

MERCANTILE INVESTMENTS & FINANCE PLC

INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH SEPTEMBER 2018

Mercantile Investments and Finance PLC Income Statement

	For the 6 months Ended		For the 3 months Ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest Income	3,758,613	3,116,527	1,897,755	1,610,420
Interest Expense	(1,907,798)	(1,798,252)	(960,419)	(913,475)
Net Interest Income	1,850,815	1,318,275	937,336	696,945
Fee and Commission Income	56,810	43,746	26,516	23,508
Net fee and commission income	56,810	43,746	26,516	23,508
Other operating Income	67,317	156,941	33,980	65,046
Total Operating Income	1,974,942	1,518,962	997,833	785,499
Impairment gain/(loss) for loan and receivable	(369,954)	(236,554)	(177,622)	(56,705)
Net operating income	1,604,988	1,282,408	820,211	728,793
Less: Operating Expenses				
Personnel Expenses	492,258	445,316	244,294	231,276
Depreciation of property and equipment	40,524	38,127	20,521	19,029
Amortization of intangible assets	7,848	6,622	4,321	3,903
Amortization of leasehold property	234	234	117	117
Define benefit plans	17,562	15,374	8,781	8,661
Other operating expenses	412,687	376,162	217,815	182,999
Operating Profit Before VAT& NBT on financial services	633,874	400,573	324,361	282,810
VAT & NBT on financial services	(153,087)	(117,323)	(77,072)	(71,807)
Operating Profit after VAT & NBT on financial services	480,787	283,250	247,288	211,002
Share of Associates company profit /(loss)	21,109	30,143	22,033	26,842
Profit Before Taxation	501,896	313,394	269,322	237,844
Income Tax Expenses	(243,724)	(97,692)	(143,331)	(79,717)
Profit After Taxation	258,172	215,702	125,991	158,128
Earnings per Share	85.89	71.76	41.91	52.60
Dividend per Share		7.00	-	7.00

Note - Above figures are provisional and subject to audit

Mercantile Investments and Finance PLC
Statement of Other Comprehensive Income

	For the 6 months Ended		For the 3 months Ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit for the period	258,172	215,702	125,991	158,128
Other comprehensive income				
Other Comprehensive Income to be reclassified to profit or loss in subsequent periods				
Changes in fair value of AFS financial assets	(245,002)	20,241	(108,303)	(94,078)
	(245,002)	20,241	(108,303)	(94,078)
Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods				
Share of other comprehensive income of associate	(11,310)	8,464	(11,310)	(7,357)
	(11,310)	8,464	(11,310)	(7,357)
Total Other Comprehensive Income for the period (net of tax)	(256,312)	28,706	(119,614)	(101,435)
Total comprehensive income for the period	1,860	244,408	6,378	56,693

Note - Above figures are provisional and subject to audit

Mercantile Investments and Finance PLC
Statement of Financial Position

As at	Unaudited	Audited
	30.09.2018	31.03.2018
	Rs.'000	Rs.'000
Assets		
Cash & Short Term Funds	490,738	763,819
Placement with other banks	229,413	218,102
Financial Investments-Available for Sale	2,865,607	2,768,053
Loan and Advances	15,449,799	14,549,748
Lease Receivable	12,528,821	12,016,981
Hire Purchase Receivable	4,708,793	5,368,388
Financial Investments-Available for Sale (unquoted)	70,427	70,427
Other Financial Assets	518,243	506,326
Inventories	8,909	6,762
Other Assets	130,982	104,102
Current tax Receivable	-	21,676
Investment in Associates	1,016,304	1,006,506
Investments Properties	199,263	172,795
Property, Plant & Equipment	2,718,822	2,691,612
Leasehold Property	41,438	41,672
Intangible Assets	41,227	48,979
Total Assets	41,018,786	40,355,948
Liabilities		
Bank overdraft	397,004	254,238
Deposits due to customers	20,869,905	20,073,010
Debt instruments issued and other borrowings	8,765,016	9,327,958
Other Financial Liabilities	917,681	814,105
Current tax liabilities	35,356	-
Deferred tax liabilities	1,072,434	980,970
Other liabilities	84,969	39,104
Retirement benefit obligations	191,474	183,477
Total Liabilities	32,333,839	31,672,862
Equity		
Stated capital	36,000	36,000
Revaluation reserve	1,916,940	1,928,250
Statutory reserve fund	711,400	711,400
General reserve	4,086,430	4,086,430
Available for sale reserve	(44,516)	200,485
Retained earnings	1,978,693	1,720,521
Total Equity	8,684,946	8,683,086

