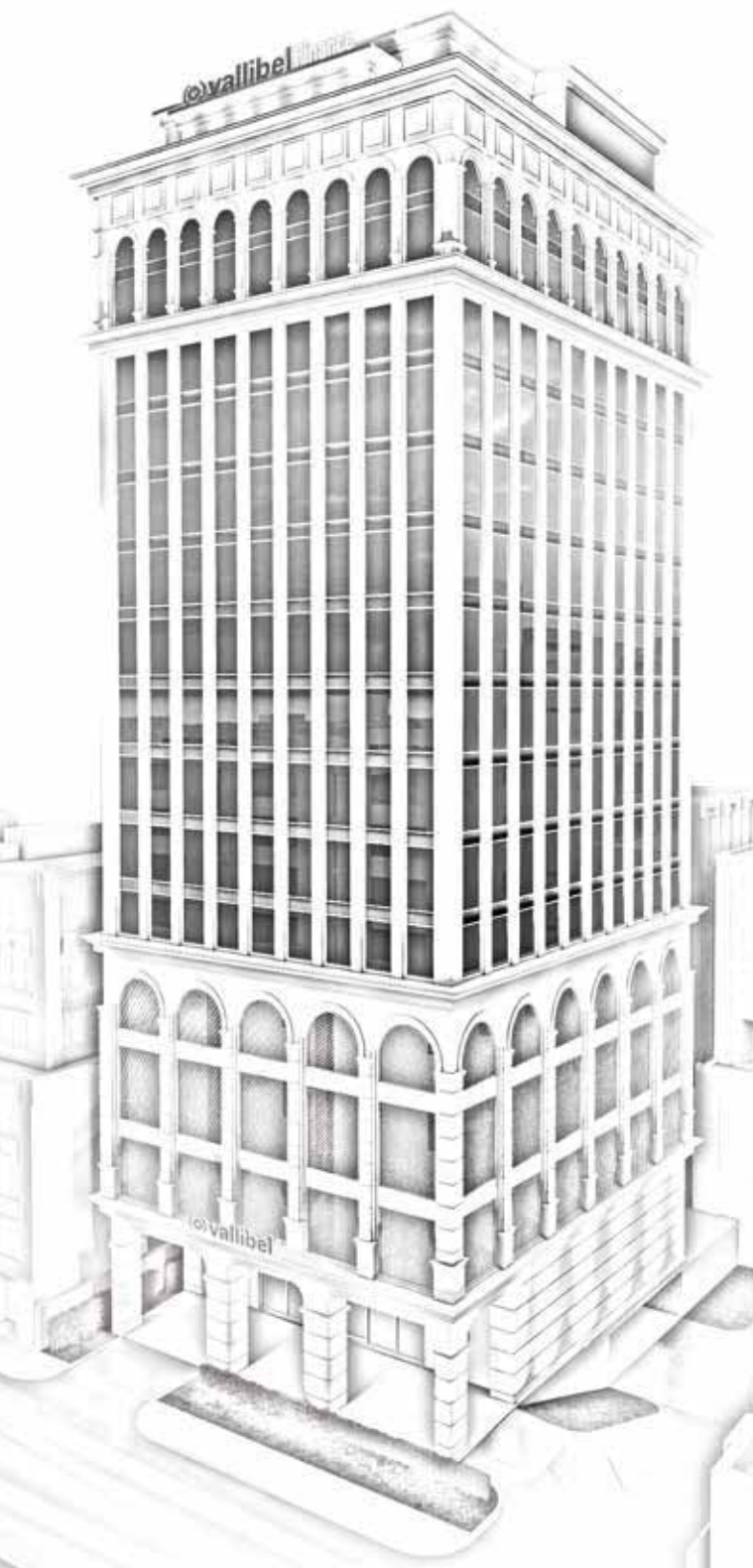


# DESIGNED WITH DEDICATION







# DESIGNED WITH DEDICATION

At Vallibel Finance, we believe that the secret of our success lies in the dedication and skill we have crafted over the years, providing innovative, value-for-money financial solutions to thousands of customers across the island.

Even as the potter's hands skilfully form a musing piece of art out of clay, gently shaping the soft and moist mud with his fingers with passion and craftsmanship, at Vallibel Finance, we too craft our services to cater to the diverse needs of different members of society, with our unique skill of empathising with each individual and valuing loyalty.

Despite a challenging economic backdrop, the year 2019 has seen us reach an incredible asset base of 50 billion rupees, as we continue to preserve our prestige and identity of being a finance company designed with dedication.

# CONTENTS

## Organisational Overview

Who We Are / 3  
Our Integrated Report / 4  
Financial Highlights / 8  
Non-Financial Highlights / 9  
Our Journey / 10  
Awards and accolades / 12

### Organisational Leadership

Acting Chairman's message / 14  
Managing Director's Message / 16  
Board of Directors / 20  
Corporate Management Team / 23  
Senior Management Team / 24

## Management Discussion and Analysis

Our Approach to Setting Strategic Direction / 28  
Our approach to sustainability / 32  
Integrated Business Model / 37  
Operating Environment Overview / 40  
Stakeholder Engagement / 44  
Materiality Analysis / 48

### Capital Management Review

Human Capital / 52  
Financial Capital / 62  
Manufactured Capital / 72  
Intellectual Capital / 78  
Social & Relationship Capital / 84  
Natural Capital / 100

Business Review / 104

## Governance

Corporate Governance / 112  
Risk Management Report / 144  
Annual Report of the Board of Directors on the Affairs of the Company / 156  
Audit Committee Report / 160  
Related Party Transaction Review Committee Report / 162  
Integrated Risk Management Committee Report / 163

## Financial Reports

Financial Calendar / 166  
Directors' Statement on Internal Control over Financial Reporting / 167  
Statement of Director's Responsibilities / 168  
Key Highlights / 169  
Independent Auditor's Report / 170  
Statement of Profit or Loss and Other Comprehensive Income / 174  
Statement of Financial Position / 176  
Statement of Changes in Equity / 178  
Statement of Cash Flow / 180  
Notes to the Financial Statements / 182

## Supplementary Information

Independent Assurance Report to Vallibel Finance PLC / 254  
GRI Content Index / 257  
Sources And Utilisation of Income / 260  
Information on Ordinary Shares / 262  
Information on Listed Debentures / 264  
Ten-Year Performance / 266  
Glossary of Financial Terms / 271  
Branch Network / 274  
List of Abbreviations / 276  
Corporate Information / 277  
Notice of Annual General Meeting / 278  
Form of Proxy / 279  
Stakeholder Feedback Form / 281  
Notes / 282



Read this report online  
<https://www.vallibelfinance.com/annual-report>



# WHO WE ARE

**We have stayed strong, we will stay strong, and continue to build an organisation which is dedicated to every single stakeholder while we push through the most challenging of times to meet the future head-on.**

## Vision

To change the financial landscape of our country; bringing more people in more areas to become stakeholders of a national reawakening. We are driven by relentless passion to seek out people who need help.

## Mission

Our work ethics involve working tirelessly to formulate and offer a financial product spread that understands the pulse of the people. Our search is for excellence in all we do, including accountability in financial stewardship and in our responsibility towards customers, stakeholders and our country

We started our journey in 1974 as Rupee Finance before being acquired by the prestigious Vallibel Group in 2005 to become Vallibel Finance PLC. So began a new era which brought forth new opportunities for growth and success, propelling Vallibel Finance towards our dedicated path of creating value for our stakeholders by providing innovative, value-for-money financial solutions to the nation. Our focus on crafting skills enables us to stand out in our industry while excelling in everything we undertake to do. Today, Vallibel Finance faces much challenge amidst the tumultuous developments within our operating environment. But, our dedication to always meeting our commitments empowers us to remain resilient, moving slowly but steadily to meet our corporate goals while staying true to our vision and our values.

Vallibel Finance serves our customers across Sri Lanka by offering innovative, customised and wide-ranging financial solutions to cater to their diverse needs. Our network of 33 branches and eight Service Centres located in the Western, Central, Sabaragamuwa, Southern, North Western, Uva, and North Central Provinces of Sri Lanka allows us to cater

to people living in cities, towns, and villages. Our customers are served by the Company's 979 loyal employees; trained and developed to offer the highest levels of customer service and care. Over the last 13 years we have successfully served a wide-ranging customer base as our financial products can cater to the needs of small businesses, emerging entrepreneurs, large corporates, and enterprising households. Today, we continue this journey, dedicated to exploring innovative ways to assist the financial needs of niche market segments by offering pioneering new products and advanced services.

The Company has been honoured over the last few years to receive recognition from both local and international organisations for our efforts to lead by example, become a customer service oriented enterprise, and for our strong view that employees are the foundation of business growth and success. This trend also continued in the year under review, where the Global Banking and Finance Review Awards 2020 bestowed on Vallibel Finance two awards for being the 'Financial Services Brand of the Year Sri Lanka 2020' and for the Vallibel Wheel Draft being the 'Most Innovative Finance

Product Sri Lanka 2020'. We value such awards and accolades as these reiterate our brand image of being a leading and innovative financial solutions company, pursuing not just financial success but ensuring to create value for all our stakeholders in an ethical, transparent and sustainable way.

The future, though challenging, continues to remain bright for Vallibel Finance with new and emerging opportunities driven by dynamically changing consumer demands and technological advancements. Vallibel Finance is committed to further diversify our innovative product portfolio and continue nation-wide branch expansions to effectively, efficiently and conveniently serve the Sri Lankan public. The growth of the Company's lending portfolio, the increasing year-on-year deposit base, together with an asset base which has now reached Rs. 50 billion amidst a challenging financial year, displays our commitment and dedication to create value for all our stakeholders and key capitals of the Company.

# OUR INTEGRATED REPORT

GRI: 102-10, 102-11, 102-12, 102-46, 102-48, 102-49, 102-50, 102-51, 102-52, 102-53, 102-54

This annual report is prepared to give clear and transparent financial and non-financial information to all Vallibel Finance stakeholders on the Company's efforts to create value for sustainable business operations in the short, medium and long terms by adhering to sustainability standards as set out by the Global Reporting Initiative and the Integrated Reporting Framework.

## Reporting Framework

The Vallibel Finance PLC Annual Report 2019/20 is prepared and presented in accordance with the GRI Standards: Core option published by the Global Reporting Initiative for Sustainability Reporting, and in alignment with the guiding principles of the Integrated Reporting (IR) Framework issued by the International Integrated Reporting Council (IIRC). Both the GRI

Standards and the IR Framework have been voluntarily adopted by the Company towards attaining our goals of increasing governance procedures, transparency in reporting and accountability within our business operations, thereby improving the focus on sustainability and creating greater value for all our stakeholders. In addition, as required by statute, the Financial Statements included in this

Annual Report have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs). This Annual Report also complies with the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, and the Listing Rules of the Colombo Stock Exchange (CSE) and Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka.

IR Framework Principles	As Applied by Vallibel Finance
<b>Strategic Focus and Future Orientation</b>	By disclosing goals and other key information, which is important for the Company's future success, we have strived to report information keeping our strategic focus at the forefront. Further, the future prospects and direction of the Company is included in the Chairman's Message, Managing Director's Review and in the Management Discussion and Analysis sections of this Annual Report from pages 27 to 111.
<b>Connectivity of Information</b>	Connectivity of information can be seen in the presentation of this report using the integrated reporting format and where possible with the use of visual icons and page references to showcase the connectivity of factors which affect the Company's value creation process.
<b>Stakeholder Relationships</b>	The Company has disclosed the engagement mechanisms of how we engage with our stakeholders and build long-term relationships, as well as concerns which arose and how these become a part of the Company's strategic focus areas by applying the principles of materiality. Refer pages 44 to 47 of this Annual Report.
<b>Materiality</b>	The Company has disclosed how materiality of key topics is identified and prioritised. Materiality principles for defining report boundary is explained below. The materiality analysis and related topics including the process adopted to identify material topics is explained from pages 48 to 50 of this Annual Report.
<b>Conciseness</b>	The Company has endeavoured to report key aspects and developments during the year in a clear and succinct manner, thereby making this Annual Report an easy read for all stakeholders. Furthermore, relevant stakeholders have been identified in the different capital report reviews.
<b>Reliability and Completeness</b>	To the best of our knowledge all the information given in this Annual Report is complete and reliable. External information is sourced from credible sources, and when possible, sources are mentioned. As a measure of assurance, the Financial Statements are reviewed and audited by Messrs. KPMG and is available on pages 174 to 253 of this Annual Report. An assurance report from Messrs. KPMG is also available for adherence to GRI Standards: Core Option. The Company's governance report from pages 112 to 143 of this Annual Report also gives further assurance of reliability and completeness of information.
<b>Consistency and comparability</b>	The Company has attempted to be consistent in our reporting throughout this Annual Report and where possible comparable information has been clearly stated and indicated. In instances when comparable information was not available this is clearly stated, and reasons given if relevant.





### Scope and Boundary

The focus of this Annual Report is to provide relevant financial and non-financial information on material topics and developments thereof to relevant stakeholders in line with the risks and opportunities faced by Vallibel Finance PLC during the reporting period from 01st April 2019 to 31st March 2020. This Annual Report covers the aspects and topics deemed material by Vallibel Finance PLC and gives an overview of the Company's local market operations. Material aspects and boundaries were derived in accordance with the GRI Standards and from the stakeholder engagement process. As far as possible, the Company has endeavoured to provide comprehensive information on the value creation process for different stakeholders, as well as its impacts on the different capital reports which include Financial Capital, Human Capital, Manufactured Capital, Intellectual Capital, Social and Relationship Capital and Natural Capital.

The qualitative and quantitative information given by the Company throughout this Annual Report is predominantly limited to current year information. However, where available quantitative data is provided for the past two to five years. As this is the first year of formally reporting on GRI Standards, in some instances, first year comparative data is not available. As such the Annual Report is predominantly a review of business operations, events and progress for the financial year ended 31st March 2020, with limitations in the availability of past data, and inclusions of planned future developments of the Company at the time of publishing this Annual Report.

### Precautionary Approach

The nature of the Company's business has minimal impact on the environment. However, the adoption of the triple bottom line approach to sustainability in undertaking business activities and principles of sustainable business adopted by Vallibel Finance, ensures a precautionary approach is used in developing products, in serving our customers, and also applied to activities and dealings with all other stakeholders of the Company. In addition, the Company's risk management framework also contributes towards the Company's efforts to manage economic, social and environmental risks.

### Reporting Changes

There have been no significant reporting changes or re-statement of information pertaining to the financial year 2018/19 included in this Annual Report. The Company however, adopted Sri Lanka Accounting Standard SLFRS 16 - Leases during the year under review to comply with local regulations and have voluntarily adopted GRI Standards 2016: Core Option to increase transparency of reporting to all stakeholders.

The Company has also not made any significant changes to reporting on material topics in the reporting period from 1st April 2019 to 31st March 2019.

During the reporting period from 1st April 2019 to 31st March 2020, Vallibel Finance has had no significant changes in the organisation type, structure, or ownership. There were also no significant changes to the Company's supply chain during the reporting period.

### External Assurance

This is the Company's first attempt to formally report using the GRI Standards 2016. The Annual Report 2018/19 used the GRI Standards 2016 as a guidance to enhance and set the foundation for formal reporting in the future.

For the first time, the Vallibel Finance PLC Annual Report 2019/20 has been externally assured for its adherence to the GRI Standards: Core option by Messrs. KPMG.

The Financial Statement and Non-Financial Information Sections included in this report have been audited by Messrs. KPMG who have expressed an opinion on the true and fair view of the annual financial statements as shown on pages 174 to 253, reasonable assurance on the financial highlights on page 8 and limited assurance on the non-financial highlights on page 9. The external assurance report is on pages 254 to 256 of this Annual Report.

### GRI Content Index

The GRI content index is on pages 257 to 259 of this Annual Report.

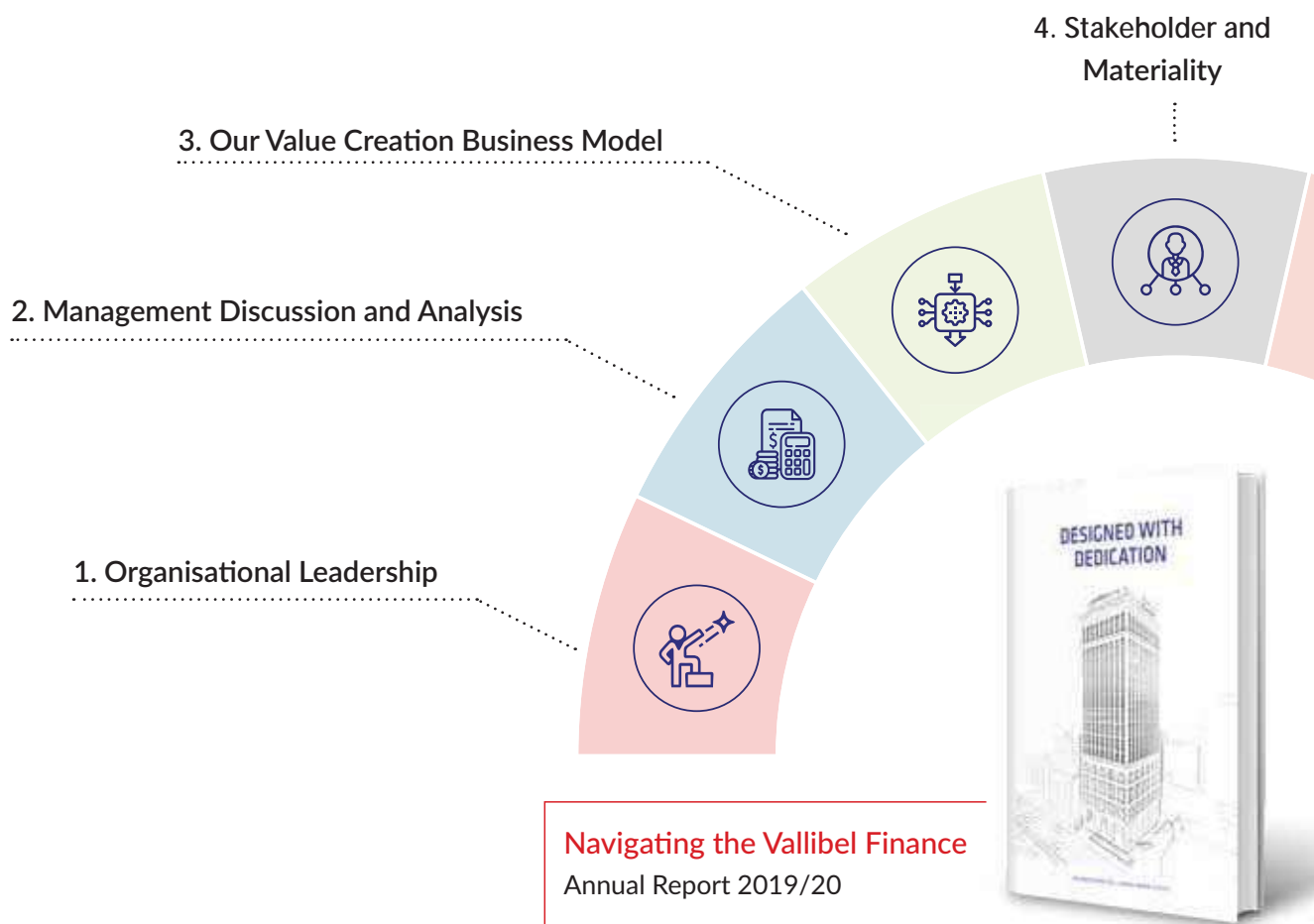
For feedback and inquiries regarding this Annual Report and any information contained herein, please contact the below mentioned.

