# vallibel Finance

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2018**

## Income Statement
For the Year Ended 31st March

| | 2018 Rs. | 2017 Rs. | Growth % |
|---|---|---|---|
| **Gross Income** | **6,929,201,053** | **5,114,694,482** | **35.5** |
| Interest Income | 6,256,980,109 | 4,597,260,244 | **36.1** |
| Interest Expense | (3,500,249,672) | (2,604,049,257) | **34.4** |
| **Net Interest Income** | **2,756,730,437** | **1,993,210,987** | **38.3** |
| Fee and Commission Income | 248,286,443 | 189,052,650 | **31.3** |
| **Net Fee and Commission Income** | **248,286,443** | **189,052,650** | **31.3** |
| Net Gain / (Loss) from Trading | 42,217 | 1,010,838 | **(95.8)** |
| Net Gain / (Loss) from Financial Investments | 1,943,400 | 22,230 | **8,642.2** |
| Other Operating Income | 421,948,884 | 327,348,520 | **28.9** |
| **Total Operating Income** | **3,428,951,381** | **2,510,645,225** | **36.6** |
| Impairment (Charges) / Reversals for Loans and other losses | (104,858,877) | (33,041,325) | **217.4** |
| **Net Operating Income** | **3,324,092,504** | **2,477,603,900** | **34.2** |
| **Expenses** | | | |
| Personnel Expenses | (732,719,605) | (549,309,630) | **33.4** |
| Depriciation and Amortisation | (74,788,004) | (60,927,563) | **22.7** |
| Other Expenses | (622,191,141) | (542,895,518) | **14.6** |
| **Operating Profit Before Value Added Tax (VAT) & Nation Building Tax (NBT)** | **1,894,393,754** | **1,324,471,189** | **43.0** |
| Value Added Tax (VAT) on Financial Services & Nation Building Tax (NBT) | (356,549,591) | (229,689,842) | **55.2** |
| **Profit Before Income Tax** | **1,537,844,163** | **1,094,781,347** | **40.5** |
| Income Tax Expense | (519,206,769) | (368,622,373) | **40.9** |
| **Profit for the Year** | **1,018,637,394** | **726,158,974** | **40.3** |
| **Earnings Per Share on profit** | | | |
| Basic Earnings Per Ordinary Share | 24.52 | 17.48 | **40.3** |
| Diluted Earnings Per Ordinary Share | 24.52 | 17.48 | **40.3** |

## Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31st March

| | 2018 Rs. | 2017 Rs. | Growth % |
|---|---|---|---|
| **Profit for the Year** | **1,018,637,394** | **726,158,974** | **40.3** |
| **Other Comprehensive Income, Net of Tax** | | | |
| **Items that will never be reclassified to Profit or Loss** | | | |
| Gains / (Losses) on remeasurement of Defined Benefit Liability | (16,837,783) | 7,274,213 | **(331.5)** |
| Deferred Tax (Charge) / Reversal on Actuarial Gains / (Losses) | 4,714,579 | (2,036,780) | **331.5** |
| **Net Actuarial Gains / (Losses) on Defined Benefit Liability** | **(12,123,204)** | **5,237,433** | **(331.5)** |
| **Items that are or may be reclassified to Profit or Loss** | | | |
| Fair Value Gains / (Losses) that arose during the Year, Net of Tax | 8,709,947 | 1,174,150 | **641.8** |
| Fair Value Gain Realised to the Income Statement on disposal, Net of Tax | (1,875,000) | - | **(100.0)** |
| **Net Fair Value Gains / (Losses) on remeasuring Available For Sale Financial Assets** | **6,834,947** | **1,174,150** | **482.1** |
| **Other Comprehensive Income for the Year, Net of Tax** | **(5,288,257)** | **6,411,583** | **(182.5)** |
| **Total Comprehensive Income for the Year** | **1,013,349,137** | **732,570,557** | **38.3** |