Total Liabilities & Equity

41,018,786

40,355,948

Net Assets Per Share

2,889

2,889

Note - Above figures are provisional and subject to audit

These financial statements have been prepared and presented in compliance with the requirements of the companies Act ,No 07 of 2007

S.H.Jayasuriya
 Director - Finance

The Board of Directors is responsible for the preparation and the presentation of these Financial Statements
 Approved and signed for and on behalf of the Board

G.G.Ondaatjie
 Managing Director
 23/10/2018

T.J. Ondaatjie
 Director

Mercantile Investments and Finance PLC
Statement of Changes in Equity

	Issued Capital Rs.'000	Revaluation Reserves		Statutory Reserves Rs.'000	General Reserves Rs.'000	Available -For- sale Reserve Rs.'000	Retained Earnings Rs.'000	Total Rs.'000
		Land & Buildings Rs.'000	Associate Company Reserve Rs.'000					
As at 1 April 2017	36,000	1,084,974	450,087	661,400	4,086,430	256,644	1,291,730	7,867,265
Total Comprehensive Income For period								
Profit for the period							215,702	215,702
Other comprehensive income			8,464			20,241		28,706
Total comprehensive income			8,464			20,241	215,702	244,408
Dividends to Equity owners							(21,042)	(21,042)
As at 30th September 2017	36,000	1,084,974	458,551	661,400	4,086,430	276,885	1,486,390	8,090,630
As at 1 April 2018	36,000	1,527,486	400,764	711,400	4,086,430	200,486	1,720,521	8,683,086
Total Comprehensive Income For the Year								
Profit for the period							258,172	258,172
Other comprehensive income			(11,310)			(245,002)		(256,312)
Total comprehensive income			(11,310)			(245,002)	258,173	1,860
Dividends to Equity owners								
As at 30th September 2018	36,000	1,527,486	389,454	711,400	4,086,430	(44,516)	1,978,693	8,684,946

Note - Above figures are provisional and subject to audit

Mercantile Investments and Finance PLC
Statement of Cash Flow
For the 6 Months Ended 30th September

Cash flow from operating activities

Interest & Commission Receipts
Interest Payments
Cash receipts from customers
Cash payments to employees & suppliers
Operating profit /loss before changes in operating assets and liabilities (Note A)

(Increase) / decrease in operating assets

Deposits held for regulatory or monetary control purposes
Funds advance to customers
Other receivables

Increase / (Decrease) in operating liabilities

Deposits from customers
Other payables

Income Tax Paid

Net Cash generated from operating activities

Cash flow from Investment Activities

Dividend received
Proceeds from sale of non - dealing securities
Purchase of non - dealing securities
Sale proceeds on Disposal of Property plant and equipment
Acquisition of Property plant and equipment
Acquisition of Investments Properties
Acquisition of Intangible Assets