#### Chief Financial Officer

Vallibel Finance PLC  
No. 310, Galle Road,  
Colombo 03.  
Tel: 011-4393100  
Fax: 011-2713375  
Email: [tellus@vallibelfinance.com](mailto:tellus@vallibelfinance.com)



# OUR INTEGRATED REPORT



## 1. Organisational Leadership

Statements by the Acting Chairman and Managing Director providing high-level developments and planned future direction of the Company.

Refer Pages 14 to 18

Information on the people who lead the Company in developing and implementing strategies to ensure sustainable and successful business operations.

Refer Pages 20 to 26

## 2. Management Discussion and Analysis

Provides an overview of the Company's business operations amidst developments in the macroeconomic and industry environments and progress on key business lines.

Refer Pages 27 to 111

## 3. Our Value Creation Business Model

Explains the process adopted by the Company to develop and maintain a business model which ensures short, medium, and long-term value creation for all stakeholders.

Refer Pages 37 to 39

## 4. Stakeholder and Materiality

Provides information on the key stakeholders of the Company and the process of stakeholder engagement and the selection of material topics which are integrated within the corporate strategic development and implementation process.

Refer Pages 44 to 50

## 5. Capital Management Reviews

A review, discussion and comparison of the value created for stakeholders through the key capitals – Human,

Financial, Manufactured, Intellectual, Social and Relationship, and Natural. Also includes challenges and future-oriented information for planned value creating activities in the forthcoming year.

### Our Capitals

- Human Capital
- Financial Capital
- Manufactured Capital
- Intellectual Capital
- Social and Relationship Capital
- Natural Capital

Refer Pages 52 to 103





## 5. Capital Management Reviews

## 6. Governance and Risk Management

## 7. Financial Reports

In-depth analysis of information in terms of creating integrated value to our stakeholders by considering stakeholder perspectives as Vallibel Finance PLC pursues sustainable business goals in challenging times...

### 6. Governance and Risk Management

An overview of the governance and risk management policies, processes and measures adopted by the Company to maintain responsible, transparent and ethical business practices. Also includes information of the shared responsibilities by the Company's leadership teams.



Refer Pages 112 to 115

### 7. Financial Reports

All statutory accounting and financial statements and disclosures which provide in-depth guidance on the Company's operations for the year under review including comparatives of the immediate previous financial year.



Refer Pages 174 to 253

### Our Key Stakeholders



Shareholders



Customers



Employees



Government Institutions and Regulators



Business Partners



Society/Community

### Our Material Matters

- ▶ Sustainable Growth of Earnings
- ▶ Customer Satisfaction
- ▶ Company Brand and Reputation
- ▶ Ethics, Compliance and Good Governance
- ▶ Managing Human Resources
- ▶ Commitment to the Environment
- ▶ Community Upliftment

### Our Strategic Focus Areas

- ▶ Sustainable Business Growth
- ▶ Strong Financial Performance
- ▶ Internal Process Efficiencies
- ▶ Employee Satisfaction
- ▶ Enhanced Customer Experience
- ▶ Delivery and Distribution

# FINANCIAL HIGHLIGHTS

For the Year Ended/ As at 31st March		2020	2019	Change %
<b>Financial Performance</b>				
Gross Income	Rs. thousand	9,695,306	8,724,530	11.1
Gross Interest Expense	Rs. thousand	4,854,516	4,524,629	7.3
Pre-Tax Profit	Rs. thousand	2,441,897	2,285,618	6.8
Income Taxation	Rs. thousand	608,691	619,910	(1.8)
Profit After Taxation	Rs. thousand	1,253,410	1,128,728	11.0
Revenue to The Government	Rs. thousand	1,188,487	1,156,890	2.7
<b>Financial Position</b>				
Shareholders' Funds	Rs. thousand	6,478,012	5,470,953	18.4
Total Deposit Base	Rs. thousand	29,243,913	25,436,258	15.0
Borrowings & Bank Overdrafts, Subordinated Term Debts	Rs. thousand	13,002,325	15,094,390	(13.9)
Loans & Advances, Lease and Hire Purchase	Rs. thousand	41,119,553	38,957,213	5.6
Total Assets	Rs. thousand	51,423,849	47,659,526	7.9
Market Capitalisation	Rs. thousand	3,155,076	3,867,322	(18.4)
<b>Key Indicators per Ordinary Share</b>				
Earnings Per Share	Rs. per share	21.29	20.37	4.6
Net Assets Per Share	Rs. per share	110.05	92.94	18.4
Market Value Per Share	Rs. per share	53.60	65.70	(18.4)
PE Ratio	Times	2.52	3.23	(22.0)
<b>Key Ratios</b>				
Return on Average Equity	%	20.98	25.73	(18.5)
Return on Average Assets - After Tax	%	2.53	2.62	(3.5)
Interest Cover	Times	1.50	1.51	(0.7)
Equity/ Assets	Times	0.13	0.11	18.2
Debt plus Total Deposit to Equity	Times	6.37	7.12	(10.5)
Non-Performing Ratio - Gross	%	5.01	3.02	65.9
Non-Performing Ratio - Net	%	1.51	0.60	151.7
<b>Statutory Ratios</b>				
Liquid Assets	%	18.97	15.25	24.4
Core Capital Ratio - Minimum Required 6.5%	%	11.93	11.13	7.1
Total Risk Weighted Capital Ratio - Minimum Required 10.5%	%	13.04	12.61	3.4



Total Assets  
**51.4**  
billion



Total Deposit Base  
**29.2**  
billion



Gross Income  
**9.6**  
billion



Profit After Taxation  
**Rs. 1.2**  
billion



# NON-FINANCIAL HIGHLIGHTS

For the Year Ended/ As at 31st March		2020	2019
<b>Capital Indicators</b>			
<b>Human Capital</b>			
Total Workforce	Number	979	923
New Recruits	Number	290	323
Employees Completed 10 Years of Service	Number	30	42
Training Programmes Carried out - External	Number	47	40
Training Programmes Carried out - Internal	Number	62	70
Investment in Training and Development	Rs. thousand	5,220	9,200
Average Training Hours per Employee	Hours	30.79	-*
Employees Monetary Benefits	Rs. thousand	1,053,242	906,842
Internal Staff Promotions	Number	151	228
Staff Retention Ratio	%	81.91	83.16
Return to Work After Maternity Leave	%	90.91	-*
Gender Diversity Ratio (Male : Female)	Ratio	69:31	68:32
Revenue per Employee	Rs. thousand	9,903	9,452
<b>Manufactured Capital</b>			
Branches	Number	33	32
Service Centres	Number	8	8
New Branches Opened	Number	1	4
Refurbished/Relocated Branches	Number	5	1
Investment in Property Plant and Equipment	Rs. thousand	144,722	157,535
Investment in IT Development	Rs. thousand	9,699	58,285
<b>Intellectual Capital</b>			
Brand Value (Brand Finance)	Rs. thousand	1,152,000	1,300,000
Brand Ranking	Brand Finance	BBB	A+
Credit Rating	ICRA ratings	BBB	BBB
<b>Social and Relationship Capital</b>			
Economic Value Generated	Rs. thousand	9,695,306	8,724,530
<b>Economic Value Distributed To:</b>			
Depositors and Lenders	Rs. thousand	4,751,805	4,355,347
Employees	Rs. thousand	1,048,022	897,641
Government	Rs. thousand	1,201,274	1,168,126
Community	Rs. thousand	1,324	11,071
Capital Providers	Rs. thousand	338,164	169,281
Community Development Programmes	Number	16	8
Total Loans Disbursed	Rs. thousand	21,547,566	26,393,651
<b>Natural Capital</b>			
Electricity Consumption - Head Office	KwH	435,041	-*
Electricity Consumption - All Branches	KwH	637,768	-*
Water Consumption - Head Office	m <sup>3</sup>	5,900	-*
Water Consumption - All Branches	m <sup>3</sup>	8,650	-*

\* Comparative data not available



No. of Strategic  
Locations  
**41**



People  
**979**  
No's



Credit Rating  
**BBB**



Brand Value  
**Rs. 1.15**  
billion

# OUR JOURNEY

A memorable journey dedicated to creating value for all our stakeholders every step of the way...

As Vallibel Finance celebrates our success over the last 13 years, we continue to focus on building strong foundations for a sustainable future which will only be possible with the continued support and confidence of our stakeholders.

Incorporated as a limited liability company under the brand name of Rupee Finance to cater to the finance market of Sri Lanka.



1974

Acquired by the Vallibel Group of Companies and renamed as **Vallibel Finance**.

2005

The Company underwent a restructuring of leadership to pursue future goals to change the financial landscape of Sri Lanka.



2007

The success and projected growth resulted in listing the Company on the Colombo Stock Exchange.



2010



2020

The Company's branch network expansion continued reaching **41 strategic business locations** by 31st March 2020.

Crowned **Brand of the Year Sri Lanka 2020**-Financial Services by the Global Banking & Finance review at the 10th Global Banking & Finance Awards.

Crowned **Most Innovative Finance Product Sri Lanka 2020**-Vallibel Wheel Draft by the Global Banking & Finance review at the 10th Global Banking & Finance Awards.



Certified as a Great Place to Work™ in Sri Lanka and it was selected to be among the '**25 Best Places to Work in Sri Lanka**'.

Fixed deposit base exceeded **Rs. 25 Bn** as at 31st March 2019.

Brand Finance Sri Lanka upgraded the Vallibel Finance brand rating to **A+** as one of Sri Lanka's Most Valuable Consumer Brands of 2019.

The Company is considered to be among the **100 Most Valuable Brands** by LMD in 2019. The Company's brand value reached **Rs. 1,300 Mn**.

Gold Loan portfolio reached **Rs. 3 Bn**.

Asset base surpassed **Rs. 50 Bn** as at 30th September 2019.

The ground breaking ceremony of the new Head Office premises promised to be a **16-storey** financial landmark in Colombo took place on 07th November 2019.



2019

2018



ICRA Lanka upgraded the credit rating to **[SL] BBB** with stable outlook.

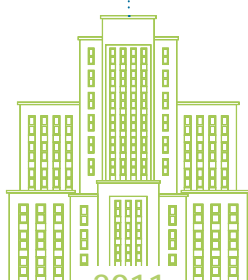
Achieved the status of the '**Most Respected Finance/Leasing Company**' and was awarded the status of '**Sector Winner**' of the Finance and Leasing sector by LMD's Most Respected Rankings in 2017.

Rated as being among the fastest in Sri Lanka to cross **Rs. 1 Bn** in profits.



The Head Office was relocated to a prominent location at **No. 310, Galle Road, Colombo 03.**

Growth supported by **10 branches** across the island.



2011

Total assets reached over **Rs. 6 Bn**, while the fixed deposit base amounted to **Rs. 4 Bn** as at 31st March 2012.



2012

Initial introduction of the Gold Loans facilities at the Maharagama branch.

The Company received a credit rating of **BB+/NP** with a stable outlook from the Lanka Rating Agency.

Issued **Rs. 500 Mn** Unsecured Subordinated Redeemable Listed Debentures.

Appointed as an agent of Western Union-MBBL Money Transfers (Pvt) Ltd.

Opened the first Premier Centre in Nugegoda.

Introduced Group Personal Loans and Property Mortgage Loans in selected branches.



2014



2017

10<sup>th</sup>  
anniversary

Celebrated the corporate milestone of providing **10 years** of customised financial products to the Sri Lankan financial industry.

The opening of the Uragasmanhandiya branch resulted in Vallibel Finance becoming the first finance company serving customers in this town.

Introduced Micro Financing to the Company's product portfolio.

The Vallibel Auto Draft was recognised as the '**Most Innovative Finance Product in Sri Lanka**' and the Company was ranked as the 'Fastest Growing Auto Financing Company in Sri Lanka' by the 2017 Global Banking & Finance Review Awards.

2016



Gross income reached **Rs. 3.47 Bn** as at 31st March 2016 with an assets base of over **Rs. 20 Bn** and fixed deposit base **Rs. 15 Bn.**

Achieved recognition as one of Sri Lanka's best employers at the Best Employer Brand Awards 2016.



2015

Lanka Rating Agency upgraded the Company's credit rating of to **[SL] BBB-/P3** with stable outlook.

Rated A- and placed within the **100 leading brands** in Sri Lanka by the LMD Brands annual survey.

Joined LankaPay's national electronic fund transfer network.

Issued **Rs. 1 Bn** Unsecured Subordinated Redeemable Listed Debentures.

Total workforce reached over **500 people.**

Introduced Vallibel Auto Draft and Business Loans to the Company's expanding product portfolio.

# AWARDS AND ACCOLADES



- ▶ Among Sri Lanka's Best Employer Brand – Best Employer Brand Awards 2016



- ▶ 'Sector Winner' of the Finance and Leasing Sector and 'Most Respected Finance/Leasing Company' in Sri Lanka - LMD 2017

2016-2017



- ▶ Among Top 20 Most Admired Companies of Sri Lanka 2018 – International Chamber of Commerce Sri Lanka & CIMA Sri Lanka



- ▶ Fastest Growing Auto Financing Company Sri Lanka 2018 – Global Banking & Finance Review Awards 2018

2018-2019



- ▶ Financial Services Brand of the Year Sri Lanka 2020 - Global Banking and Finance Review Awards 2020



- ▶ Vallibel Wheel Draft - Most Innovative Finance Product Sri Lanka 2020 - Global Banking and Finance Review Awards 2020

2019-2020



- ▶ **22nd in the Top 100 Most Respected Entities in Sri Lanka – LMD 2017**



- ▶ **Fastest Growing Auto Financing Company Sri Lanka 2017 – Global Banking & Finance Review Awards**
- ▶ **Vallibel Auto Draft - Most Innovative Finance Product Sri Lanka 2017 – Global Banking & Finance Review Awards**



- ▶ **Best Leasing Customer Service Company Sri Lanka 2018 – Global Banking & Finance Review Awards 2018**



- ▶ **Great Place to Work Certified - 2019/2020** Great Place Research & Consultancy (Pvt) Ltd
- ▶ **Certified as a Top 25 Best Places to Work in Sri Lanka - Great Place Research & Consultancy (Pvt) Ltd**



- ▶ **Great Place to Work Certified - 2020/2021** Great Place Research & Consultancy (Pvt) Ltd



# ACTING CHAIRMAN'S MESSAGE

**While external environmental challenges abounded, Vallibel Finance's standing in the industry and amongst our stakeholders enabled the Company to make progress in achieving our goals for the year under review, albeit at more subdued levels.**

**The Company is proud to have achieved these results amidst these turbulent times and gives due credence to the Managing Director and the corporate and senior management team who lead the way in year-on-year successful strategy implementation.**

Dear Shareholders,

The financial year ended 31st March 2020 began on a sad note with the Easter Sunday attacks of April 2019 which impacted Sri Lankan economic growth and had a profound effect on consumer sentiment. The financial year under review continued to be challenging thereafter and was further hindered by the slowdown in global economic growth and as the year came to a close, the emergence of the COVID-19 pandemic, which has had far-reaching effects globally on human lives as well as on economic activity due to lockdown measures adopted by many countries to control the spread of the virus. Amidst these challenges, Vallibel Finance PLC continued to show exemplary performance due to the strong business foundations build over the last 13 years by putting stakeholder needs and expectations first while building a resilient and sustainable business enterprise.

For the second consecutive year, the Company presents the Annual Report 2019/20 using the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC). Furthermore, the Company's continued efforts to enhance reporting standards while simultaneously increasing transparency of business operations also resulted in the decision to fully adopt the sustainability standards by the Global Reporting Initiative (GRI) for reporting disclosures in accordance with the GRI Standard: Core Option and to obtain external assurance by KPMG Sri Lanka.

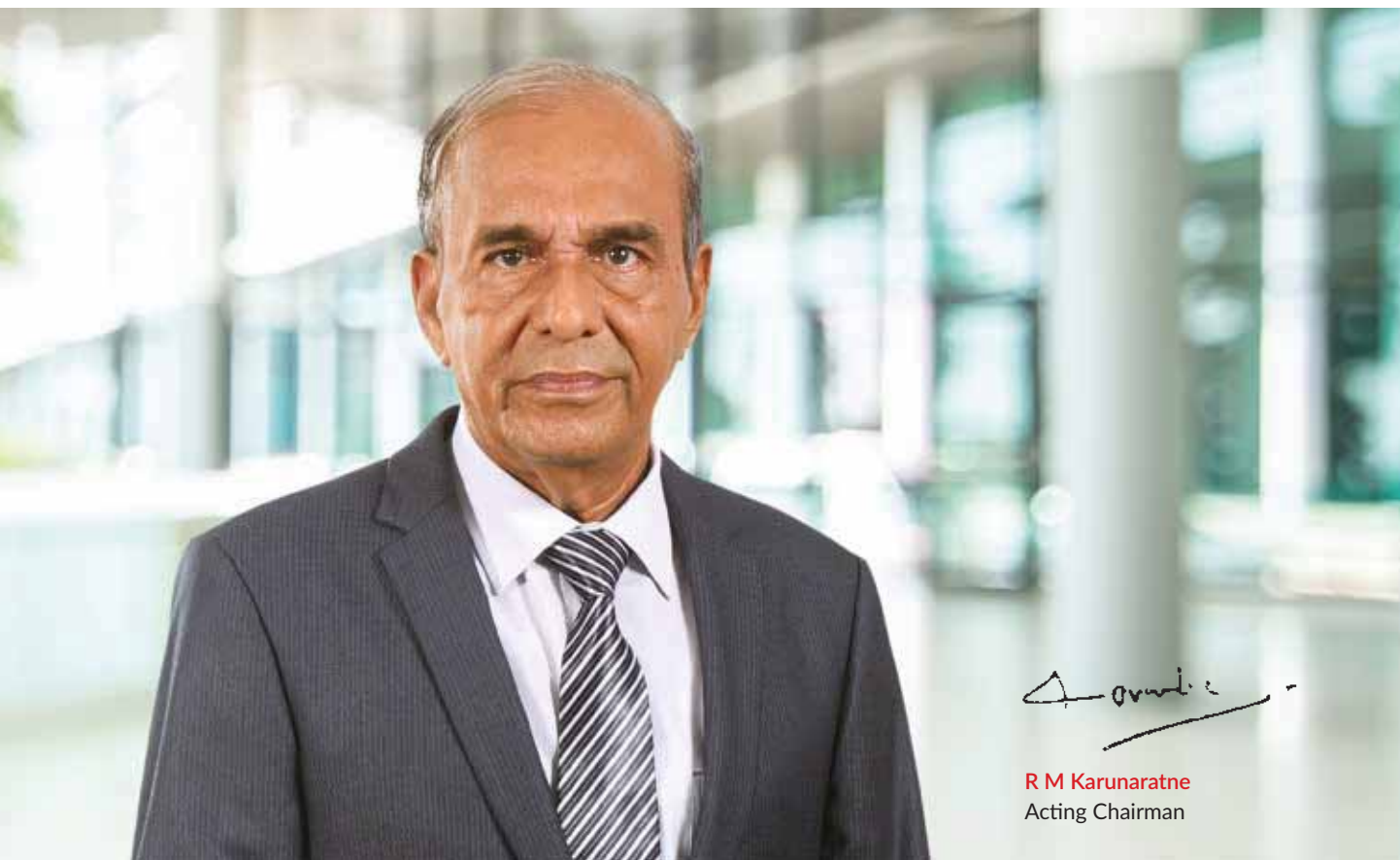
Sri Lankan economic performance remained subdued due to reduced economic activity recording only a 2.3% growth in 2019. Growth was mainly propelled by the industry sector while the agricultural sector continued to be negatively impacted from unfavourable weather conditions which prevailed during the year, and the reduced activity in the services sector due to the cascading effects of the Easter Sunday attacks resulting in subdued consumer demand. The financial sector also recorded a slower performance in 2019 mainly due to the challenges faced by Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs). Factors such as negative credit growth, declining profitability, and significantly increasing NPLs ratios had the largest impact on the subsector. However, the concentrated efforts to maintain the stability of the national financial system through timely regulatory interventions ensured no major macroprudential concerns during the year.