## Statement of Changes in Equity

| | Stated Capital Rs. | Statutory Reserve Fund Rs. | Available For Sale Reserve Rs. | General Reserve Rs. | Retained Earnings Rs. | Total Equity Rs. |
|---|---|---|---|---|---|---|
| **Balance as at 01st April 2016** | **287,153,000** | **383,176,899** | **(8,009,097)** | **7,500,000** | **1,259,105,123** | **1,928,925,925** |
| **Total Comprehensive Income for the Year** | | | | | | |
| Profit for the Year | - | - | - | - | 726,158,974 | 726,158,974 |
| **Other Comprehensive Income, net of Tax** | | | | | | |
| Net Fair Value Gains / (Losses) on remeasuring Available For Sale Financial Assets | - | - | 1,174,150 | - | - | 1,174,150 |
| Net Actuarial Gains / (Losses) on Retirement Benefit Obligation | - | - | - | - | 5,237,433 | 5,237,433 |
| **Total Comprehensive Income for the Year** | **-** | **-** | **1,174,150** | **-** | **731,396,407** | **732,570,557** |
| **Transactions with owners, recognised directly in equity, contributions and distributions to owners** | | | | | | |
| Dividends to equity holders | | | | | | |
| First and Final Dividend for 2015/16 | - | - | - | - | (103,876,500) | (103,876,500) |
| Statutory Reserve Transfer | - | 145,231,795 | - | - | (145,231,795) | - |
| **Total Transactions with Equity Holders** | **-** | **145,231,795** | **-** | **-** | **(249,108,295)** | **(103,876,500)** |
| **Balance as at 01st April 2017** | **287,153,000** | **528,408,694** | **(6,834,947)** | **7,500,000** | **1,741,393,235** | **2,557,619,982** |
| **Total Comprehensive Income for the Year** | | | | | | |
| Profit for the Year | - | - | - | - | 1,018,637,394 | 1,018,637,394 |
| **Other Comprehensive Income, net of Tax** | | | | | | |
| Net Fair Value Gains / (Losses) on remeasuring Available For Sale Financial Assets | - | - | 6,834,947 | - | - | 6,834,947 |
| Net Actuarial Gains / (Losses) on Retirement Benefit Obligation | - | - | - | - | (12,123,204) | (12,123,204) |
| **Total Comprehensive Income for the Year** | **-** | **-** | **6,834,947** | **-** | **1,006,514,190** | **1,013,349,137** |
| **Transactions with owners, recognised directly in equity, contributions and distributions to owners** | | | | | | |
| Dividends to equity holders | | | | | | |
| First and Final Dividend for 2016/17 | - | - | - | - | (124,651,800) | (124,651,800) |
| Interim Dividend for 2017/18 | - | - | - | - | (145,427,100) | (145,427,100) |
| Unclaimed Dividend Adjustments | - | - | - | - | 219,669 | 219,669 |
| Statutory Reserve Transfer | - | 203,727,479 | - | - | (203,727,479) | - |
| **Total Transactions with Equity Holders** | **-** | **203,727,479** | **-** | **-** | **(473,586,710)** | **(269,859,231)** |
| **Balance as at 31st March 2018** | **287,153,000** | **732,136,173** | **-** | **7,500,000** | **2,274,320,715** | **3,301,109,888** |

## Selected Performance Indicators (As Per Regulatory Reporting)
As at 31st March

| | 2018 | 2017 |
|---|---|---|
| **Regulatory Capital Adequacy** | | |
| Core Capital (Tier 1 Capital), Rs. '000 | 3,294,013 | 2,557,620 |
| Total Capital Base, Rs. '000 | 3,794,013 | 3,357,620 |
| Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 5%) | 10.60% | 10.45% |
| Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 10%) | 12.21% | 13.72% |
| Capital Funds to Deposit Liabilities Ratio (Minimum requirement, 10%) | 17.10% | 18.80% |
| **Assets Quality (Quality of Loan Portfolio)** | | |
| Gross Non-Performing Accommodations, Rs. '000 | 860,965 | 746,084 |
| Gross Non-Performing Accommodations Ratio, % | 2.72% | 2.93% |
| Net Non-Performing Accommodation Ratio, % | 0.41% | 0.37% |
| **Profitability (%)** | | |
| Interest Margin | 8.47% | 7.77% |
| Return on Average Assets (before Tax) | 4.45% | 4.10% |
| Return on Average Equity (after Tax) | 34.77% | 32.37% |
| **Regulatory Liquidity (Rs. '000)** | | |
| Required minimum amount of Liquid Assets | 2,461,977 | 1,885,166 |
| Available amount of Liquid Assets | 4,624,392 | 3,928,710 |
| Required minimum amount of Government Securities | 1,323,561 | 1,098,644 |
| Available amount of Government Securities | 2,740,060 | 2,023,015 |
| **Memorandum information** | | |
| Number of Employees | 849 | 694 |
| Number of Branches | 28 | 24 |
| Number of Service Centers | 8 | 8 |