Net Cash generated from investments activities

Cash flow from finance Activities

Net Borrowings Obtained/Paid during the year
Dividend Paid

Net Cash generated from financing activities

Net Cash Flow generated from all activities

Cash & Cash equivalents at the beginning of the period

Cash & Cash equivalents at the end of the period

	2018 Rs,000	2017 Rs,000
Interest & Commission Receipts	3,815,423	3,160,273
Interest Payments	(1,907,798)	(1,798,252)
Cash receipts from customers	24,431	23,790
Cash payments to employees & suppliers	(1,067,597)	(943,003)
Operating profit /loss before changes in operating assets and liabilities (Note A)	864,460	442,808
(Increase) / decrease in operating assets		
Deposits held for regulatory or monetary control purposes	(350,156)	(923,941)
Funds advance to customers	(1,122,249)	(1,862,189)
Other receivables	(40,977)	(53,774)
Increase / (Decrease) in operating liabilities		
Deposits from customers	796,895	3,257,459
Other payables	149,474	23,137
Income Tax Paid	297,446	883,499
	(95,227)	(59,256)
Net Cash generated from operating activities	202,219	824,243
<u>Cash flow from Investment Activities</u>		
Dividend received	38,005	54,141
Proceeds from sale of non - dealing securities	-	1,587,203
Purchase of non - dealing securities	(3,712)	(187,555)
Sale proceeds on Disposal of Property plant and equipment	12,642	12,507
Acquisition of Property plant and equipment	(74,662)	(30,097)
Acquisition of Investments Properties	(27,300)	(28,120)
Acquisition of Intangible Assets	(96)	(51,287)
Net Cash generated from investments activities	(55,123)	1,356,792
<u>Cash flow from finance Activities</u>		
Net Borrowings Obtained/Paid during the year	(562,942)	(1,473,490)
Dividend Paid	-	(21,042)
Net Cash generated from financing activities	(562,942)	(1,494,532)
Net Cash Flow generated from all activities	(415,846)	686,504
Cash & Cash equivalents at the beginning of the period	509,581	152,120
Cash & Cash equivalents at the end of the period	93,734	838,624

(Note A)

Reconciliation of Profit before Tax with cash inflow from operating Activities

Profit Before tax

Adjustments for

Dividend from investing activities
Capital gain from sale of shares and treasury bonds
Share of Associates company profit/(Loss)
Profit /Loss on Disposal of Fixed Assets
Depreciation
Amortization of Leased Hold Assets
Amortization of Intangible Assets
Impairment Provision
Retirement Benefits provision
Retirement Benefits paid

Cash flows from operating activities before changes in operating assets

(Note B)

Cash & Cash equivalents at the end of period

Cash in hand
Balances with banks
Bank Overdraft

	501,896	313,394
Dividend from investing activities	(38,005)	(54,141)
Capital gain from sale of shares and treasury bonds	-	(79,672)
Share of Associates company profit/(Loss)	(21,109)	(30,143)
Profit /Loss on Disposal of Fixed Assets	(4,881)	664
Depreciation	40,524	38,127
Amortization of Leased Hold Assets	234	234
Amortization of Intangible Assets	7,848	6,622
Impairment Provision	369,954	236,554
Retirement Benefits provision	17,562	15,372
Retirement Benefits paid	(9,564)	(4,202)
Cash flows from operating activities before changes in operating assets	864,460	442,808
Cash & Cash equivalents at the end of period		
Cash in hand	372,463	409,493
Balances with banks	118,275	660,796
Bank Overdraft	(397,004)	(231,664)
Cash & Cash equivalents at the end of period	93,734	838,624

Note - Above figures are provisional and subject to audit

Mercantile Investments and Finance PLC
Segments Information
For the Six Months ended 30th September

