achieve their Best.	• Recognised and reward multi-tasking whilst encouraging staff redeployment. • Enhanced skills and competencies of the workforce through continuous training and development. • Greater employee empowerment. • Stringent performance management	• Improve MI bottom-line while enhancing Employee Value Proposition (EVP). • Creating a unique employee brand. • Creating a rich tapestry with diversity and inclusiveness at its core. • Extraordinary workplace to attract and develop the best people.
Embracing Technology towards Service Excellence and Productivity.	• Process simplification and enhanced automation of operational processes to speed up delivery time and improve productivity. • Automated recording of direct customer deposits, minimising manual intervention. • Expedited prompt recovery efforts by establishing a solid full-fledged call centre, supported by a web-based portal connected to a core-system. • Converted most meetings and training to online platform, improving productivity and cost efficiency. • Expedited system migration to reap the benefits of an integrated IT solution. • Launched intranet platform to facilitate information and knowledge sharing.	• Improved competitiveness through enhanced productivity and customer convenience.. • Effective decision-making through improved MIS.

Core Strategy 03- Building Employee Resilience and Agility

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

Material Concerns Addressed

*Talent management and motivation
* Succession amidst rivalry

KPI Achievement status

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

Focus Area	Strategic Actions	Expected Competitive Advantage
Building Employee Resilience to Drive Shared Growth Opportunities		
Inspire our Workforce to Achieve their Best.	• Fostered positive relationships through interpersonal interactions that promote enrichment and learning. • Created positive meaning by supporting employees in pursuing purpose in their work.	• Creating a pleasant, unique and opportunity-driven workplace to attract and retain the best talent.

	• Conducted a series of mentoring programmes to develop employee mind set. • Encouraged innovation and creativity by recognising outstanding talents of employees through “Api MI”.	
Building Employee Agility Towards People-Centric High Performance Culture		
Creating More Opportunities Through Employee Empowerment and Motivation.	• Built a culture of collaboration and knowledge sharing. • Increased employee engagement and empowerment. • Encouraged collective decision-making • Conducted focused training using internal and external resources to build employee agility and creativity. • Acknowledged long-service employees to recognise their commitment towards development of the MI brand. • Strengthened transparent and objective performance management systems, integrated with a reward mechanism, to enhance	• Leveraging employee agility to boost productivity and offer superior customer service.

	employee motivation and productivity. • Uplifted employee performance through continuous and on-time performance feedback mechanism. • Successfully completed 45 programmes including “Le Rave” and focused training programmes.	

Core Strategy 04- Building Basement on Robust Risk Management and Governance Prerogatives

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

Focus Area	Strategic Actions	Expected Competitive Advantage
Cohesive and Strong Risk Management to Promote a Strong Risk Culture		
Leveraging the Strength of Risk Management to Drive Proactive Decision-Making.	• Introduced required policies and procedures to comply with emerging regulatory needs. • Continuous monitoring of risk profiles related to market, reputation, laws and operations to ensure adherence to risk tolerance limits. • Introduced a comprehensive stress testing framework to set proper risk appetite limits. • Enhanced risk reporting to IRMC and Board for proactive decision-making.	Ability to remain resilient and proactive in the face of volatilities and disruptions emanating from economic crisis.
Asset Quality Control and Credit Risk Mitigation		
Effective Management of Non-Performing Loans (NPL), Focusing on 90-day and 120-day Arrears Contracts. Strengthening Credit Risk Review and Recovery Drive to Maintain Satisfactory Collection Levels and Control Bad Debts.	• Strengthened recovery process through the dedicated call centre operations. • Closely monitored the recovery progress against short-, medium- and long-term goals and objectives and tied employee rewards scheme to KPIs and KRIs on asset quality.	• Effective management of NPL enabled us to maintain 120-day NPL at 10.74% and 90-day NPL at 11.97 % amidst industry-wide deterioration in asset quality.

	• Expanded the payment platform through IPG. CEFT and CDM to further improve the collections.	
Managing the Pressure on Net Interest Margin		
Minimise the Repricing Hit to Improve the Bottom Line.	• Focused on short-term deposits and borrowings to minimise the effect of higher interest rates and expanded the gold loans portfolio to reduce the less-than-1-year maturity mismatch. • Maintained the right balance between variable and fixed rate lending and borrowing. • Encouraged rescheduling for irregular loans.	Ability to stay resilient amidst highly volatile, market-driven interest rate shocks.

KPI Achievement status

	Actual FY 22/23	Planned FY 22/23	Past FY 21/22
New Initiatives on Risk Management	5	>5	7
One-Year Maturity Mismatch	2 Bn	<6 Bn	<6.9 Bn
Collection Ratio	74.19%	80%	72.65%
NPL Ratio	10.74%	<11%	8.54%
Non-Compliance	0	0	0

Core Strategy 05- Extending our Sustainability Pledge towards Community Wellbeing

Our commitment towards sustainability, remained unwavering as we continued to adopt sustainable business practices to be agile to cater to the evolving economic hardships and challenges surrounding communities, and other ESG related perspectives. As a longstanding finance company, we gained our stakeholders' trust and confidence by promoting sustainable business practices alongside our unique corporate culture. We voluntarily executed sustainable initiatives, especially the promotion of financial inclusion among the lesser-privileged to create better lives.

KPI Achievement Status

	Actual FY 22/23	**Planned FY 22/23**	**Past FY 21/22**
Social Investment	1.5 Million	1.5 Million	1.5 Million
No. of Beneficiaries	>200	> 200	>768
Green Lending	550	>	914 loans

<u>Material Concerns Addressed</u>

*Upbringing sustainable communities
*Cementing partnerships

* Commitment towards environment conservation

Focus Area	Strategic Actions	Expected Competitive Advantage
Upholding Sustainable Communities		
Staying Committed to the w Wellbeing of Society in Keeping with MI's Vision.	• Empowered women entrepreneurship and extended financial support to satisfy unmet needs of the poor and lesser-privileged through our microfinance arm. (Refer page xx). • Invested Rs 1.5 towards community wellbeing. • Responsible disposal of solid and liquid waste in accordance with local council guidelines.	• Deep sense of corporate acceptance and bonding has enriched our brand image towards a sustainable business platform.
Creating Green Corporate Etiquette and Culture		
Managing Environmental Footprint.	• Controlled use of natural resources aligned with cost optimisation drive. • Enhanced automation and digitalisation to support green corporate practices. • Upheld green lending by financing hybrid and electric vehicles.	• Enhanced brand image towards sustainable financing.

Resource Distribution

The six capital resources we utilise are distributed among business segments based on the strategy adopted and passed down through our value chain and business lines. By taking a bird's eye view of the critical functions involved and Company strategy, we were able to optimally allocate these scarce resources and deliver the anticipated results and impacts.

		Funding	Customer Intelligence Product Design and Innovations	Evaluation and Execution	Collections	After Sales Support	Customer Relationship Management	Support Services
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