**Credit Rating** : **BBB** Stable Outlook : ICRA Lanka **Brand Rating** : **A-** : Brand Finance

vallibel Finance

## Statement of Financial Position
As at 31st March

| | 2018 Rs. | 2017 Rs. | Growth % |
|---|---|---|---|
| **Assets** | | | |
| Cash and Cash Equivalents | 1,021,651,531 | 806,206,582 | **26.7** |
| Placements with Banks | 1,863,482,713 | 2,040,208,425 | **(8.7)** |
| Placements with Other Finance Companies | 212,709,432 | 202,904,415 | **4.8** |
| Reverse Repurchase Agreements | 630,286,027 | 810,190,562 | **(22.2)** |
| Financial Investments - Held for Trading | 1,938,675 | 1,761,300 | **10.1** |
| Assets Held for Sale | 23,919,000 | - | **100.0** |
| Loans and Receivables - Leases | 12,534,012,782 | 11,517,449,933 | **8.8** |
| Loans and Receivables - Hire Purchase | 219,927,271 | 793,685,839 | **(72.3)** |
| Loans and Receivables - Others | 18,073,714,310 | 12,466,944,145 | **45.0** |
| Financial Investments - Available for Sale | 208,703,800 | 510,085,388 | **(59.1)** |
| Financial Investments - Held to Maturity | 1,920,722,472 | 1,019,286,080 | **88.4** |
| Other Financial Assets | 16,971,763 | 20,827,738 | **(18.5)** |
| Property, Plant and Equipment | 1,445,289,701 | 315,103,615 | **358.7** |
| Intangible Assets | 14,568,813 | 10,297,779 | **41.5** |
| Deferred Tax Assets | 16,019,726 | 8,525,324 | **87.9** |
| Other Assets | 202,358,542 | 161,618,964 | **25.2** |
| **Total Assets** | **38,406,276,558** | **30,685,096,089** | **25.2** |
| **Liabilities** | | | |
| Due to Banks | 9,850,566,085 | 7,530,585,546 | **30.8** |
| Rental Received in Advance | 308,688,009 | 243,881,527 | **26.6** |
| Deposits due to Customers | 22,186,879,453 | 17,863,861,472 | **24.2** |
| Current Tax Liabilities | 364,888,378 | 209,076,751 | **74.5** |
| Deferred Tax Liabilities | 385,537,287 | 270,783,875 | **42.4** |
| Other Liabilities | 457,640,364 | 308,821,154 | **48.2** |
| Subordinated Term Debts | 1,550,967,094 | 1,700,465,782 | **(8.8)** |
| **Total Liabilities** | **35,105,166,670** | **28,127,476,107** | **24.8** |
| **Equity** | | | |
| Stated Capital | 287,153,000 | 287,153,000 | - |
| Statutory Reserve Fund | 732,136,173 | 528,408,694 | **38.6** |
| Available For Sale Reserve | - | (6,834,947) | **100.0** |
| General Reserve | 7,500,000 | 7,500,000 | - |
| Retained Earnings | 2,274,320,715 | 1,741,393,235 | **30.6** |
| **Total Equity** | **3,301,109,888** | **2,557,619,982** | **29.1** |
| **Total Liabilities and Equity** | **38,406,276,558** | **30,685,096,089** | **25.2** |
| **Contingent Liabilities and Commitments** | **557,549,017** | **339,561,953** | **64.2** |
| **Net Assets Value Per Share (Rs.)** | **79.45** | **61.55** | **29.1** |

**Certification**

These Financial Statements have been prepared in compliance with the requirements of the Companies Act, No.07 of 2007.

*sgd.*

**K.D.Menaka Sameera**
*DGM - Finance & Administration*

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 ;

*sgd.* *sgd.*

**Dhammika Perera** — *Executive Director*
**S.B. Rangamuwa** — *Managing Director*

30th May 2018,
Colombo.

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KPMG

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**To the Shareholders of Vallibel Finance PLC**

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the financial statements of Vallibel Finance PLC ("the Company"), which comprise the statement of financial position as at March 31, 2018, and the income statement, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at March 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Opinion**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**1. Revenue recognition**

The Company generates revenue from its lending activities by charging fees (Interest) from the customers. Management maintains Effective Interest Rate (EIR) models to determine revenue recognition in accordance with the requirements of relevant accounting standards. As described in note 6.1 (accounting policy) and note 11.1 (interest income), Company's interest income amount to Rs. 6,256,980,109 as at March 31, 2018 (2017: Rs. 4,597,260,244)

**Nature and Area of Focus**

The EIR models are complex and heavily reliant on the quality of the underlying data flowing into the models. We have identified revenue recognition as a key audit matter as there is a risk of revenue being inaccurately recognized due to errors in integrity of the underlying data. The amount of revenue recognized in a financial year is dependent on the occurrence of the underlying loan transactions, accuracy of the loan portfolio and the appropriateness of the significant assumptions applied to the EIR models in relation to the expected maturity of each loan and the timing of expected future cash flows.