	Finance Lease		Hire Purchase		Loans & Advances		Investments		Unallocated		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue												
Interest	1,340,670	1,069,070	572,312	623,087	1,747,019	1,350,682	98,612	73,689			3,758,613	3,116,527
Capital Gains								79,672			-	79,672
Dividends							38,005	54,141			38,005	54,141
Others							(1,682)		87,806	66,875	86,124	66,875
Total Income from external operations	1,340,670	1,069,070	572,312	623,087	1,747,019	1,350,682	134,934	207,502	87,806	66,875	3,882,741	3,317,215
Profit before Tax & VAT											633,874	400,573
Share of Associates company profit/(loss)											21,109	30,143
Tax & Vat on Financial Services											(396,812)	(215,014)
Profit After Tax											258,172	215,702
Other Information												
Segment Assets	12,528,821	11,199,650	4,708,793	5,942,859	15,449,799	13,128,401	4,181,751	4,897,076	4,149,622	3,505,640	41,018,786	38,673,626
Segment Liabilities	9,876,082	8,856,652	3,711,796	4,699,596	-	10,381,903	3,296,345	3,872,594	3,271,018	2,772,250	20,155,241	30,582,996
Net Assets	2,652,739	2,342,998	996,997	1,243,263	15,449,799	2,746,498	885,406	1,024,482	878,603	733,390	20,863,544	8,090,630

Information on cash Flows

For the period ended 30th September

Cash flows from operating activities											202,219	824,243
Cash flows from investing activities											19,539	1,386,889
Cash flows from financing activities											(562,942)	(1,494,532)
Capital expenditure											(74,662)	(30,097)
Net cash flow											(415,846)	686,504

Mercantile Investments and Finance PLC
Selected Performance Indicators

Indicator	As at 30.09.2018	As at 31.03.2018
	Unaudited	Audited
	Rs ' 000	Rs ' 000
Liquidity Rs.('000)		
Required minimum amount of liquid assets	2,111,081	2,031,099
Available amount of liquid assets	2,380,765	2,311,081
Required minimum amount of Government securities	1,485,822	1,242,297
Available amount of Government securities	1,664,944	1,329,160
Capital Adequacy		
Core capital to risk weighted assets ratio (Minimum 6%) **	13.64%	16.24%
Total capital to risk weighted assets ratio (Minimum 10%)**	15.72%	17.36%
Capital funds to total deposits liability ratio	41.61%	43.26%
Profitability		
Return on assets (%)	1.27%	1.32%
Return on equity (%)	5.95%	5.92%

**

Capital Adequacy Ratio reported on 30th September 2018 is based on the Basel II new Capital Adequacy requirements effective from 1st July 2018.

Notes to the Financial Statements

1) There were no changes to the Accounting Policies and methods of computation since the publication of the Audited Financial Statements for the year ended 31st March 2018.

The Sri Lanka Accounting Standard – SLFRS 9 on “Financial Instruments”, which replaces the existing guidance on LKAS 39 on “Financial Instruments: Recognition and Measurement” has become effective for annual reporting periods beginning on or after January 01, 2018. SLFRS 9 replaces the “Incurred Loss Model” in LKAS 39 with forward looking “Expected Loss Model (“ECL”) which requires considerable judgement over how changes in economic factors affect ECL, which in turn is to be determined on a probability weighted basis. SLFRS 9 also contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed based on their cash flow characteristics.

Based on the “Statement of Alternative Treatment (SoAT) on the Figures in the Interim Financial Statements” issued by The Institute of Chartered Accountants of Sri Lanka, entities are granted with the option to prepare Interim Financial Statements continuing the application of LKAS 39 with disclosures on impact to the Income Statement and Statement of Profit or Loss and Other Comprehensive Income for the period, if SLFRS 9 has been applied.

Accordingly, as permitted by the above SoAT, the company has prepared the Interim Financial Statements for the quarter ended 30th September 2018 based on LKAS 39.

Impact on Statement of Comprehensive Income and Net Assets

Based on the assessment undertaken, the total estimated additional loan loss provision as at 31 st March 2018 on adoption of SLFRS 9, was expected to increase by 12% compared to the total impairment provision determined as per LKAS 39. The impact of the new classification and measurement approach for financial assets is not expected to be material.

Accordingly, the increase in impairment provision based on ECL model under SLFRS 9, had it been effective as at 31st March, 2018, would have reduced the companies net assets by approximately 0.4%.