While external environmental challenges abounded, Vallibel Finance's standing in the industry and amongst our stakeholders enabled the Company to make progress in achieving our goals for the year under review, albeit at more subdued levels. As such, the Company recorded a 7.90% growth in assets for the year under review, increasing total assets value from Rs. 47.66 Bn as at 31st March 2019 to Rs. 51.42 Bn as at 31st March 2020. The Company's deposit base also grew by 14.97% to reach Rs. 29.24 Bn as at 31st March 2020, while

the profits before tax grew by 6.84% to Rs. 2.44 Bn for the financial year under review compared to Rs. 2.28 Bn achieved in the previous financial year. The Company is proud to have achieved these results amidst these turbulent times and gives due credence to the Managing Director and the corporate and senior management team who lead the way in year-on-year successful strategy implementation.

Vallibel Finance also achieved success from a non-financial perspective. During the year under review, the Company was recognised as the Financial Services Brand of the Year Sri Lanka 2020 by the Global Banking and Finance Review Awards 2020. The Company is also received the Most Innovative Finance Product Sri Lanka 2020 for the Vallibel Wheel Draft product by the Global Banking and Finance Review Awards 2020. Furthermore, Vallibel Finance was certified as one of the 'Top 25





**R M Karunaratne**  
Acting Chairman

### Growth of Deposits

# 15.0%

Public Deposits increased by  
15.0 % to reach Rs. 29.2 Bn

Best Places to Work in Sri Lanka' in July 2019 and received a 'Great Place to Work Certification' for the second consecutive year by Great Place Research & Consultancy (Pvt) Ltd, reiterating the continued emphasis the Company places on ensuring the satisfaction and higher level needs of employees. The Vallibel Finance brand also climbed two places during the financial year 2019/20 to be ranked at 57th place with a brand rating of BBB valued at Rs. 1,152 Mn according to the publication by Brand Finance Sri Lanka.

The prevailing situation in the country, resulted in the closure of business as

normal during the last 10 days of the financial year ended 31st March 2020. The Government's declaration of a Work from Home concept in mid-March 2020 coupled with the curfew imposed on 20th March 2020 resulted in a drastic fall in business activity and a phase of adaptation to different working conditions for employees. However, the implementation of focused strategies to achieve target annual objectives during the majority of the year enabled the Company to realise a positive growth albeit at lower levels when compared to previous financial years. The immediate short-term prospects of the Company for the forthcoming are however difficult to gauge currently. The unexpected developments and the ever-changing landscape which seems to be arising due to the COVID-19 pandemic will impact business operations and performance. Vallibel Finance will continue to monitor the situation and act in the best interest of the nation and the health and safety of key stakeholders.

In closing, I thank members of the Board of Directors for their continuous support in guiding and directing Vallibel Finance to success during the challenging year completed. I take this opportunity to thank the Managing Director who leads Vallibel Finance in an exemplary manner. I also want to extend my appreciation to the corporate and senior management team and all employees who work tirelessly and are dedicated to ensuring sustainability of the Company. I thank Mr. Dhammika Perera for always supporting us in guiding the Vallibel Finance journey of success. Lastly, I must place on record my appreciation of all stakeholders of the Company who continue to be integral to the success of the Company.

**R M Karunaratne**  
Acting Chairman

# MANAGING DIRECTOR'S MESSAGE

The reliance displayed against multiple challenges by our employees and the foundations borne of strong values and business principles, enabled Vallibel Finance to hold strong amidst the turbulent environs.

The financial year under review was one of the most challenging years in recent history for the Sri Lankan economy and resultantly impacted the business operations of Vallibel Finance PLC. Beginning with the Easter Sunday attacks of April 2019 and ending with the coronavirus pandemic in March 2020, the year was inundated with much uncertainty which culminated in low economic growth and unfavourable business operating conditions.

However, the reliance displayed against multiple challenges by our employees and the foundations borne of strong values and business principles, enabled Vallibel Finance to hold strong amidst the turbulent environs. The Vallibel Finance PLC Annual Report 2019/20 provides a detailed account of these challenges and the strategies adopted by Company

to persevere and evolve against the prevailing operating climate.

It is therefore my pleasure to present to you the Company annual report which had comprehensively adopted the guiding principles of the Integrated Reporting (IR) Framework issued by the International Integrated Reporting Council (IIRC) and has for the very first time set out to report in accordance with the GRI Standards: Core option published by the Global Reporting Initiative for Sustainability Reporting.

## Overcoming macroeconomic challenges

The Sri Lankan economy continued its deteriorating growth trend in 2019 with worsening business sentiment and investor confidence. The COVID-19 pandemic further worsened recovery prospects as the country went into lockdown to safeguard the health of the nation's people. The reduced economic activity also had a negative impact on financial institutions which faced increasing credit issues and cases of non-performing loans.

These factors had an impact on Vallibel Finance as well, reducing our ability to meet set targets and lowering the rate of the Company's growth. Still, the Company's strong foundations, purpose driven strategic plans, detailed contingency plans, and the untiring and total dedication of our employees has ensured that most key indicators retained double-digit growth despite reduced year-on-year growth achieved during the financial year 2019/20.



## Financial Performance Highlights

The year under review proved successful albeit at muted levels when compared to the last five years of accelerated growth achieved by the Company. Vallibel Finance was successful in increasing our deposit portfolio by 14.97% and achieving a deposit renewal ratio of 80%. The deposit base as at 31st March 2020 stood at Rs. 29.24 Bn compared to Rs. 25.44 Bn as at 31st March 2019. The Company's income for the year under review increased by 11.13% to Rs. 9.69 Bn, while net interest income increased by 20.64% to Rs. 4.06 Bn for the same period.

The Company's total loan portfolio achieved a subdued growth of 5.55% due to prevailing market conditions and stood at Rs. 41.12 Bn as at 31st

## Net Interest Income

**Rs. 4,058**  
million

A double-digit growth of 20.64% amounting to Rs. 4,058 Mn during the financial year.

## Profit after Tax

**Rs. 1,253**  
million

Profit after tax grown by Rs. 124 Mn to reach Rs. 1,253 Mn

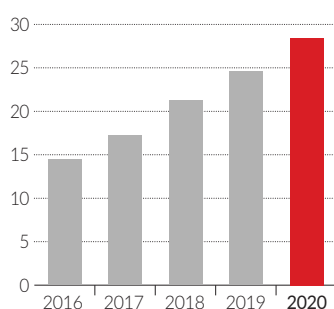


**S B Rangamuwa**  
Managing Director

March 2020 compared to Rs. 38.96 Bn as at 31st March 2019. Despite the pursuit of innovative measures to curtail non-payment of loans and advances, the Company experienced a slight deterioration of NPL ratio which increased to 5.01% during the financial year under review but remained well-below the industry average of 10.59%.

### Fixed Deposits

Rs. Bn

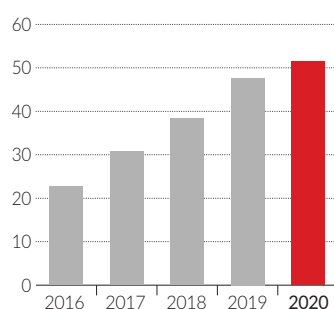


### Reinforcing our financial position

The Company's assets base growth continues to be of noteworthy mention having surpassed the Rs. 50 Bn landmark. During the financial year under review, the total assets of Vallibel Finance was Rs. 51.42 Bn with a growth of 7.90%. As such, the Company's net assets per

### Total Assets

Rs. Bn



share also increased, achieving a growth of 18.41% to Rs. 110.05 for the same period.

### Creating value for customers

While challenges abounded in the operating environment, the Company pursued plans to expand our branch network and offer innovative products to our customers. The Company successfully opened a new branch in Pelawatte, which is a fast-growing commercial hub in the suburbs of Colombo in June 2019 to increase access to financial services to communities in the vicinity. Another two new branches in Kohuwala and Ambalantota which were completed during the year under review will be opened once the economic environment becomes more robust in the coming few months.



## MANAGING DIRECTOR'S MESSAGE

**The strong business and financial foundations of the Company will enable us to remain viable and build a sustainable business enterprise creating long-term value for all our stakeholders.**

### Creating value for employees

Our employees remain the cornerstone of business success and we always strive to meet their needs in good and bad times. It is their courage and determination to persist amidst much uncertainty and business upheaval which is the result of the Company's success. Accordingly, we also ensure our employees achieve personal growth and career success by providing continuous training and development opportunities to ensure their knowledge enhancement and development in their chosen professions. The Company also has an inclusive and equal opportunity culture which allows for merit-based progress.

It is therefore not surprising that Vallibel Finance received the 'Great Place to Work Certification 2020/2021' on March 2020 for the second consecutive year. I applaud the efforts of our people in these successful achievements and hope they are aware that the leadership dedicates these awards to them.

### Creating brand and reputation value

The measure of success achieved by the Company being a leading financial institution in the country over the last 13 years is due testament to the strong foundation of ethical, transparent, and inclusive business strategies and operations of the Company. Our success being confirmed by external sources gives us much pleasure and reiterated the high standing of the Company in the financial services sector.

During the year under review, Vallibel Finance was bestowed the coveted 'Financial Services Brand of the Year Sri Lanka 2020' by the Global Banking & Finance Review Awards 2020. In addition,

they also bestowed the Vallibel Wheel Draft product with the award for the 'Most Innovative Finance Product Sri Lanka 2020'. These awards continue to be a source of inspiration to the Company and our employees to do better at every turn.

Another noteworthy milestone for the Company was the commencement of the construction of our own environmentally friendly 16-storey new Head Office complex strategically located at the Galle Road in Colombo 3 during the year under review.

### Approaching the future with optimism

The emerging developments with the impact of the COVID-19 pandemic has resulted in the upheaval of normal economic and business activity as we know it. While we had to consider and overcome many changes and challenges, we remained optimistic as ever before. For instance, we have proven that 'Work from Home' is a concept that when adopted correctly is successful and enables employees to remain productive. This is a result of the Company's flexibility in considering changing market and business operating conditions, changing needs of customers, and stakeholders' increasing willingness to adopt emerging digital and virtual technologies.

As we navigate this event and emerge strongly, Vallibel Finance remains confident that our plans to develop a more broad-based corporate strategy will enable the Company to explore new avenues of business growth and success in the coming years while embracing any paradigm shifts in how business is conducted in the long-term.

We will focus on further consolidating our contingency plans to operate even better in such undesirable environs and to overcome the short-term changes required to work with new rules. While some shortfalls in meeting strategies and making progress in the short to medium terms is expected, we are confident in the direction of our strategies, and the resources allocated to emerge stronger and better as we offer customers competitive financial services products to meet their future financial needs. The

strong business and financial foundations of the Company will enable us to remain viable and build a sustainable business enterprise creating long-term value for all our stakeholders.

### Acknowledgements and appreciations

I take this opportunity to offer my heartfelt appreciation to the Company's dedicated and committed my fellow employees, who rallied around us in this very challenging of years and helped achieve the Company's goals. I also offer my appreciation to the management team of the Company who support me in propelling the Company to year-on-year success.

I must place on record my most sincere of appreciations to Mr. Dhammika Perera, the Founder Chairman of the Company and the Chairman of Vallibel Group, whose guidance and support has been invaluable during these trying times. I thank the Board of Directors and the Acting Chairman for their leadership in driving the strategies and business goals of Vallibel Finance during the year.

I would also like to acknowledge the trust and belief placed in the Company by our shareholders, customers, business partners, Government and regulatory bodies, and the communities within which we operate. It is their unstinting support that remains the basis of why we strive to do better always.

The success achieved in the year under review is combination of having built a strong brand with the right team, right spirit, and the right organisational structure to sustain growth over the years. I look forward to the forthcoming year with much enthusiasm and I am optimistic that we will achieve everything we set out to as the Company is strongly placed to realise our strategies and goals as we work together as one team.



**S B Rangamuwa**  
Managing Director

# LEADING WITH DEDICATION

The Vallibel Finance leadership continues to play a critical role in leading the Company through myriad challenges and changes while enabling the development of a sustainable finance company dedicated to meeting stakeholder needs.

# BOARD OF DIRECTORS



**R.M. Karunaratne**  
Acting Chairman

Mr. Rathnayake Mudiyansele Karunaratne joined the Board of Vallibel Finance PLC on 30th April 2013.

He received his Bachelor of Science (B.Sc.) degree from the University of Sri Jayawardenapura, Sri Lanka, specializing in Estate Management and Valuation.

After his graduation in 1977, he joined the Board of Investment of Sri Lanka (BOI) in 1978 and during the period 2008 to 2011, having served in various departments, rose to the position of Executive Director – Monitoring.



**S.B. Rangamuwa**  
Managing Director

A fellow of the Chartered Institute of Marketing (UK), and a Chartered Marketer. Mr. Rangamuwa is a member of the Institute of Management Accountants of Australia.

He is also a Fellow of the Sri Lanka Institute of Credit Management and holds a Certificate in Foundation Studies (Sports) from Unitec, New Zealand.

Mr. Rangamuwa obtained an MBA from the University of Southern Queensland as well as a postgraduate Diploma in Financial Administration from the Institute of Chartered Accountants of Sri Lanka.

He started his career with Central Finance PLC after a stint at Ernst and Young. He is a former Director of Mercantile Investments PLC having held various key positions during his long standing career until he joined to launch Vallibel Finance PLC in February 2007.

He is also the Deputy Chairman of Pan Asia Bank and the Managing Director of Vallibel Properties Ltd.



**Dhammika Perera**  
Executive Director

Mr. Dhammika Perera is a quintessential strategist and a business leader with interests in a variety of key industries including manufacturing, banking and finance, leisure, plantations and hydro power generation. He has over 30 years of experience in building formidable businesses through unmatched strategic foresight and extensive governance experience gained through membership of the Boards of quoted and un-quoted companies.

Mr. Perera is the Chairman of Royal Ceramics Lanka PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resort PLC, Vallibel Power Erathna PLC, Greener Water Limited, Uni-Dil Packaging Limited, Delmege Limited, and LB Microfinance Myanmar Company Limited. He is the Co-Chairman of Hayleys PLC, The Kingsbury PLC and Singer (Sri Lanka) PLC. Executive Deputy Chairman of LB Finance PLC, Deputy Chairman of Horana Plantations PLC. He is also an Executive Director of Vallibel Finance PLC and serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys Fabric PLC and Dipped Products PLC.





### **S.S. Weerabahu** Executive Director

Mr. Sirisa Sirimevan Weerabahu possesses 36 years' experience in the capacity of senior executive in both private and public sector. Studied at Royal College Colombo and entered the University of Moratuwa where he obtained a Bachelor of Science Degree in Civil Engineering. He is a Member of the Institute of Engineers of Sri Lanka and is a Fellow of the Chartered Institute of Management Accountants UK. He has followed the Master of Business Administration Degree programme at the Post Graduate Institute of Management of the University of Sri Jayawardenapura and has obtained international training in Financial Management.

He served as the Head of Finance at the National Water Supply and Drainage Board and Lanka Cellular Services for more than 14 years and worked as the Consultant attached to the country infrastructure division of World Bank resident mission for two years. Thereafter he joined the Millennium Group and was the Director/Chief Executive Officer of Millennium Housing Developers PLC, MC Urban Developers Ltd, Millennium Housing Ltd, MC Universal Ltd and Millennium Villa Housing Ltd for 19 years until he retired.

He has wide experience in project development, project financing, general management and finance and engineering.



### **T. Murakami** Non-Executive Director

Mr. Toyohiko Murakami is a Chief Executive of Bansei Group Japan. Mr. Murakami has over 32 years of experience in managing various business fields consisting of Securities, Finance, Insurance, Real Estate. Mr. Murakami has a degree in Bachelor of Law from Kyoto University, Japan.

Mr. Murakami joined Bansei Securities Co., Ltd. in Nov. 2005. He was appointed as the Executive vice president in Feb. 2006 and he was appointed the President and CEO of the company at June 2009.

He is also the Chairman of Bansei Hoken (Insurance) Community Co., Ltd. which is a sister company of Bansei Securities Co. Ltd.

Formerly Mr. Murakami was with Zenkoku Hosho Co., Ltd. from Nov. 2005–Feb. 2006 and as a Director of H.S. Securities Co. Ltd. from Oct 2000 to Aug 2005.

He is a Chairman of Bansei Holdings LK (Pvt) Ltd and Bansei And NWS Consultancy (Pvt) Ltd, Deputy Chairman of Bansei Royal Resorts Hikkaduwa PLC, Director of Pan Asia Banking Corporation PLC and Bansei Securities Finance (Pvt) Ltd, and Director of Hikkaduwa Hotel Holdings (Pvt) Ltd.



### **A. Dadigama** Independent Non-Executive Director

Mr. Aravinda Dadigama is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holds an MBA in Finance from University of Southern Queensland, Australia. Further, he is a degree holder (BBA) of University of Colombo.

He is specialised in finance, treasury, risk management and formulating strategic business plan and counts over 25 years of experience in different entities including finance companies and exporting companies.

At present, Mr. Dadigama is the Group CEO/ Managing Director of Alugrow Group of Companies.

## BOARD OF DIRECTORS



**K.D.A. Perera**  
Non-Executive Director

Mr. Anuradha Perera is a Director of Vallibel Leisure (Pvt) Ltd and also holds directorships in other private sector companies under the Vallibel Group.



**J. Kumarasingha**  
Independent Non-Executive Director

Mr. Janaka Kumarasinghe is a senior Human Resource Management (HRM) professional who has served Regnis Lanka, Singer Sri Lanka, Suntel and IUCN Pakistan and Nepal in senior HRM positions. A Chartered Fellow of Chartered Institute of Personnel Management (CIPM) Sri Lanka, he earned his B.Com from University of Colombo and MSc (Asia-Pacific HRM) from National University of Singapore. Also, a past student of Royal College Colombo, he is a Member of CMA (Australia).

As a past President of CIPM Sri Lanka and Asia Pacific Federation of HRM he has been instrumental in introducing the PQHRM (Professional Qualification in HRM) to Sri Lanka, and a member of the initial Outward Bound Training team who has re-introduced the concept after receiving training in Malaysia, Singapore and the USA.