**Our Response:** Our audit Procedures included;

- Testing design, implementation and operating effectiveness of key controls relating to the flow of data from source systems into the EIR models. This procedure included an assessment of the automated controls by our IT specialists, to determine whether the input data within the EIR models was complete and accurate.
- Testing the arithmetical accuracy of the EIR models to assess whether they were working as intended and in compliance with the requirements of relevant accounting standards.
- Performing analytical review procedures to assess whether the recognized revenue was in line with the expected level.
- Assessing the adequacy of the disclosure in the financial statements.

**2. Provision for Impairment of Loan and Receivable**

As described in note 5.1.9.1 (accounting policy) and note 29.1.5, 30.1.4, 30.2.5 (Impairment provision for Lease Rental and Hire purchase receivable, impairment provision for Loan and Receivable to other customers), Company's impairment provision for Loan and Receivable amount to Rs. 794,832,339 as at March 31, 2018 (2017: Rs. 690,405,813)

**Nature and Area of Focus**

Impairment allowance represents the management's best estimate of the losses incurred within Loans and Receivables as at the reporting date and are Assessed on an individual and collective basis. We have considered the key Assumptions and risks for each in turn.

The individual provision model utilizes arrears as the primary impairment trigger. There is a risk that other impairment triggers are not identified on a timely basis. The other key assumptions used in the calculation of the individual provision include the quantum and timing of future cash flows on impaired loans. In the estimation of future cash flows, the Company considers past payment behavior, the expected collections approach, including net rental income from the receiver and the value of the collateral held by the Company.

For the purposes of the collective provision assessment, the Company calculates an emergence provision based on the previous loss experience for loans that have become individually impaired overlaid with management judgment. There is a risk that the overall provision is not reflective of the incurred losses at the end of the period, due to the assumed period of time taken for the incurred losses to emerge, changes in customer credit quality or other market factors which are not sufficiently incorporated into the model such as the tax position of borrowers and changes in rental income.

We have identified the assessment of the impairment of loans and advances to customers as a key audit matter since there is a high degree of complexity and Judgment involved on the Company's part in estimating individual and collective credit impairment provisions against these loans. These features have resulted in significant audit effort to address the risks around loan recoverability and the determination of related provisions. Changes to these assumptions may considerably impact the required level of impairment provision.

**Our Response:** Our audit Procedures included;

Testing of design, implementation and operating effectiveness of key controls over acceptance, monitoring and reporting of credit risk.

- Testing of application controls, over completeness and accuracy of data extraction into the models.
- Validating of the accuracy of the collective and individual impairment models by re-performing the calculations.
- Assessing the methodologies used against our interpretation of the requirements of the relevant accounting standards and our wider industry experience. This included the consideration of alternative provisioning methodologies, to assess whether the current modeled provision is sufficient.
- Challenging the appropriateness of key assumptions, including collateral valuations and forecast cash flows, based on our knowledge of the business and industry practice and the actual past experience of the Company's loan portfolios.
- A consideration of the alternative impairment triggers and assessing whether these were sufficiently captured by the Company's valuation models.
- Assessing the adequacy of the disclosures in the financial statements, including the description and appropriateness of the inherent degree of subjectivity and key assumptions in the estimates.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

**Report on Other Legal and Regulatory Requirements**

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2618.

**CHARTERED ACCOUNTANTS**

Colombo, Sri Lanka
30th May 2018

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA, T.J.S. Rajakarier FCA, Ms. S.M.B. Jayasekara ACA, G.A.U. Karunaratne FCA, R.H. Rajan ACA, P.Y.S. Perera FCA, W.W.J.C. Perera FCA, W.K.D.C Abeyrathne FCA, R.M.D.B. Rajapakse FCA, C.P. Jayatilake FCA, Ms. S. Joseph FCA, S.T.D.L. Perera FCA, Ms. B.K.D.T.N. Rodrigo FCA.

**Principals** - S.R.I. Perera FCMA(UK). LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. C.T.K.N. Perera ACA

**Principal Lines of Business : • Leasing • Fixed Deposits • Mortgage Loans • Gold Loans • Property Mortgage Loans • Group Personal Loans • Micro Finance**