The company is in the process of validating the impact of migration to SLFRS 9 as at 30th September, 2018.

2) There have been no material events occurring after the balance sheet date that require adjustments to or disclosures in the Financial Statements.

3) All known expenses have been provided for in the financial statements.

4) During the interim period under consideration, no dividends were declared and paid.

5) During the interim period there were no material changes in the composition of assets, liabilities and contingent liabilities.

6) Share Information

6.1) Directors' and Chief Executive officer's shareholdings in shares as at 30th September 2018

Name of the Director	Number of shares	%
1) Mr. S H J Weerasuriya (Chairman)	NIL	-
2) Mr.G.G.Ondaatjie (Managing Director)	477,213	15.88
3) Mrs.A.M.Ondaatjie	477,213	15.88
4) Mr.T.J.Ondaatjie	477,213	15.88
5) Mr.N.H.V.Perera	10,020	0.33
6) Mr. S H Jayasuriya	NIL	-
7) Mr. P M Amarasekara	NIL	-
8) Mr. P C Guhashanka	NIL	-
9) Ms. P T K Navaratne	NIL	-
10) Mr. S M S S Bandara	NIL	-

6.2) Stated Capital

Stated capital is presented by the number of shares in issue as set out below

As at	30.09.2018	31.03.2018
Ordinary Shares	3,006,000	3,006,000

6.3) The 20 largest shareholders of the company as at 30th September 2018 were as follows

Shareholder	Number of shares	%
1) Nilaveli Beach Hotels (pvt) Ltd	629,580	20.94
2) Mr.G.G.Ondaatjie	477,213	15.88
3) Mrs.A.M.Ondaatjie	477,213	15.88
4) Mr.T.J.Ondaatjie	477,213	15.88
5) Mercantile Fortune (pvt) Ltd	414,160	13.78
6) Mr. G.L.A.Ondaatjie	268,535	8.93
7) Tangerine Tours (pvt) Ltd	203,809	6.78
8) P.R.Divitotawela/R.D.Madugalle	12,525	0.42
9) P.R.Divitotawela/ A.D.Galagoda	12,525	0.42
10) R.M.D.Abeygunewardena	10,020	0.33
11) J.A.S.S.Adhihetty	10,020	0.33
12) N.H.V.Perera	10,020	0.33
13) C.A.Ondaatjie	2,004	0.07
14) A.M.Rajakakse	501	0.02
15) A.D.Rajakakse	501	0.02
16) A.M.Dominic & J.S.Dominic	151	0.01
17) C.A.D.S.Woodward	10	0.00
	<u>3,006,000</u>	<u>100</u>

6.4) The percentage of the shares held by public on 30th September 2018 was 10.54% (2017 - 10.54%)

6.5) The number of public shareholders as at 30th September 2018 was 10 (2017-10)

The Company is not fully compliant with the minimum public holding requirement as of this date. Float Adjusted Market Capitalisation as at 30th September 2018 was Rs. 817,522,641/-

6.6) Information on Ratios ,Market Prices

Description	30.09.2018	30.09.2017
Dividend per Share (Rs.)	-	7.00
Net Assets per Share (Rs.)	2,889	2,691
Market Prices		
- Highest	Not traded	Not traded
- Lowest	Not traded	Not traded
- Last traded price	Not traded	Not traded

7) Information on Listed Debentures

Description	For the Quarter Ended 30.09.2018	For the Quarter Ended 30.09.2017
Debt Equity Ratio (times)	3.46	3.61
Quick Asset Ratio (%)	11.29%	14.42%
Interest Cover (times)	1.26	1.17
Interest Yield & Yield to maturity as at date of last trade MERC/BC/05/11/18A10.5	10.50%	10.81%
Yield of comparable Government Security (%)	8.56%	11.14%
Market Price during the period		
- Highest	Not traded	Not traded
- Lowest	Not traded	Not traded
- Last traded price	Not traded	Not traded