A visiting lecturer in HRM at University of Moratuwa and Colombo in their masters programmes, he has been awarded the CIPM Gold Medal in 2008 for his outstanding contributions to the field of HRM.

Mr. Kumarasinghe currently serves as a member of the International Editorial Advisory Board of South Asian Journal of HRM, Director Resourcing (Projects) with a leading garment manufacturer and Executive Director of Kent Ridge (Pvt) Ltd, a company he co-founded.



**Hiroyuki Ota**  
Non-Executive Director

Mr. Ota is the Managing Director of Bansei Securities Finance (Pvt) Ltd and counts over 30 years of experience in finance business in the areas of commercial banking, trust banking, lease finance and securities business. Mr. Ota holds a Degree in Bachelor of Law from Kyoto University (Japan).

He has been the Managing Director of Bansei Securities Capital (Pvt) Ltd since 2015, and has been dedicated towards collaborations between Sri Lanka and Japan in Financial Business. Mr. Ota is also acknowledged by the Bansei Group as Managing Director who contributed towards strengthening and making the Bansei Group profitable.

He previously worked for the Long Term Credit Bank of Japan (Now called Shinsei Bank) (1982-2000), Mitsui Sumitomo Trust & Banking (2000-2011) and Ricoh Co. Ltd (2011-2014). He is a Director of Bansei Securities Capital (Pvt) Ltd, Bansei & NWS Consultancy (Pvt) Ltd, Bansei Holdings LK (Pvt) Ltd, Bansei Royal Resort Hikkaduwa PLC and Hikkaduwa Hotel Holdings (Pvt) Ltd.



# CORPORATE MANAGEMENT TEAM



**Sisira Weerabahu**  
Executive Director



**Niroshan Perera**  
Senior Deputy General Manager -  
*Credit*



**Thilak Nanayakkara**  
Senior Deputy General Manager -  
*Collections*



**Menaka Sameera**  
Senior Deputy General Manager -  
*Finance & Administration*



**Tharaka Amaraweera**  
Deputy General Manager -  
*Asset Management*



**Shanaka Dissanayake**  
Deputy General Manager -  
*Credit*



**Rohan De Silva**  
Assistant General Manager -  
*Metropolitan Branch*



**Kelum Warnakula**  
Assistant General Manager -  
*Business Development*

# SENIOR MANAGEMENT TEAM



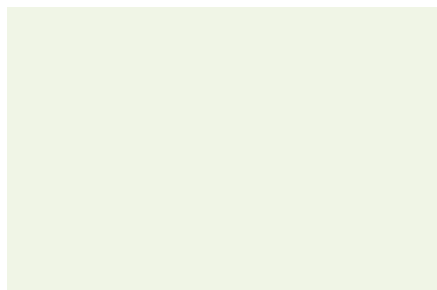
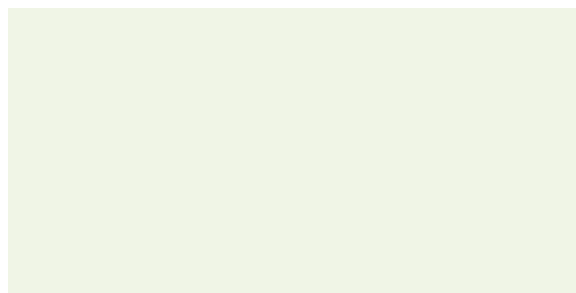
**Keerthi Sugathadasa**

Senior Manager -  
Process Development



**Suren Abeywickrama**

Senior Manager -  
Branches



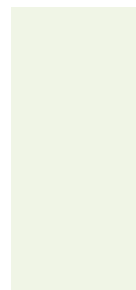
**Bathiya Samaraweera**

Senior Manager



**Rukmal Mendis**

Chief Manager -  
Administration



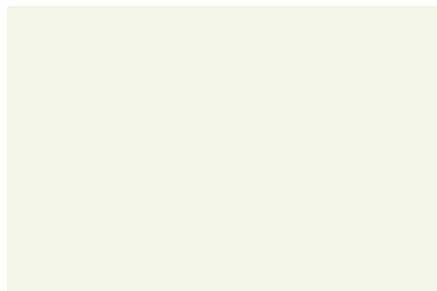
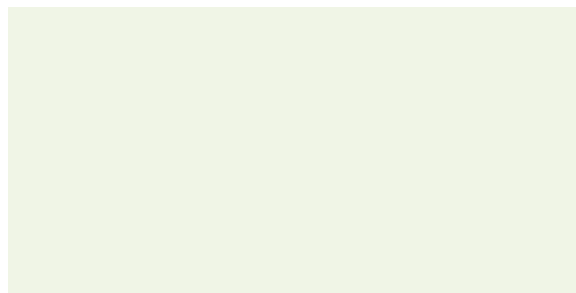
**Manjula Pushpakumara**

Chief Manager -  
Gold Loan



**Arjuna Perera**

Chief Manager -  
Human Resources



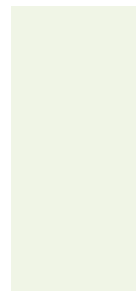
**Kasun Harischandra**

Chief Manager -  
Recoveries



**Asinil Perera**

Chief Manager -  
Kurunegala Metro

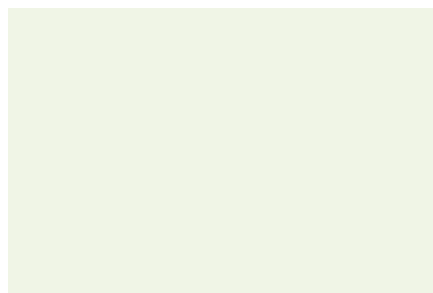




**Lakmal Gabadage**  
Senior Manager -  
*Regions*



**Aruni Nawarathne**  
Senior Manager -  
*Legal*



**Ruchira Bandara**  
Chief Manager -  
*Finance*



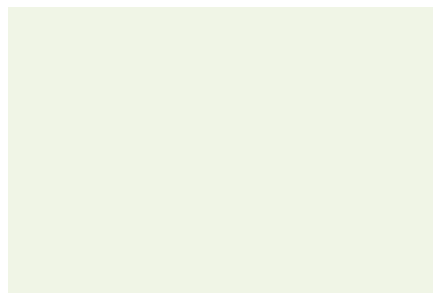
**Ranil Wickramaratne**  
Chief Manager -  
*Credit Administration*



**Dinesh Samaranayake**  
Chief Manager -  
*Recoveries*



**Prasanna Ranasinghe**  
Chief Manager -  
*Recoveries*



**Ajith Rathnamalala**  
Chief Manager -  
*Gampaha*



**Ranjith Gunaratne**  
Chief Manager -  
*Rathanapura*



## SENIOR MANAGEMENT TEAM



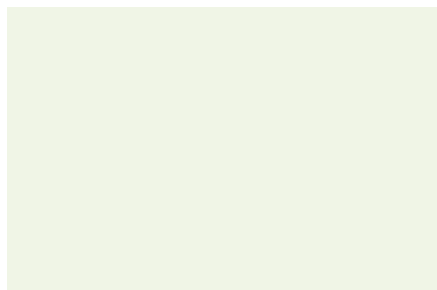
**Janaka Kumara**  
Chief Manager -  
*Embilipitiya*



**Wasantha Senanayake**  
Chief Manager -  
*Chilaw*



**Jagath Mendis**  
Chief Manager -  
*Galle*



**Dinesh Siriwardhana**  
Area Manager



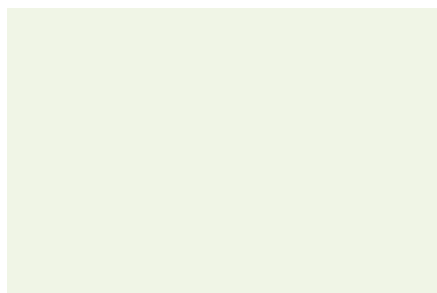
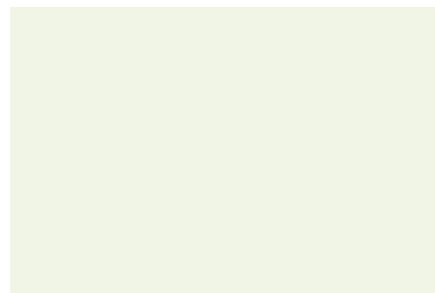
**Priyantha Rathnayake**  
Chief Manager -  
*Malabe*



**Rangana Rupasingha**  
Chief Manager -  
*Anuradhapura*



**Dilhan Liyanage**  
Chief Manager -  
*Rajagiriya*



**Madhura Jayasekara**  
Chief Manager -  
*Nugegoda*



**Chamara Priyadarshana**  
Area Manager

# MANAGEMENT DISCUSSION AND ANALYSIS

Showcases the growth over the years, and progress made during the financial year under review in creating value for Financial, Manufactured, Intellectual, Human, Social and Relationship, and Natural Capitals of Vallibel Finance PLC from both the Company and stakeholder viewpoints.

Our Approach to Setting Strategic Direction / 28

Our approach to sustainability / 32

Integrated Business Model / 37

Operating Environment Overview / 40

Stakeholder Engagement / 44

Materiality Analysis / 48

## Capital Management Review

Human Capital / 52

Financial Capital / 62

Manufactured Capital / 72

Intellectual Capital / 78

Social & Relationship Capital / 84

Natural Capital / 100

Business Review / 104





# OUR APPROACH TO SETTING STRATEGIC DIRECTION

## Formulating a Sustainable Corporate Strategy

Vallibel Finance PLC ensures that our overarching corporate strategy is aligned with the Company's vision and mission while material issues identified through the stakeholder engagement process are incorporated within the strategy formulating process. The Company's strategy formulation process is designed to encompass the Company's integrated thinking approach with available resources as well as internal flaws and gaps while taking advantage of the prevalent opportunities in the external environment. It also considers measures to offset possible challenges, risks and negative impacts that can develop in today's dynamic operating environment.

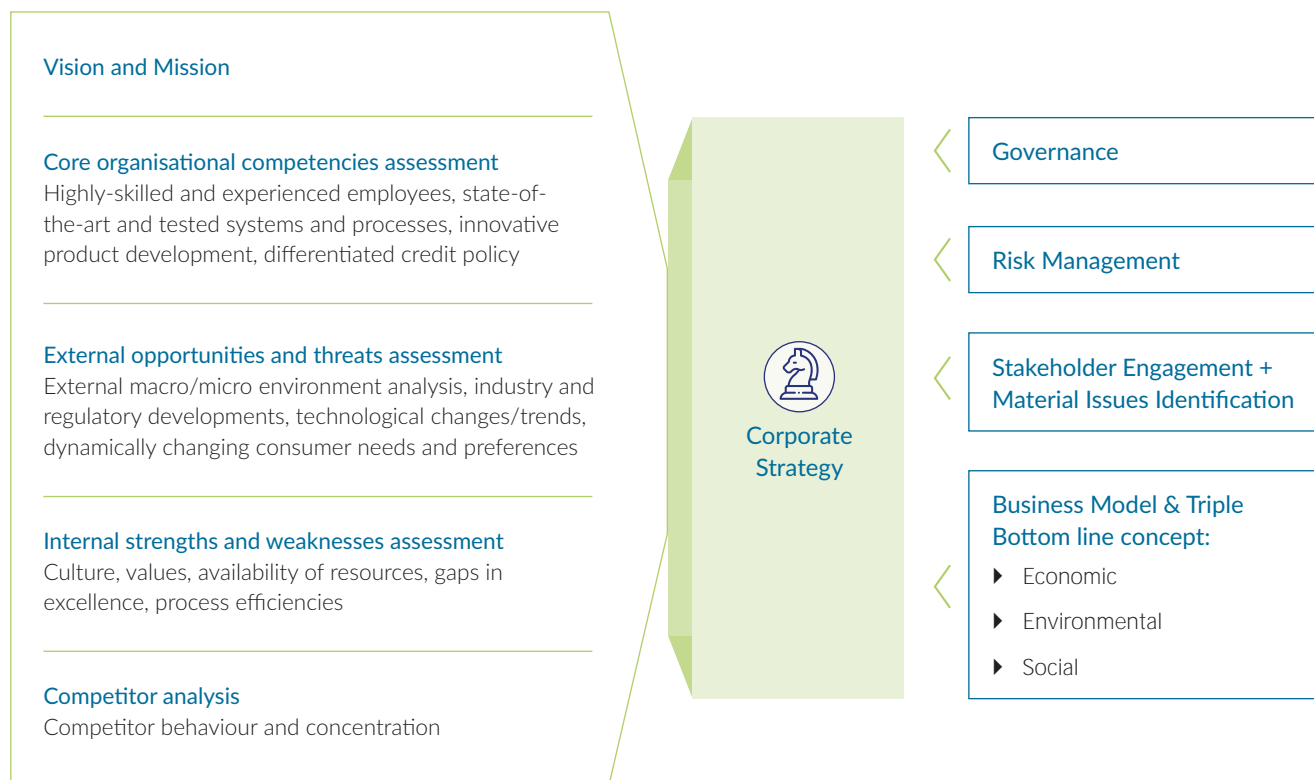
The Company's corporate strategy is developed on the premise of maintaining and increasing competitive advantage

in the marketplace. The knowledge, knowhow, and dedication of employees; high standards of customer service levels; technology adoption; customised product and service solutions; tried and tested systems and processes; and the Vallibel brand are the drivers of the Company's competitive advantage and the foundation on which the Company develops corporate strategies. As a financial services provider to the nation, Vallibel Finance must consider emerging market and consumer trends, competitor behaviour and concentration, as well as new technological, societal and external market developments which influence and impact the sustainability of our corporate strategy. With a Company culture which is ingrained with a deep sense of corporate responsibility towards building a sustainable nation, the triple bottom line concept is also integrated within the strategy formulation process thereby ensuring a cohesive

and integrated long-term strategic focus leading to the fulfilment of the Company's purpose. The Vallibel Finance business model which takes an integrated approach to transforming resources to create value for all stakeholders further supports the strategy formulation process.

During the year under review, Vallibel Finance incorporated key findings of stakeholder engagement (further described on pages 44 to 47 of this Annual Report) to ensure corporate strategy formulation was inclusive and all-encompassing from a stakeholder perspective. The Company's resource allocation plans too were developed by incorporating the seven material aspects identified for the year under review (refer pages 48 to 50 of this Annual Report) and by reviewing the availability of resources to efficiently and effectively implement the Company's strategies.

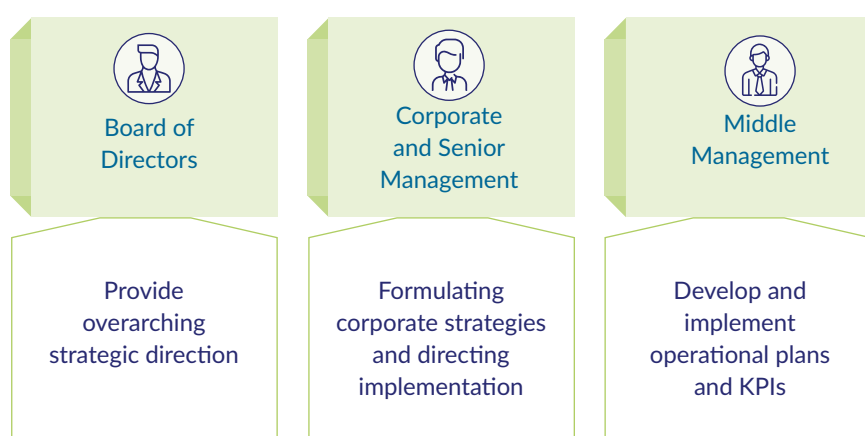
## Integrated Strategy Formulation Process





The Company's strategic formulation process is overlooked and directed by the highest levels of leadership and cascaded through the corporate and senior management to the middle management and other employees. The Board of Directors are responsible for providing strategic direction to ensure sustainable long-term business operations while the second level corporate and senior management team assist in strategy formulation and implementation. These strategies are then cascaded to the third tier of management, the Company's middle managers, who develop operational plans, departmental level KPIs and personnel level KPIs which are clearly communicated to the entire organisation thereby ensuring the Company's corporate strategy is reflected in short and medium term objectives while meeting the ultimate purpose of maximising stakeholder value.

**The Company uses an integrated approach to setting strategic direction which ensures meeting the needs of all stakeholders while progressing in the achievement of the Vallibel Finance vision and mission.**






### Strategic Pillars

Our corporate strategy is built on six deeply rooted strategic pillars which act as the guiding principles which help us navigate the myriad paths to becoming and sustaining a successful business enterprise. Each strategic pillar is interconnected thereby leading to the development of one integrated strategy which direct and drives business growth and success. The purpose of the Company which is explicitly stated in our vision – “To change the financial landscape of our country; bringing more people in more areas to become stakeholders of a national reawakening- is aligned to the Company’s strategic pillars which are used to develop our corporate strategy. The Vallibel Finance values plays an important role in guiding internal stakeholder behaviour and thus, is considered a strategic pillar in developing Vallibel Finance strategies.





## OUR APPROACH TO SETTING STRATEGIC DIRECTION

### Strategic Focus Areas for 2019/20

	Sustainable Business Growth	Strong Financial Performance	Internal Process Efficiencies	Employee Satisfaction	Enhanced Customer Experience	Delivery and Distribution
 <b>Key Stakeholders:</b>	<ul style="list-style-type: none"> <li>▶ Shareholders</li> <li>▶ Customers</li> <li>▶ Employees</li> <li>▶ Business Partners</li> <li>▶ Government Institutions and Regulators</li> <li>▶ Society/Community</li> </ul>	<ul style="list-style-type: none"> <li>▶ Shareholders</li> <li>▶ Employees</li> <li>▶ Business Partners</li> </ul>	<ul style="list-style-type: none"> <li>▶ Customers</li> <li>▶ Employees</li> <li>▶ Business Partners</li> </ul>	<ul style="list-style-type: none"> <li>▶ Employees</li> </ul>	<ul style="list-style-type: none"> <li>▶ Customers</li> </ul>	<ul style="list-style-type: none"> <li>▶ Customers</li> <li>▶ Employees</li> </ul>
 <b>Material Aspect</b>	<ul style="list-style-type: none"> <li>▶ Sustainable Growth of Earnings</li> <li>▶ Company Brand and Reputation</li> <li>▶ Commitment to the Environment</li> <li>▶ Community Upliftment</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sustainable Growth of Earnings</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sustainable Growth of Earnings</li> <li>▶ Ethics, Compliance and Good Governance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Managing Human Resources</li> </ul>	<ul style="list-style-type: none"> <li>▶ Customer Satisfaction</li> <li>▶ Ethics, Compliance and Good Governance</li> </ul>	<ul style="list-style-type: none"> <li>▶ Customer Satisfaction</li> </ul>
 <b>Strategic Driver</b>	<ul style="list-style-type: none"> <li>▶ Targeted marketing to pre-identified customer segments</li> <li>▶ Increasing island wide product and service reach</li> <li>▶ Introducing new products/ restructuring of existing products</li> <li>▶ Product mix management</li> <li>▶ Intensive brand building creating customer awareness through diverse marketing and promotional campaigns</li> </ul>	<ul style="list-style-type: none"> <li>▶ Leading the way in the industry amidst volatile market conditions</li> <li>▶ Maintaining sound capital management structures and optimum liquidity levels</li> </ul>	<ul style="list-style-type: none"> <li>▶ Achieving operational excellence through automation, lean processes and data analytics</li> <li>▶ Investments in IT capabilities</li> </ul>	<ul style="list-style-type: none"> <li>▶ Acquire and develop the skills required to achieve corporate strategic agenda</li> <li>▶ Foster a culture which embraces accountability and responsibility towards achieving professional excellence</li> <li>▶ Increase resources for employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>▶ Transformational customer experience through innovation, technology and data analytics</li> <li>▶ Investing in increased training for front-line employees</li> </ul>	<ul style="list-style-type: none"> <li>▶ Leveraging technology to bring digital experience and market access/ penetration</li> <li>▶ Improving customer convenience and experience through enhanced delivery methods</li> </ul>



	Sustainable Business Growth	Strong Financial Performance	Internal Process Efficiencies	Employee Satisfaction	Enhanced Customer Experience	Delivery and Distribution
 Key Performance Indicators	<ul style="list-style-type: none"> <li>▶ Island wide accessibility</li> <li>▶ Increasing products/service portfolio</li> <li>▶ Responsible business growth</li> <li>▶ Increasing market share</li> <li>▶ Adoption of sustainable business practices</li> </ul>	<ul style="list-style-type: none"> <li>▶ Revenue growth</li> <li>▶ Increase in other income</li> <li>▶ Profit growth</li> <li>▶ Reducing NPL ratio</li> <li>▶ Growth in lending portfolio</li> <li>▶ Growth in assets and deposits</li> <li>▶ Healthy liquidity position</li> <li>▶ Improving capital adequacy level</li> </ul>	<ul style="list-style-type: none"> <li>▶ Streamlining operational processes</li> <li>▶ Advanced use of data for analytics</li> <li>▶ Increased automation</li> <li>▶ Enhanced Customer relationship management processes</li> </ul>	<ul style="list-style-type: none"> <li>▶ Top of mind recall as an employer of choice</li> <li>▶ Succession planning</li> <li>▶ Retention of a high-quality workforce</li> <li>▶ Enhancing training programs</li> <li>▶ Focus on skills development</li> <li>▶ Working as one team</li> </ul>	<ul style="list-style-type: none"> <li>▶ Unparalleled customer experience and convenience</li> <li>▶ Enhancing customer privacy</li> <li>▶ Increasing customer base</li> <li>▶ Customer retention</li> <li>▶ Personal understanding of customer behaviour</li> </ul>	<ul style="list-style-type: none"> <li>▶ Integration of physical and digital channels</li> <li>▶ Unmatched customer service across all channels</li> </ul>
 Corporate Achievements 2019/20	<ul style="list-style-type: none"> <li>▶ Added one new branch</li> <li>▶ Re-launched the Wheel Draft product with new terms</li> <li>▶ Total assets increased to Rs. 51.42 Bn</li> <li>▶ Lending portfolio increased to Rs. 41.12 Bn</li> <li>▶ Deposit base increased to Rs. 29.24 Bn</li> <li>▶ Initiated monitoring the use of natural resources</li> </ul>	<ul style="list-style-type: none"> <li>▶ Growth of gross income 11.13%</li> <li>▶ Other Income amounted to Rs. 783.11 Mn</li> <li>▶ Growth of net profit 11.05%</li> <li>▶ NPL ratio of 5.01% below industry average</li> <li>▶ Growth in lending portfolio 5.55%</li> <li>▶ Growth in assets 7.90%</li> <li>▶ Growth in deposits 14.97%</li> <li>▶ Liquid assets ratio 18.97%</li> <li>▶ Total Capital Base Rs. 6.34 Bn</li> </ul>	<ul style="list-style-type: none"> <li>▶ Return on average equity 20.98%</li> <li>▶ Return on average assets 2.53%</li> <li>▶ Streamlining existing products to fit the market needs/ Introduction of new products</li> </ul>	<ul style="list-style-type: none"> <li>▶ Staff retention ratio 81.91%</li> <li>▶ Average hours of training per employee 30.79</li> <li>▶ Investment in training &amp; skills development programmes Rs. 5.21 Mn</li> <li>▶ Increasing investment in salaries and benefits by 16.14%</li> <li>▶ Profit per employee Rs. 1.28 Mn</li> </ul>	<ul style="list-style-type: none"> <li>▶ Modernised 05 existing branches</li> <li>▶ Enhanced customer convenience practices through technology adoption</li> <li>▶ Customer base: lending customers 62,345 and deposit customers 8,425</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increased accessibility by opening a new branch at Pelawatte</li> <li>▶ Total branch network – 41</li> <li>▶ Application of the new customer relationship management software for enhanced customer service</li> </ul>

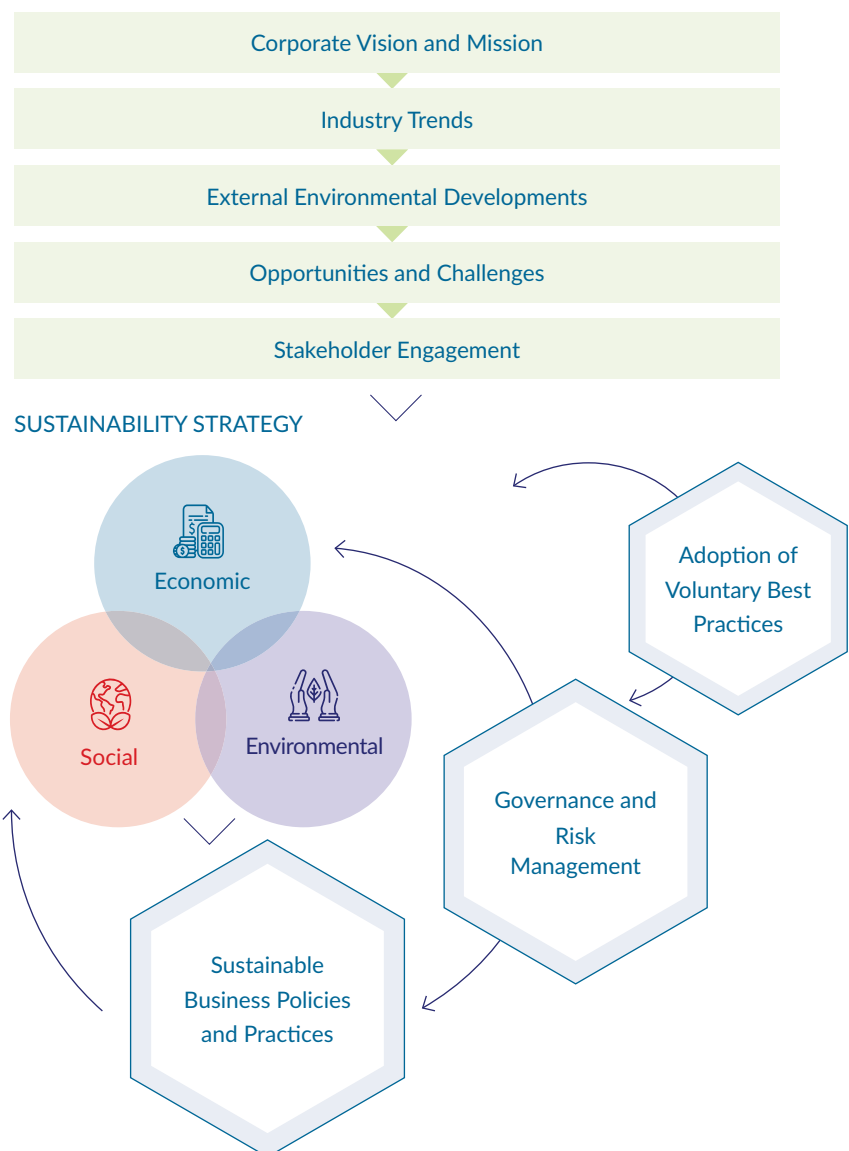
# OUR APPROACH TO SUSTAINABILITY

## Building a Business on the Foundation of Being Sustainable...

Undertaking business using a sustainable approach enables Vallibel Finance to clearly understand and keep track of the key impacts, risks, and opportunities which the business faces to remain sustainable over the long term while creating value for stakeholders.

For Vallibel Finance PLC, the adoption of sustainable business policies and practices has been an inherent part of our organisation since we began our business journey 13 years ago. We have constantly strived to incorporate the concept of sustainable business practices, even in a small way, which has resulted in such practices becoming a formal part of the Vallibel Finance culture. The Company's focus in this regard has today enabled us to formally adopt many voluntary best practices creating a stronger sustainable strategy while further instilling sustainable policies and practices within business operations. With the growth of Vallibel Finance, our sustainability strategy has become more integrated within our corporate strategy, while increasing resources are allocated to further enhance and develop the necessary skills, knowhow, and knowledge of sustainability. The strict adherence to governance principles and managing business risks also ensures added value to our sustainability strategy. Hence, today, the Company enjoys the benefits to be derived from a comprehensive sustainable business model ensuring not only short-term success of our endeavours but long-term benefits for all stakeholders in the future.

The Company's integrated approach to build a sustainable organisation supports the streamlining of internal competencies, uses resources more efficiently and effectively, engages with stakeholders, and identifies industry and market developments. As such, Vallibel Finance has been successful in strengthening business performance, becoming more customer centric, offering innovative products and services, improving operational quality, increasing financial stability, and enhancing the Vallibel Finance brand value. These aspects



further reiterate the Company's belief that our sustainable business approach is critical to retain a competitive position in our dynamically changing industry environment and ensures sustained business growth, while pursuing value creation for all our stakeholders.

Highlights of the Company's value creation to economic, environmental and social indicators over the last three financial years, showcases our year-on-year success because of our approach to sustainability. More in-depth information is available in the capital reports reviews from pages 52 to 103 of this Annual Report.



## Economic Sustainability

Related Capitals:



KPI	Performance			Challenges & Risks	Opportunities	Approach by Vallibel Finance
	2017/18	2018/19	2019/20			
Earnings per share (Rs.)	23.59	20.37	21.29	<ul style="list-style-type: none"> <li>Changes to regulations and financial policy</li> </ul>	<ul style="list-style-type: none"> <li>Changing socio-economic status of consumers increasing the size of the target market</li> </ul>	<ul style="list-style-type: none"> <li>Focus on developing financial products which are relevant to our target market</li> </ul>
ROE (%)	34.77	25.73	20.98	<ul style="list-style-type: none"> <li>Economic Stability</li> </ul>	<ul style="list-style-type: none"> <li>Good market reputation attracting investors</li> </ul>	<ul style="list-style-type: none"> <li>Focus on business development and growth</li> </ul>
Cost to income ratio (%)	41.69	40.93	39.48	<ul style="list-style-type: none"> <li>Increased cost of living</li> </ul>	<ul style="list-style-type: none"> <li>Increasing use of technology by consumers</li> </ul>	<ul style="list-style-type: none"> <li>Adequate cost control measures in place</li> </ul>
NPL (%)	2.72	3.02	5.01	<ul style="list-style-type: none"> <li>Depreciation of the rupee</li> <li>Sluggish GDP and economic growth</li> <li>Investors growing interest in the future potential of the Company</li> </ul>		
Taxation (Rs. Mn)	875.76	1,156.89	1,188.48	<ul style="list-style-type: none"> <li>Reputation risk if tax regulations are not adhered to</li> <li>Frequent changes to taxation policies</li> </ul>	<ul style="list-style-type: none"> <li>Building stronger relationships with regulators</li> </ul>	<ul style="list-style-type: none"> <li>Making timely tax payments as laid out by regulators and the Government</li> <li>Adapting to new tax laws in a timely manner</li> </ul>
No. of new jobs created	352	323	290	<ul style="list-style-type: none"> <li>People not having the necessary qualifications</li> <li>Sluggish GDP and economic growth slowing down branch openings</li> </ul>	<ul style="list-style-type: none"> <li>Assist in the economic development of the locale</li> <li>Assist in increasing employment in the region</li> </ul>	<ul style="list-style-type: none"> <li>Employ people from communities surrounding branch locations</li> <li>Open new branches in newly prospering towns with limited access to financial products and services</li> </ul>
Local Procurement (%)	100%	100%	100%	<ul style="list-style-type: none"> <li>Practicing ethical procurement policies</li> <li>Choosing foreign suppliers over local suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Assist in the economic development of the locale</li> <li>Strengthen partnerships with local communities and other stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Adhering to procurement policies stipulated by regulators</li> <li>Pursuing business partnerships with local supplies as feasible</li> </ul>
Introduction of new products (Nos.)	1	1	1	<ul style="list-style-type: none"> <li>Market research failures</li> <li>Customers not accepting new products as expected</li> <li>Fast changing customer expectations</li> <li>Availability of competencies to adapt to changes in market requirements</li> </ul>	<ul style="list-style-type: none"> <li>Attract new customer segments</li> <li>Increase market share</li> </ul>	<ul style="list-style-type: none"> <li>Revise and re-innovate products and services</li> </ul>

## OUR APPROACH TO SUSTAINABILITY



### Environmental Sustainability

Related Capitals:



KPI	Performance			Challenges & Risks	Opportunities	Approach by Vallibel Finance
	2017/18	2018/19	2019/20			
Increasing focus on environmental sustainability initiatives	-	01	03	<ul style="list-style-type: none"> <li>Identifying the optimal initiatives to invest in</li> <li>Reduced focus when other business matters take precedence as the Company's impact on the environment is limited and mainly indirect due to the nature of the business</li> <li>Growing environmental concerns in lending by stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Focusing on promoting investment in environmentally friendly business opportunities through targeted product and service offerings</li> <li>Offering better terms and conditions to customers investing in environmentally friendly products, thereby increasing market share</li> </ul>	<ul style="list-style-type: none"> <li>Encouraging employees to adopt environmentally friendly practices at work and at home</li> <li>Setting up Green Lending Facilities for use by customers</li> </ul>



### Social Sustainability

Related Capitals:



KPI	Performance			Challenges & Risks	Opportunities	Approach by Vallibel Finance
	2017/18	2018/19	2019/20			
Investment in Training and Development (Rs. Mn)	Data not available	9.20	5.22	<ul style="list-style-type: none"> <li>Employees leaving to work for competitors after receiving training</li> <li>Increasing costs of training and development programmes</li> </ul>	<ul style="list-style-type: none"> <li>Enhancing work life balance</li> <li>Increasing employer brand reputation</li> </ul>	<ul style="list-style-type: none"> <li>Focus on employing only the most suitable candidates for the job</li> <li>Improve employee retention mechanisms</li> </ul>
Male to Female ratio	2.33	2.13	2.26	<ul style="list-style-type: none"> <li>Difficulties in encouraging women to enter the workforce due to lack of childcare facilities and cultural norms</li> </ul>	<ul style="list-style-type: none"> <li>Contribute towards increasing the diversity of the Sri Lankan workforce to align with international standards</li> </ul>	<ul style="list-style-type: none"> <li>Focus on building an open and empowered corporate culture</li> </ul>
Employee Retention (%)	Data not available	83.16	81.91	<ul style="list-style-type: none"> <li>Retaining talented staff members</li> <li>Cost of recruitment and training</li> <li>Staff leaving to work for competitors</li> </ul>	<ul style="list-style-type: none"> <li>Enhancing work life balance and employee engagement opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Being conferred the title of a Great Place to Work in Sri Lanka for two consecutive years</li> <li>Training and development for key personnel</li> <li>Mentorship programmes for identified personnel for the future HR pipeline of the Company</li> </ul>





KPI	Performance			Challenges & Risks	Opportunities	Approach by Vallibel Finance
	2017/18	2018/19	2019/20			
Investment in Community Development Projects (Rs. Mn)	Data not available	7.91	1.20	<ul style="list-style-type: none"> <li>▶ Difficulty in choosing the right project</li> <li>▶ Many more projects than the Company can invest in</li> </ul>	<ul style="list-style-type: none"> <li>▶ Build closer relationships with communities</li> <li>▶ Assist in socio-economic development</li> </ul>	<ul style="list-style-type: none"> <li>▶ Strategically select projects which give the most benefit to the community</li> <li>▶ Ad-hoc selection of projects based on current needs in case of disaster</li> </ul>
Investments in information technology and data security systems (Rs. Mn)	20.08	58.28	9.69	<ul style="list-style-type: none"> <li>▶ Cyber hacking continues to become more sophisticated</li> <li>▶ High cost of investments in IT</li> <li>▶ Availability of internal competencies to adapt to new technologies</li> </ul>	<ul style="list-style-type: none"> <li>▶ Using renowned security systems making the Company more customer centric, thereby increasing customer retention</li> <li>▶ Enhancing customer trust for future growth of the customer base</li> </ul>	<ul style="list-style-type: none"> <li>▶ Period reviews of technology to ensure alignment with new external IT developments</li> <li>▶ Using the best available technology and software to protect customer data and enhance cyber security</li> </ul>
Investment in social media and digital marketing (Rs. Mn )	Data not available	0.07	0.96	<ul style="list-style-type: none"> <li>▶ Reputation risk as much communication takes place online today</li> <li>▶ Consumer preference for different social media platforms, making it a challenge to identify the right platform the right target audience</li> <li>▶ Availability of internal competencies to adapt to new forms of communication</li> </ul>	<ul style="list-style-type: none"> <li>▶ Attract consumers who are Millennials and Generation Y individuals</li> <li>▶ Growing influence of digital marketing</li> </ul>	<ul style="list-style-type: none"> <li>▶ Utilising different social media platforms to reach different customer segments</li> </ul>

# PLANNING WITH DEDICATION

Our corporate and sustainability strategies are integrated with the business model enabling Vallibel Finance to plan with dedication to meet the dual demands of business success and stakeholder expectations.



# INTEGRATED BUSINESS MODEL

## Our approach to remain a viable business in the long term and continuously create value to stakeholders...

The business model adopted by Vallibel Finance considers myriad perspectives from global and local macroeconomic developments, changing technology and regulatory imperatives, shifting consumer wants and needs, to internal resource and process availability and effectiveness, thereby ensuring a focused and sustainable strategy to achieve corporate vision and mission.

Being a part of the dynamically evolving financial sector landscape of Sri Lanka, Vallibel Finance PLC takes an integrated approach to transforming resources to create value for all stakeholders. This concept is ingrained within the Company's business model which ensures all capital inputs are managed and enhanced through stringent and dedicated business systems and processes which are then returned as outputs which are greater than the sum of all parts.

The Company's value creation approach is based on the integrated reporting format which segregates an organisation's value creation in terms of six key capitals, namely Financial, Manufactured, Intellectual, Human, Social and Relationship and Natural. The strategic management of these six capitals is governed by the Company's principles of sustainability and stewardship thereby ensuring that Vallibel Finance can achieve year-on-year sustainable business growth.

The Company's business model is also impacted by external factors – the global and local macroeconomic developments, the financial sector landscape of Sri Lanka, and technological advances which change the way in which business is conducted. The dynamism of the external operating environment remains a challenge for the Company while its impact can sometimes be unexpected and unforeseen. However, to mitigate such risks the Company has in place a

robust risk management and corporate governance frameworks as well as stringent operational controls.

As a responsible corporate, Vallibel Finance places much emphasis on being sustainable, and adopts the principles of triple bottom line in business operations, thereby taking a holistic approach which considers both business impact from a financial and non-financial perspective to create long-term value to stakeholders. To maintain a viable business model, Vallibel Finance also places equal emphasis on managing internal and external factors which can impact the long-term value creation process.

Our business model is straightforward, and we believe it shows a clear strategy aligned with our vision, mission, values, goals and strategic objectives. Together with a sustained engagement mechanism to communicate with our stakeholders, the Vallibel Finance business model is the key to creating and delivering long-term value to meet stakeholder expectations.

### Strategic Resource Allocation

To create value to our capitals and consequently for our stakeholders, the Company has in place a robust stakeholder engagement process which assists in deriving the significant material topics to both the Company and our stakeholders. Furthermore, the stakeholder engagement process and the resultant identification of material topics help the Company to allocate scarce and

limited resource optimally to meet the Company's strategic goals while working towards delivering on our mission. The Company's overarching strategic goals are then drilled down in terms of goals to be achieved by the six capitals. These key goals are then converted to annual targets to be achieved by the business lines, business functions, and individual employees. The achievement of these goals is discussed in the relevant capital management reviews in this Annual Report.

# INTEGRATED BUSINESS MODEL

## INPUTS



### Financial Capital

Combination of funds generated through equity, customer deposits and other short-term and long-term funding sources which is made available and allocated to businesses, customers and business partners.



### Manufactured Capital

Investments in property, plant and equipment including our branch network, service centres and office furniture and equipment and investments in information technology which enables the Company to carry out business operations.



### Intellectual Capital

Investments in intangible assets such as brand and reputation as well as knowledge retention, corporate culture, and ethical business practices which dictates the Company's way of doing business.



### Human Capital

The investments and resources directed at our employees who are integral to our business growth and success.



### Social and Relationship Capital

The strong bonds formed with our key stakeholders—customers, employees, shareholders, business partners, Government Institutions and regulators and society/ community.



### Natural Capital

The natural resources used in carrying out day-to-day business operations.

## VALUE CREATION PROCESS

### Internal Inputs



Vision, Mission & Values (page 3 & 80)



Stakeholder Engagement (page 44 to 47)



Material Topics (page 48 to 50)

### External Inputs (page 40 to 43)



Fundamental changes in industry



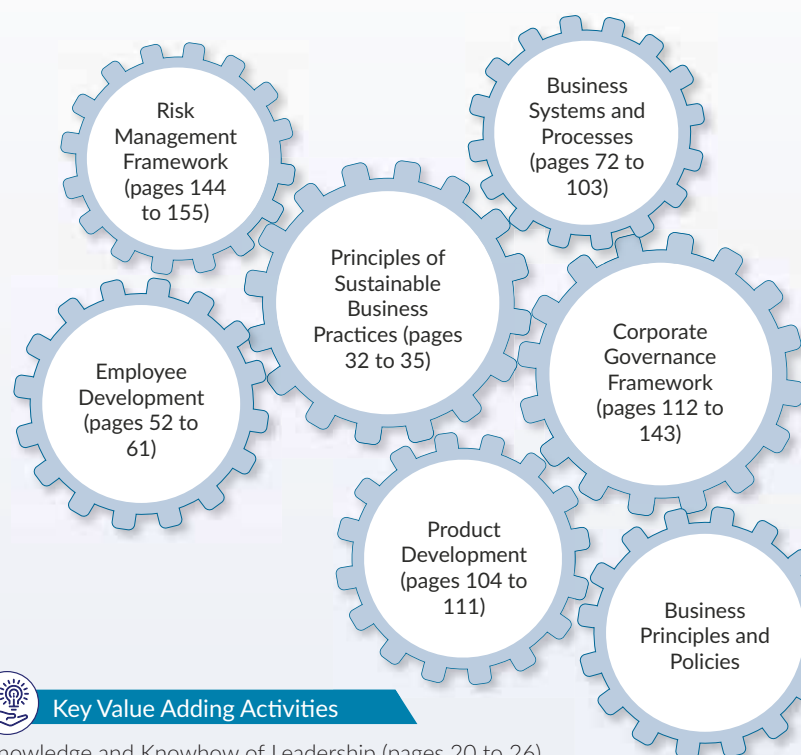
Macroeconomic Factors



Changing Consumer Wants

### Strategic Direction (pages 28 to 31)

### Key Business Systems and Process



### Key Value Adding Activities

Knowledge and Knowhow of Leadership (pages 20 to 26)

Empowered and committed workforce (pages 52 to 61)

Brand reputation and Image (pages 78 to 82)

Principles of customer relationship management (pages 72 to 77)

Ethical business practices (pages 78 to 82)

Continuous learning and development (pages 52 to 61)



### Output

Products and services (pages 104 to 111)

High quality customer services (pages 84 to 92)

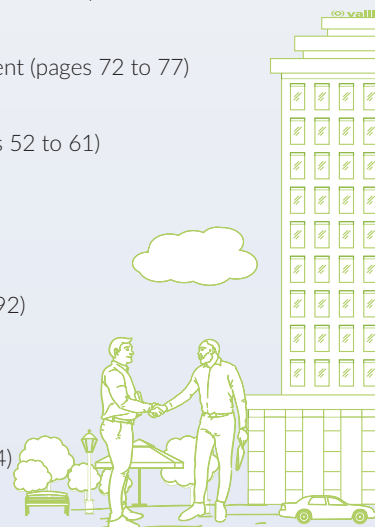
Branch network expansion (pages 72 to 77)

Increasing employment (pages 52 to 61)

Financial growth (pages 62 to 71)

Robust business partnerships (pages 93 to 94)

Empowered communities (pages 95 to 99)





## VALUE CREATED FOR THE CAPITALS



### Financial Capital

- ▶ Total assets increased to **Rs. 51.42 Bn**
- ▶ Lending portfolio increased by **5.55%** to **Rs. 41.12 Bn**
- ▶ Net interest income increased to **Rs. 4.06 Bn**
- ▶ Deposit base increased to **Rs. 29.24 Bn**



### Manufactured Capital

- ▶ Property, Plant and Equipment increased to **Rs. 1.76 Bn**
- ▶ One new branch opened, hence total branches - **41**
- ▶ Fixed asset investment during the year - **Rs. 205.5 Mn**



### Intellectual Capital

- ▶ Brand value **Rs. 1,152 Mn**, as reported by Brand Finance Sri Lanka
- ▶ Credit rating - **(SL) BBB** with stable outlook
- ▶ **Three** new Awards received during the year



### Human Capital

- ▶ Training & Development investment during the year **Rs. 5.22 Mn**
- ▶ Salaries and benefits paid increase by **16.14%**
- ▶ No. of new jobs created - **290**
- ▶ Increased employee cadre to **979** as at 31st March 2020



### Social and Relationship

- ▶ Customer base: lending customers **62,345** and deposit customers **8,425**
- ▶ Planned and implemented **16** new CSR projects
- ▶ Total amount invested in community development projects - **Rs. 1.20 Mn**



### Natural Capital

- ▶ Enhanced policies for Natural Capital conservation
- ▶ Initiated monitoring the use of natural resources

## VALUE CREATED FOR STAKEHOLDERS



### Customers

- ▶ Gross loan disbursement **Rs. 21.55 Bn**
- ▶ Paid **Rs. 3.25 Bn** as interest to deposit holders
- ▶ Increased accessibility by opening a new branch at Pelawatte
- ▶ Modernised **05** existing branches to improve customer convenience



### Employees

- ▶ Paid **Rs. 1.05 Bn** in salaries and benefits
- ▶ Offered **62** internal and **47** external training programs
- ▶ Average hours of training per employee **30.79**
- ▶ **151** employees promoted to the next grade



### Shareholders

- ▶ Return on Equity **20.98%**
- ▶ Maintained transparent, timely and relevant investor communication and reporting practices



### Business Partners

- ▶ Paid **Rs. 1.44 Bn** as interest to financial service providers
- ▶ Payments to other business partners - **Rs. 434.56 Mn**



### Government Institutions and Regulators

- ▶ Paid **Rs. 1.19 Bn** as taxes to government
- ▶ Strengthening the capital adequacy to meet regulatory level requirements



### Society/Community

- ▶ Sponsored **16** programmes for community development and upliftment
- ▶ Created **290** new job opportunities

# OPERATING ENVIRONMENT OVERVIEW

## Global Economic Outlook

Global economic growth continued to slowdown in 2019 at an estimated rate of 2.9% compared to 3.3% achieved in 2018, amidst weakening manufacturing, trade and investment due to geopolitical tensions, climate change impacts, social unrest, key industry-specific developments, and country-specific developments in key emerging market economies. Growth in India, Mexico, and South Africa was slower than expected, while the advanced economic group of countries also recorded slower growth as predicted, led by the much slower growth experienced in the USA in 2019. Global economic growth was supported by the alternating favourable news of US-China economic relations, and reduced fears of a no-Brexit deal. The stabilisation achieved in the fourth quarter of the year also supported growth due to accommodative monetary and fiscal policy measures in countries including China, Korea, and the United States. The last quarter of 2019 also saw some improvements in business sentiment and the outlook in the global manufacturing sector aided by the launch of new tech products, the decline in inventory accumulation, and adaptation to new emissions standards. Service sector activity while slowing down showed a slight growth supported by consumer spending.

(Source: World Economic Outlook Update, January 2020, IMF)

Global growth projection for 2020 and 2021 have however been revised since, mainly due to the advent of COVID-19 in the first quarter of 2020. The Chinese economy was one of the first impacted due to severe lockdown measures adopted to reduce the spread of the virus and safeguard lives. However, as the virus spread across the globe, most large and small emerging and advanced economies went into lockdown mode to preserve the health of its people. Thus, global growth projection is expected to contract by minus 3% in 2020, a situation much worse than that experienced during the financial crisis of 2008–09. Global growth projection for 2021 is expected to be 5.8% if the lockdown situation eases in the latter half of 2020, with economies

slowly reopening and economic activity reverting to normal with conducive policy measures being implemented both domestically and internationally.

(Source: World Economic Outlook, April 2020, IMF)

## Impact on Vallibel Finance

The slow economic activity in the global macroeconomic environment indirectly impacted Vallibel Finance because the cascading effects slowed the performance and growth of the Sri Lankan economy and caused investor and business confidence to decline during the year under review which caused business growth to slow down. In the forthcoming year, the impact of COVID-19 will be reflected in all global economic activity and the reduced levels of growth forecast for key global economies such as the USA, China, and India with whom Sri Lanka has extensive trade relations, will have a rippling negative effect on Sri Lanka's economic activity as well as slowdown economic growth. This reduction in economic activity could further deteriorate the performance of the LFCs and SLCs sector which is currently faced with issues of rising NPL ratios, trust issues, and increasing credit issues. The sector's performance will resultantly impact the future growth plans and progress of Vallibel Finance.

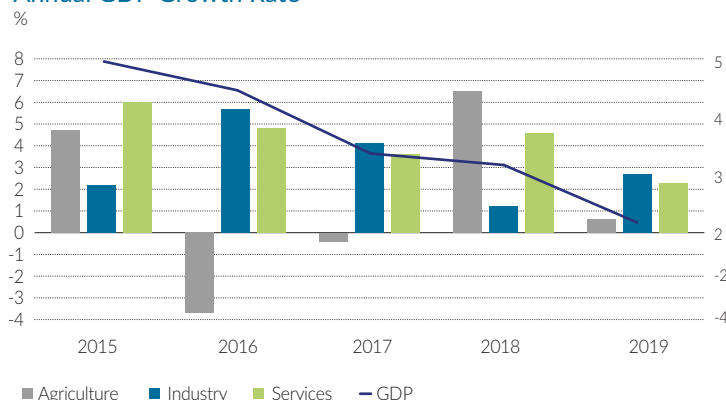
## Sri Lankan Economic Outlook

Sri Lanka's economy grew only by 2.3% during 2019, continuing its downward growth trend of the last few years. Growth prospects continued to be impacted from the pressure on the agricultural sector due to adverse weather patterns, and a slowdown in the services sector from the severe impact on tourism post Easter Sunday attacks of April 2019. Cascading negative impacts of the Easter Sunday attacks further lessened business confidence and reduced demand for goods and services, while the unpredictable weather conditions disrupted domestic food supplies causing some volatility in consumer prices. Policy measures implemented to reduce the pressure on

the balance of payments (BOP) and to curb the depreciation of the Sri Lankan rupee also continued in 2019.

The agricultural sector achieved only a 0.6% growth compared to 6.5% in 2018, mainly due to contracted growth in tea, rubber, marine fishing and marine aquaculture subsectors and forestry and logging activities. The services sector recorded a growth of only 2.3% in 2019 compared 4.6% growth recorded in 2018 supported by the double-digit growth of the information and communication subsector and activities in wholesale and retail trade. The industrial sector recorded a 2.7% growth in 2019 compared to only 1.2% in 2018, supported mainly by the growth of construction, and mining and quarrying activities.

## Annual GDP Growth Rate



Source: CBSL Annual Report 2019





Taking an expenditure approach, GDP growth was driven by increasing consumption expenditure which grew by 3.5% in real terms in 2019, due to growth in both household and government expenditure. External demand for goods and services which grew in real terms by 23.2% also supported GDP growth. However, a sharp decline was seen in investments, which recorded a negative real growth of 9.5%, as both domestic and national savings declined during the year. However, the higher contraction in investment expenditure resulted in reducing both the domestic savings-investment gap and the national savings-investment gap by 6.1% and 2.1% of GDP, respectively in 2019. Therefore, share of consumption expenditure in GDP at current prices increased to 78.7%, while the share of investment in GDP at current prices declined sharply to 27.4% in 2019. Net external demand for goods and services improved in real terms by 23.2% and its share in GDP at current prices also improved to -6.1% in 2019.

Due to subdued economic activity, the country's unemployment rate increased to 4.8% in 2019 compared to the 4.4% recorded in 2018. Despite the increased unemployment rate, the nation's employment rate increased by 2.1%, mainly due to the increased Labour Force Participation Rate (LFPR) of females which increased from 33.6% in 2018 to 34.5% in 2019. The services sector, the largest sector of the economy, employed 47.1% of the employable population, while the industry sector employed 27.6%, and the agriculture sector employed 25.3%.

Meanwhile, subdued demand conditions enabled inflation to be maintained at between 4-6% during 2019, albeit at higher levels than seen in 2018. By end-December 2019 the CCPI inflation rate recorded at 4.8%, while the NCPI inflation rate recorded at 6.2%. Together with the reduced pressures in the external sector the Central Bank of Sri Lanka (CBSL) was able to adopt an accommodative monetary policy stance and expedited the transmission

of monetary policy measures to the economy through regulatory action aimed at reducing interest rates.

While some fluctuation was recorded in the Sri Lankan rupee against the US dollar, the exchange rate was mostly stable during 2019, recording a 0.6% appreciation against the US dollar compared to the 16.4% depreciation recorded in 2018. Further appreciation of the rupee was stifled by the Easter Sunday attacks and the increasing uncertainties in global markets towards the end of 2019.

Following the presidential election at the end of 2019, fiscal policy measures to revive the economy were put into effect. As a result, domestic economic activity started to show early responses and business sentiment improved at the beginning of 2020. While the first two months of 2020 recorded some growth in economic activity, the emergence of the COVID-19 pandemic on a global scale in March 2020 resulted in the government adopting containment measures to reduce spread of the virus. The resultant lockdown situation which began on 20th March 2020 continues to be in effect and has had a severe adverse impact on short-term economic activity, while causing difficulties for all stakeholders of the economy. However, the country's low inflation environment coupled with the high levels of capital and liquidity buffers of the banking sector has enabled the CBSL to support Government efforts to ease the burden on businesses and individuals. While much is dependent on the reopening of the economy and the restart of economic activity in the coming weeks, the Government will also have to fast track implementation of appropriate growth supportive reforms to address longstanding structural issues, enhance domestic production, attract foreign direct investment, facilitate innovation, improve factor productivity and efficiency, and become more export oriented while also improving policy buffers to ensure Sri Lanka's economic recovery amidst the myriad uncertainties which abound both domestically and globally.

(Source: CBSL Annual Report 2019)

### Impact on Vallibel Finance

Sri Lanka's slowly declining economic growth rate, fluctuating interest rates, reducing investor and business confidence levels, as well as the contraction of new opportunities within the macroeconomic environment will impact the performance and growth opportunities available to the LFCs and SLCs sector while increasing sector operating risks. Sector performance deterioration will impact Company performance, and slowdown growth of Vallibel Finance in the near term. Furthermore, reduced economic activity and growth will put pressure on business expansion plans, increase risk factors, impact growth of deposits and lending portfolios, and resultantly reduce the Company's income earning prospect, increase costs of operations, and impact profitability levels in near term. Fluctuations in interest rates, currency depreciation, and rising inflation will cause challenges in terms of maintaining optimal pricing and interest rates on deposit and lending products.

### Financial Sector of the Sri Lankan Economy

The financial sector recorded a slower performance in 2019, although timely regulatory interventions ensured the stability of the national financial system causing no major macro-prudential concerns. Subdued economic activities, uncertainties caused by the Easter Sunday attacks, and the political instability which prevailed during the year moderated the sector's expansion, credit quality, profitability, and resulted in further deteriorated the Non-Performing Loans (NPL) ratio.

The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector faced a challenging 2019, recording deteriorating performances in terms of negative credit growth, declining profitability, and significantly increasing NPLs ratios during the latter part of the year. As such, the asset base of the LFCs and SLCs sector recorded only a marginal growth in 2019. However, the sector

## OPERATING ENVIRONMENT OVERVIEW

was successful in maintaining capital and liquidity buffers well above the regulatory minimum levels. The reduced economic activities, declining lending activities, and the loss of investor amidst security concerns created by the Easter Sunday attacks were the main cause of the slowdown of the sector's performance. Despite this slower growth, the LFCs and SLCs sector contributed to economic growth due to expanding branch networks and the provision of enhanced services to customers using technology-based products/services to facilitate financial inclusion across the nation.

Despite the challenging global and local business environment, banks and other deposit taking financial institutions showed resilience throughout the year, and successfully maintained capital and liquidity levels well above the regulatory minimum levels. However, the total assets of the banking sector recorded a slower growth in 2019 mainly due to reduced demand for loans and advances, and more stringent credit screening policies adopted to manage the deteriorating NPL ratio, which recorded the lowest level since 2014. Thus, year-on-year growth in investments increased; buoyed by larger funds being moved to Treasury bills and Treasury bonds. As a result, both the Risk Weighted Capital Adequacy Ratio (RWCAR) and Statutory Liquid Assets Ratio (SLAR) of the banking improved considerably in 2019. Total borrowings of the banking sector decreased in 2019 compared to 2018, although profitability declined in terms of return on assets and return on equity, mainly a result of the deterioration in assets quality and the increase in operating costs and taxes.

The insurance subsector, Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF) recorded a moderate growth during the year, while the domestic money market experienced a mixed performance during 2019.

### LFCs and SLCs Sector Economic Performance

#### Snapshot of the LFCs/SLCs Sector

	2019	2018	2017
<b>Assets</b>			
Total Assets (Rs. Bn)	1432.7	1431.3	1355.0
Loans and Advances (Net) (Rs. Bn)	1102.7	1137.0	1057.1
Gross Non-Performing Advances to Total Advances (%)	10.6	7.7	5.9
Net Non-Performing Advances to Total Advances (%)	3.4	2.4	1.5
<b>Liquidity</b>			
Total Deposits (Rs. Bn)	756.7	716.8	686.7
Total Borrowings (Rs. Bn)	405.6	463.8	396.0
Regulatory Liquid Assets to Total Assets (%)	8.6	7.6	8.9
Regulatory Liquid Assets to Deposits & Borrowings (%)	11.3	9.6	11.7
<b>Capital</b>			
Capital (Rs. Bn)	203.2	183.7	169.7
Core Capital (%)	11.1	9.8	12.4
Total Risk Weighted Capital (%)	12.5	11.1	13.1
<b>Earnings</b>			
Interest Income (Rs. Bn)	259.8	241.5	231.5
Net Interest Income (Rs. Bn)	117.4	108.8	102.7
Profit Before Tax (Rs. Bn)	32.8	39.7	43.2
Return on Assets (Annualised) (%)	2.2	2.7	3.2
Return on Equity (Annualised) (%)	7.5	12.1	16.1

Source: CBSL Annual Report 2019

By end-December 2019, the LFCs and SLCs sector comprised of 42 LFCs and 4 SLCs with 1,432 branches and 599 service centres, pawning centres, and collection centres across the country. Of the total branches, 66% (952 branches) were located outside the

Western Province. The growth of the sector was challenged by several factors, but due to the maintenance of capital and liquidity well-above regulation levels, the sector remained stable throughout the year. The funding mix comprised a larger share of deposits compared to borrowings which declined by 12.6 % during 2019. Prudential measures to maintain the stability of the sector continued to be maintained by the CBSL with emphasis given to reviving the business operations of LFCs with supervisory concerns. Thus, the profit after tax of LFCs and SLCs sector declined by 31.9% in 2019 compared to 2018, mainly due to the increased non-interest expenses and higher loan loss provisions. The sector's asset base recorded only a marginal 0.1% growth to Rs. 1,432.7 Bn compared to the 5.6% growth achieved in 2018. Loans and advances comprised of 77% of total assets with finance leases accounting for the largest share at 52.9% while other secured loans were 37% of the gross loans and advances portfolio of the sector.

#### Movements in the Lending Portfolio

The continued macro-prudential policy measures adopted to restrict motor vehicle imports and the restrictions placed on lending towards the purchase of vehicles resulted in lending activities of the sector slowing down further during 2019. The sluggish economic and commercial activities caused by both the Easter Sunday attacks and the political instability which prevailed prior to the Presidential Election resulted in a loss of business confidence and further deteriorated the lending portfolio of the sector. Thus, the credit facilities granted by the sector declined by 3% to Rs. 1,102.7 Bn during 2019, compared to the 7.6% growth achieved in 2018. The lending portfolio of the sector comprised Rs. 3.9 Bn in finance leases, Rs. 20.8 billion in secured loans, and Rs. 4.3 Bn in hire purchases, while share of pawning advances increased by Rs. 15.5 billion and loans against deposits increased by Rs. 0.6 Bn during the year.

#### Movements in the Investment Portfolio

The investment portfolio of the LFCs and SLCs sector comprising investments in equities, capital market debt instruments, Government securities, and investment



properties increased by 20.5% to Rs. 22.5 Bn in 2019. This positive outlook was supported by the increased investment in Government securities maturing in less than 12 months, investment in shares, units and debt securities held for trading, and investment properties. Other assets increased by 7.1% to Rs. 13.2 Bn due to increased placements in banks and financial institutions.

### Movements in Deposit Base

Customer deposits continued to comprise the larger share of the sector's finance mix and accounted for 52.8% of the total liabilities of the LFCs and SLCs sector. Deposits, which grew by 5.6% to Rs. 39.9 Bn during the year, were the main source of funding of the increasing assets of the sector.

### Movements in Capital Structure

The heightening regulatory requirements for LFCs to enhance the minimum core capital levels to meet Rs. 2.0 Bn requirements by 1st January 2020 resulted in improving the capital position of the LFCs and SLCs sector in 2019. Thus, equity capital increased by 10.6% amounting to Rs. 203.2 Bn by end-2019. The sector's core capital stood at 11.1% by end-December 2019 compared to 9.8% at the end of 2018. The total RWCARs was 12.5% by the end of the year compared to 11.1% recorded at the end of December 2018. Overall, the sector remained resilient with capital maintained at healthy levels during the year.

### Non-Performing Loans Ratio

The gross Non-Performing Loans (NPL) ratio continued to increase in 2019, recording 10.6% compared to 7.7% in 2018. The significant increase was a sign of deteriorating asset quality caused by the lower levels of economic activity due to the cascading effects of the Easter Sunday attacks and the political instability of the country which in turn caused a loss of investor confidence and declined the lending activities of the LFCs and SLCs sector. Profitability of the sector was also negatively impacted due to the higher loan loss provisions made the sector against the increasing non-performing loans. The implementation of the Sri Lanka Financial Reporting Standard (SLFRS) 9 is expected to have a further negative impact on the NPL ratio of the sector.

### Profitability

The profitability of the LFCs and SLCs sector declined by 31.9% during 2019, recording a profit after tax of Rs. 14.5 Bn mainly a result of increasing non-interest expenses and higher loan loss provisions caused by reduced economic activity and increasing uncertainties in the marketplace. Resultantly, the sector's Return on Assets (ROA) ratio stood at 2.2% as at the end of 2019 with ROA decreasing by 56 basis points during 2019. Correspondingly, the Return of Equity (ROE) of the sector also declined by 463 basis points, achieving a year end ratio of 7.5% showcasing signs of stress in the sector profitability.

### Impact on Vallibel Finance

As part of the NBFIs sector, Vallibel Finance is impacted by changing macroeconomic policies and regulations which are aimed at managing broad-based industry growth. The overall industry position is reflected in the Company's performance in terms on increasing assets base, deposits base, and the increasing lending portfolio aligned to the growth seen in the industry. It should be noted that the strong foundations, values, and resilience built over the years has enabled the Company to achieve growth in these key indicators as both the industry and the Company navigate a highly challenging operating environment. Thus, Vallibel Finance has over the years continuously contributed to the growth and stability of the industry. The Company successfully contributed 3.47% to the total assets of the LFC sector with a growth of 8.31% in Company assets. The lending portfolio also increased by 5.53% during the year under review, supporting the sector by contributing positively to reduce overall sector lending portfolio decline. From a deposits' perspective too, Vallibel Finance contributed 14.97% growth to the sector's deposit-base growth and successfully retains our position amongst the top 10 LFCs with the largest deposit base.

The Company's efforts to meet regulatory requirements have always been successful. Vallibel Finance has successfully maintained both the Tier I capital ratio and the total risk weighted capital ratio well above levels stated by regulatory requirements as at 31st March 2020. The Company however, redeemed Rs. 1 Bn of its Tier II capital on 31st March 2020 as it matured.

As can be expected, negative developments of the industry also impact the Company. A critical aspect which the Company stringently monitors and manages is the NPL ratio. However, the increasing NPL ratio of the industry was also reflected by the increase in the Company's NPL ratio to just above 5% during the year under review from just above 3% in the previous financial year. However, it must be noted that while increasing, the measures adopted to manage the NPL ratio combined with the good relationships built over the years with our customers, has enabled Vallibel Finance to maintain the NPL ratio at single digit levels, well-below the industry average of 10.6%.

As we venture into the forthcoming financial year, the repercussions from the COVID-19 pandemic are expected to impact both global and local economic activities and resultantly affect the performance of the LFCs sector. The Company will prepare for adversities and unforeseen developments arising due to the prevailing market conditions and focus on pursuing business performance growth within the context of emerging events.

### Outlook and Prospects for Sri Lanka

The Sri Lankan economy is expected to revive from the impact of COVID-19 in the longer term propelled by policy measures adopted to jump-start economic growth and the Government declared intention to support growth of local industries and manufacturers by pursuing structural reforms to enhance domestic production, improve export orientation, attract Foreign Direct Investment (FDI), facilitate innovation, and improve factory productivity and efficiency. If these measures progress as expected, Vallibel Finance is well-placed to capitalise on emerging opportunities in the marketplace in the long term. Some areas which the Company believes will play a critical role in sustainable business operations is the adoption of technology to increase customer convenience and security, development of more flexible and robust lending products, and the use of emerging digitalised technology to increase market awareness. Having a widespread branch network, Vallibel Finance is well placed to cater to communities with minimal access to financial services products and many of our products with slight modifications can be customised to deliver financial equality to the lower middle-income demographic.

# STAKEHOLDER ENGAGEMENT

GRI: 102-40, 102-42,  
102-43, 102-44

## Continually Committed to Effective Stakeholder Engagement...


Vallibel Finance has over the years worked together with our stakeholders to better understand their needs and concerns which helps develop long-term relationships which enable long-term value creation of all.

Over the years we have realised that while the Company's business activities impact stakeholders, stakeholder needs also impact on the Company's strategic goals and business development. As such, Vallibel Finance PLC commences our sustainability journey by identifying key stakeholders who are integral to our business success and growth. Accordingly, we have identified six stakeholder groups – shareholders,

customers, employees, Government institutions and regulators, business partners, and society/community, with whom we engage with on a regular basis using myriad engagement platforms. Being a financial service provider, we are well-aware that our business success is highly dependent on the good and long-term relationships we build with our stakeholders. Hence, it is critical that the Company connect with these

stakeholders regularly and find innovative ways for the development of existing relationships for long-term creation of value. Thus, our aim in our stakeholder engagement process is to build long-term mutually-beneficial relationships, thereby meeting stakeholder needs while achieving sustainable business growth. The Company's stakeholder engagement process enables us to better understand stakeholder concerns and address them appropriately and in an acceptable way for all parties concerned. This approach has created value not only to our business operations but also to our stakeholders whose trust in the Company and the management has resulted in Vallibel Finance pursuing far-reaching goals.

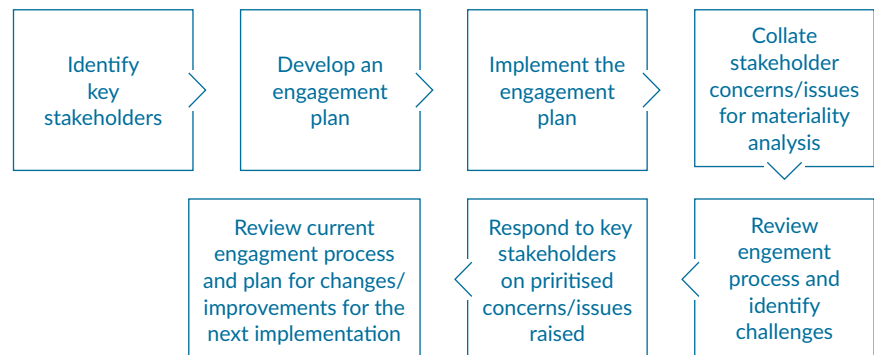
The table below gives an overview of stakeholder expectations and concern and the engagement methods used to communicate with them, while also showcasing the Company's response and the challenges faced in meeting stakeholder needs.

	Goals	Stakeholder Expectations/ Concern Areas	Engagement Method
 Shareholders	<p>Create shareholder wealth through optimised and sustainable business operations</p> <p>Operate an ethical and transparent business concern</p>	<ol style="list-style-type: none"> <li>1. Sustainable earnings growth</li> <li>2. Healthy financial performance</li> <li>3. Good governance</li> <li>4. Transparency and disclosures</li> <li>5. Risk management</li> <li>6. Compliance with statutory and regulatory requirements</li> </ol>	<ol style="list-style-type: none"> <li>1. Annual General Meeting</li> <li>2. Extraordinary General Meetings</li> <li>3. Annual Report</li> <li>4. Interim Financial Statements</li> <li>5. Announcements to CSE</li> <li>6. Press releases</li> <li>7. One-on-one discussions</li> <li>8. Company website</li> </ol>
 Customers	<p>To meet the financial needs of the nation's citizens</p> <p>Offer customised and flexible product solutions through innovative product offerings</p> <p>Ensure high level of customer relationship management</p>	<ol style="list-style-type: none"> <li>1. Customer satisfaction</li> <li>2. Service quality</li> <li>3. Accessibility of products/services to all levels of society across the country</li> <li>4. New product/service introductions and/or innovations</li> <li>5. Grievance handling</li> <li>6. Dispute resolution</li> </ol>	<ol style="list-style-type: none"> <li>1. Customer hotline</li> <li>2. One-on-one meetings</li> <li>3. Direct customer feedback</li> <li>4. Media and advertising/marketing campaigns</li> <li>5. Company website</li> <li>6. Regular interactions at customer touch points</li> <li>7. Customer visits</li> <li>8. Grievance handling</li> </ol>







### Stakeholder Engagement Process

The changing dynamics of the industry environment coupled with the changing needs, interests, expectations and requirements of our stakeholders, makes it imperative for Vallibel Finance to maintain continuous dialogue with all our stakeholders on a regular basis. Having identified the Company's key stakeholder groups who impact on our business and value creation process, Vallibel Finance employs both formal and informal platforms to facilitate stakeholder engagement. To ensure gaining as much insight as possible, the Company employs a simple, yet effective stakeholder engagement process as shown in the diagram. During the year under review, the Company engaged with our identified stakeholder groups who influence or are influenced by the economic, environmental, and social performance of the business and are the ultimate beneficiaries of the value created by the Company using this engagement mechanism.



Engagement Frequency	Challenges in Meeting Stakeholder Needs	Company Response
Annual	▶ Unexpected changes in the local economic progress	▶ Develop/review annual strategic plans for business growth
As required	▶ Changes to regulations which may adversely impact business growth	▶ Keep abreast of regulatory and statutory changes
Annual	▶ Unexpected changes in compliance mechanisms	▶ Review and update governance mechanisms
Quarterly	▶ Changes in Government regulations	▶ Research industry trends
As required	▶ Policy changes	▶ Maintain a relevant product portfolio to meet market demands
As required	▶ Business expansion	▶ Undertake periodic SWOT analysis
As required		▶ Review changes in risk management methodologies
Continuous		▶ Continuously develop good relations with customers
As required	▶ Dynamic changes in consumer needs and wants	▶ Increasing awareness of new products and product/service innovations through marketing and advertising
As required	▶ Competition in the industry	▶ Ensure any disputes and issues raised are handled professionally while ensuring customer privacy and satisfactory resolutions
Continuous	▶ Accessibility to products	▶ Continuously update social media and company website with latest product/service information
Continuous	▶ Inclusive communication	▶ Pre-defined customer grievance process to expedite reaching resolutions
Continuous	▶ Transparent business operations	▶ Maintain a relevant product portfolio to meet customer needs
Continuous	▶ Customer security and privacy	
Continuous	▶ Product innovations to meet customer needs	
As required		
As required		

## STAKEHOLDER ENGAGEMENT

	Goals	Stakeholder Expectations/ Concern Areas	Engagement Method
 <b>Employees</b>	<p>Attract talented employees who want to build a career while providing upskilling and knowledge development opportunities</p> <p>Offer equal employment opportunities to all citizens</p> <p>Build a leadership pipeline to ensure sustainability of the business</p>	<ol style="list-style-type: none"> <li>1. Work-life balance</li> <li>2. Recognition for success</li> <li>3. Opportunities for career progression and development</li> <li>4. Grievance handling mechanism</li> <li>5. Enhancement of skills and knowledge</li> <li>6. Fair pay and promotional opportunities</li> </ol>	<ol style="list-style-type: none"> <li>1. Staff meetings</li> <li>2. Company social events</li> <li>3. Email updates</li> <li>4. Training and development programmes</li> <li>5. Open door policy</li> <li>6. Rewards and recognition programmes</li> </ol>
 <b>Government Institutions &amp; Regulators</b>	<p>Adhere to all regulatory compliance requirements</p> <p>Adhere to laws and regulations to meet stakeholder requirements</p> <p>Maintain high standards of business conduct</p> <p>Operate the business in an ethical and transparent manner</p>	<ol style="list-style-type: none"> <li>1. Compliance with rules and regulations</li> <li>2. Good corporate governance and business ethics</li> <li>3. Expansion locally</li> </ol>	<ol style="list-style-type: none"> <li>1. Directives and circulars</li> <li>2. On-site review by CBSL</li> <li>3. Press releases</li> <li>4. Meetings and consultations</li> <li>5. Submission of periodic returns</li> <li>6. Training sessions organised by regulators</li> </ol>
 <b>Business Partners</b>	<p>Long-term business partnerships</p> <p>Ethical procurement practices</p>	<ol style="list-style-type: none"> <li>1. Timely payments</li> <li>2. Supplier evaluation</li> <li>3. Growth potential</li> <li>4. Future business opportunities</li> </ol>	<ol style="list-style-type: none"> <li>1. Supplier meetings</li> <li>2. Letters/emails/telephone conversations</li> <li>3. Suppliers get together</li> <li>4. One-to-one meetings</li> <li>5. Periodic visits</li> </ol>
 <b>Society/ Community</b>	<p>To help build communities with access to financial independence</p> <p>Community upliftment</p>	<ol style="list-style-type: none"> <li>1. Ethical business conduct</li> <li>2. CSR activities</li> <li>3. Responsible financing</li> <li>4. Environmental performance</li> <li>5. Employment opportunities</li> </ol>	<ol style="list-style-type: none"> <li>1. Traditional media advertisements and press releases</li> <li>2. Social Media</li> <li>3. Public events</li> <li>4. CSR Projects</li> <li>5. Interact through branch network</li> <li>6. Company website</li> </ol>

Based on the concerns and issues raised through our stakeholder engagement process, Vallibel Finance then undertakes a materiality analysis to identify key topics for management and disclosure during the course of business operations. The Company's process of identifying material topics is detailed in the section on Materiality Analysis on pages 48 to 50 of this Annual Report.





Engagement Frequency	Challenges in Meeting Stakeholder Needs	Company Response
Monthly/ Quarterly	▶ Work responsibilities at times overwhelming good work-life balance practices	▶ Benchmark HR practices with industry norms and new developments
Quarterly/ Annual	▶ Financial limitations	▶ Encourage employees to share concerns and/or ideas to better meet their needs
Continuous	▶ Meeting equal opportunity employment expectations	▶ Review and enhance HR operations to meet both employee needs while meeting business goals
Continuous	▶ Personal career development goals	▶ Employee surveys
Continuous	▶ Training and development opportunities	▶ Regularly train employees and encourage them to attend workshops and skills development programs
Annual	▶ Limited skills and experience of employees	▶ Encourage educational aspirations of employees
		▶ Encourage interaction with supervisors and management
As required	▶ Unexpected changes in compliance mechanisms	▶ Keep abreast of changes in compliance and regulatory requirements
Annual	▶ Changes in Government regulations	▶ Develop and maintain up-to-date internal mechanisms to ensure ethical business practices
As required	▶ Policy changes	▶ Attend meeting with government departments and regulators
As required	▶ Maintaining confidence within the financial and leasing sector	▶ Build good relations to enable better communications
As specified	▶ Strong governance and risk management practices	
Continuous	▶ Facilitating financial inclusion	
	▶ Future business opportunities	
As required	▶ Ease of processing transactions	▶ Build good relations to enable better communications
Continuous	▶ Transparent pricing and terms and conditions of contracts	▶ Review and update contracts to ensure fair and ethical business returns
Annual	▶ Making timely payments to suppliers	▶ Maintaining proper credit terms
As necessary	▶ Secure and predictable demand	
Continuous		
As required	▶ Community demands which may conflict with business progress and growth	▶ Build good relations with surrounding communities by creating opportunities for dialogue
	▶ Undue publicity due to easy access to social media	▶ Supporting the well-being of the community
Continuous	▶ Limited resources to contribute towards community development projects	▶ Financial inclusion
As required	▶ Responsible business practices	▶ Develop internal mechanisms to adhere to sustainable business practices
As required	▶ Financial inclusion and empowerment	▶ Develop products/services to assist in community development
Continuous	▶ Employment generation	

# MATERIALITY ANALYSIS

On completion of the stakeholder engagement process, Vallibel Finance PLC evaluates concerns and issues raised by key stakeholders for its impact on business operations and the significant importance given by stakeholders. The process of identifying material aspects is achieved in two ways, namely formal and informal discussions with the various business units of the Company (internal stakeholders) and by obtaining the views of external stakeholders. Thereafter, matters raised which have a significant impact on the current or future value creation process grouped into material topics as shown below. This enables the management to develop appropriate strategies to manage these material topics giving due emphasis to stakeholder interests as well as the sustainable value creation process of business operations.

## The primary material topics of the Vallibel Finance for 2019/20



Sustainable  
Growth of  
Earnings



Customer  
Satisfaction



Company  
Brand and  
Reputation



Ethics,  
Compliance  
and Good  
Governance



Managing  
Human  
Resources



Commitment  
to the  
Environment



Community  
Upliftment

During the year under review the Company's key stakeholders raised several concerns and expectation of the Company which are considered material to the Company. There are shown in the table under the Stakeholder Engagement section on pages 44 to 47 of this Annual Report.

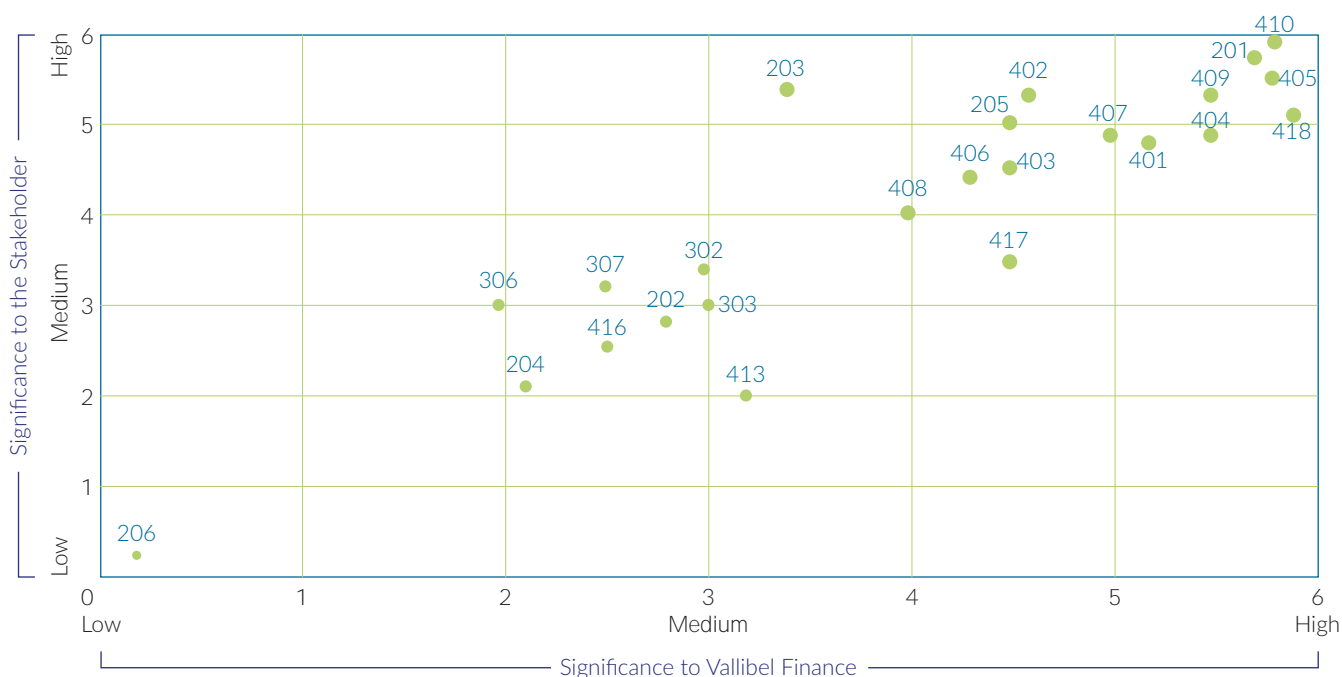
As a general practice, Vallibel Finance follows the requirements as set out by the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) and the GRI Standard,

sustainability reporting guidelines published by the Global Reporting Initiative (GRI) when undertaking materiality analysis. The Company has found that adhering to these guidelines and requirements enables a streamlined process in the identification of material topics and in deciding on the relevant topics for disclosure. This process also enables the Company to encompass key concerns raised by both internal and external stakeholders when developing the Company's strategic goals and while implementing business operations.





To evaluate the importance of the different aspects under each material topic, a materiality matrix is utilised to assist in prioritising of material topics/sub-topics according to the GRI standards for disclosure.

### Materiality Matrix



The materiality matrix is plotted to showcase the importance of material topics/sub-topics from the perspective of both stakeholders and the Company.





Material Topics	Why is it Material?	Related Capital	Related GRI Standard	Employees	Shareholders	Customers	Business Partners	Society/Community	Government Institutions & Regulations
1  <b>Sustainable Growth of Earnings</b>	Growth in earnings indicates the success of business strategies resulting in encouraging investors who are the providers of Financial Capital requirements for the future growth and development of the Company.	Financial Capital, Social & Relationship Capital and Manufactured Capital (pages 62 to 99)	GRI 201: Economic Performance GRI 202: Market presence GRI 203: Indirect Economic Impacts GRI 204: Procurement Practices	●	●	●			●
2  <b>Customer Satisfaction</b>	Customer satisfaction is the primary factor which drives long-term customer relationships and is directly linked to future business growth.	Social & Relationship Capital, Manufactured Capital (pages 72 to 99)	GRI 416: Customer Health and Safety GRI 417: Marketing and Labelling	●		●			
3  <b>Company Brand and Reputation</b>	To differentiate the Company from competitors and to develop a brand in the local market which will attract new customers and employees while enabling the Company to remain viable within the highly-competitive industry environment.	Intellectual Capital (pages 78 to 82)	GRI 206: Anti-competitive behaviour	●				●	
4  <b>Ethics, Compliance and Good Governance</b>	Good governance practices and compliance with local laws and regulations ensures business sustainability in the long term.	Human Capital, Intellectual Capital, Manufactured Capital, Natural Capital (pages 52 to 103)	GRI 205: Anti-corruption GRI 307: Environmental compliance GRI 408: Child Labour GRI 409: Forced or compulsory labour GRI 418: Customer privacy	●				●	
5  <b>Managing Human Resources</b>	Employees are the people who drive business strategies and ensure delivery of the Company's products/services to customers. Thus, managing human resources is a critical aspect of business success and growth.	Human Capital (pages 52 to 61)	GRI 401: Employment GRI 402: Labour/management relations GRI 403: Occupational health and safety GRI 404: Training and education GRI 405: Diversity and equal opportunity GRI 406: Non-discrimination GRI 407: Freedom of association and collective bargaining	●	●				

## MATERIALITY ANALYSIS

Material Topics	Why is it Material?	Related Capital	Related GRI Standard	Employees	Shareholders	Customers	Business Partners	Society/Community	Government Institutions & Regulations
6  <b>Commitment to the Environment</b>	As responsible corporate citizen, it is the Company's civic duty to ensure the natural environment and non-renewable natural resources are safeguarded for the use by future generations. Thus, the Company must ensure minimising and/or mitigating adverse impacts to the environment from business operations.	Natural Capital (pages 100 to 103)	GRI 302: Energy GRI 303: Water and Effluents GRI 306: Effluents and waste	● ● ●	  	  	● ● ●	● ● ●	●  
7  <b>Community Upliftment</b>	As responsible corporate citizen, the Company must also ensure the surrounding communities and the society within which the Company operates our business is assisted through our business operations either directly or indirectly.	Social & Relationship Capital (pages 84 to 99)	GRI 413: Local Communities 2016	  	  	  	  	●	  

The identified material topics are related to the GRI Standard topics and used as the basis of reporting sustainability information throughout this Annual Report.

# REPORTING WITH DEDICATION

As a progressive and far thinking finance company willing to adopt new and relevant reporting measures, Vallibel Finance has adopted both the integrated framework of capital management and the GRI sustainability reporting standards to disclose information with clarity, coherence, and accountability.

# CAPITAL MANAGEMENT REVIEW

GRI: 103, 401, 402, 403, 404, 405, 406, 407, 408, 409

## HUMAN CAPITAL



### Material Aspect:



Managing Human Resources



Ethics, Compliance and Good Governance

### Stakeholders Impacted/Affected:



Employees

### Our Achievements 2019/20

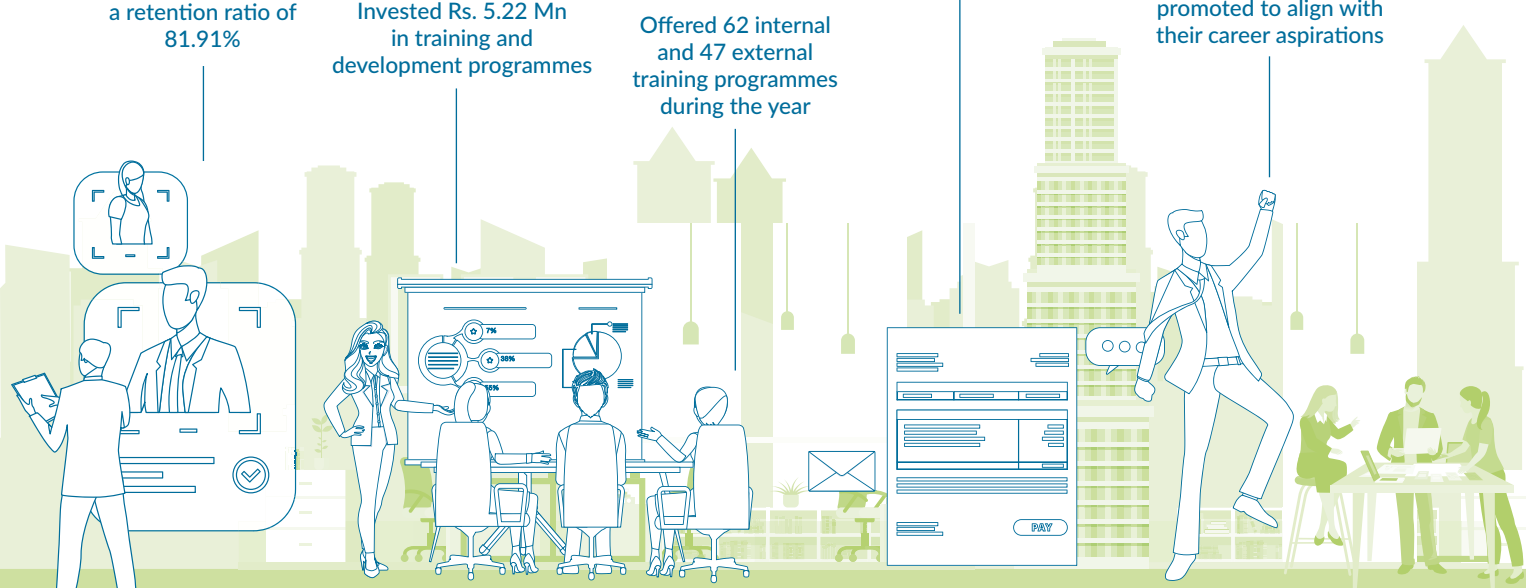
Successfully retained 691 employees with a retention ratio of 81.91%

Invested Rs. 5.22 Mn in training and development programmes

Offered 62 internal and 47 external training programmes during the year

Salaries and benefits paid increase by 16.14%

151 employees were promoted to align with their career aspirations



### How We Create Value

#### Strategic Goal

To create value for employees by adopting a dedicated people-centric approach to human resource management which enable employees to build competencies and skills which keep them engaged and motivated at work while being passionate about the Vallibel Finance vision and strengthening our commitment to providing a customer-friendly service.

#### Our Approach

- ▶ Continuous training and development to enhance career prospects
- ▶ Rewarding employees based on performance
- ▶ Encourage employee engagement and work-life balance for a rewarding personal and professional lifestyle
- ▶ Attracting and retaining highly-skilled employees to enable sustainable business growth

### Challenges Faced & Planned Future Action

Challenges 2019/20	Planned Actions
Improve employee retention and ensure employee motivation	<ul style="list-style-type: none"> <li>▶ Increase initiatives to integrate employees within the corporate culture and shared vision</li> <li>▶ Continuously improve compensation, rewards and recognition schemes and promote employee wellbeing at all levels</li> </ul>
Employees' willingness to engage with each other	<ul style="list-style-type: none"> <li>▶ Improve employee communication, information and knowledge sharing through effective utilisation of technology</li> <li>▶ Encourage collaboration to adhere to the Company's desired values and culture</li> </ul>





Challenges 2019/20	Planned Actions
Increasing number of Gen Y and Millennials in the workforce who are the least engaged employees of the Company	<ul style="list-style-type: none"> <li>▶ Focus on employing only the most suitable candidates for the job</li> <li>▶ Train and develop employees by providing mentoring to enable them to realise their personal goals and raise standards of performance whilst promoting them to achieve their career aspirations</li> </ul>

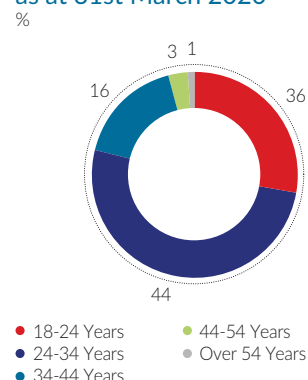
## Overview

Human Capital is one of the most important and critical capitals for Vallibel Finance PLC. Our Human Capital translates to our loyal and dedicated employees who work to high standards to ensure sustainable business growth. As such, the Company's human resource (HR) strategy is developed in alignment with our corporate strategy and considers the Company's vision, mission, and values ensuring that an overarching emphasis is placed on the management of human capital. To support our HR strategy, Vallibel Finance has developed and implemented myriad policies and best practices towards managing our people who are our most valuable asset.

### Employees Years of Service by Gender as at 31st March 2020

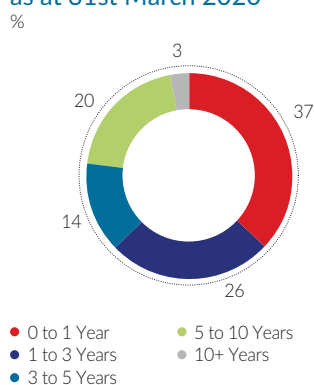
Number of Years	Male	Female	Total
0 to 1 Year	252	106	358
1 to 3 Years	165	86	251
3 to 5 Years	95	47	142
5 to 10 Years	146	52	198
10 + Years	21	9	30
<b>Total</b>	<b>679</b>	<b>300</b>	<b>979</b>

### Age Demographics as at 31st March 2020

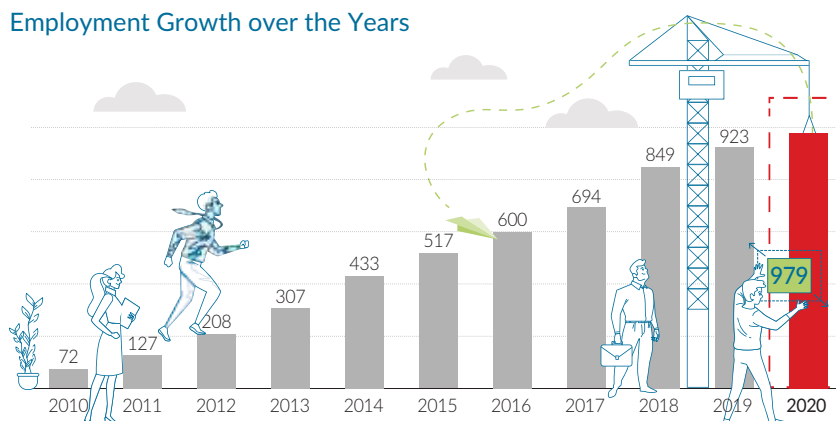


The Company's leadership believes in the right of every employee and fosters a culture where employees are freely able to express their opinions and give

### Employees' years of service as at 31st March 2020



### Employment Growth over the Years



### Age Demographics as at 31st March 2020

No. of Years	Male	Female	Total
18-24 Years	237	118	355
24-34 Years	271	161	432
34-44 Years	136	18	154
44-54 Years	23	2	25
Over 54 Years	12	1	13
<b>Total</b>	<b>679</b>	<b>300</b>	<b>979</b>

input to improvements in operational processes and procedures. Employees are encouraged to take on responsibilities and are empowered to work with minimal supervision while working as a team who share knowledge and experience as a means of team learning. Training and development programmes are an important part of employee learning

## CAPITAL MANAGEMENT REVIEW

### HUMAN CAPITAL

and development and the Company endeavours to provide periodic training opportunities for as many employees as possible.

#### Management Approach

Our employees have partnered with the Company for over 13 years to successfully grow and expand our business operations thereby becoming an integral part of the Company's success story. As such, the management too rewards our employees by setting strategies and processes which enable them to build careers with Vallibel Finance while enhancing their personal and professional development goals. The Company continues to create value to our employees, the largest internal stakeholder, in terms of training and development, career advancement, succession planning, and work-life balance. This is proven by the 38% of employees being employed by the Company between 3 to 10 years. Furthermore, the 80.39% of employees who fall within the Millennial and Generation Y demographics (between ages 18 to 34 years) reflects well on the Company's ability to successfully pursue its strategic goals in the coming years as this younger generation of employees are well-versed in today's technology driven operations, are adaptive to fast change and bring a fresh perspective to business operations.

**Testament to the Company's efforts to create human capital value is the recognition received by Great Place to Work® Sri Lanka in 2019 and 2020 which recognises employers of choice thereby advocating an organisation to pursue the creation of a sustainable workplace.**

#### Compliance to Laws, Regulations and Company HR Policies

As part of the Company's efforts to ensure fair treatment of our employees we abide by all local laws and regulations on matters such as remuneration, fair and ethical employee management practices, human rights aspects, equality and equal opportunity. We are governed by the Sri Lankan Shop and Office Act and its amendments as well as regulations put forth by the Central Bank of Sri Lanka for non-banking financial Institutions.

The Company's HR policies, processes and procedures are clearly outlined and explained in an Employee Handbook which is shared with all employees upon recruitment. This Handbook acts as the guiding principles for HR practices and helps employees to act and conduct themselves to the highest standards of ethical and morally acceptable behaviour which not only reflects positively on the Vallibel Finance reputation and brand image, but also enhances individual employees standing in the community.

#### Human Rights

Vallibel Finance does not promote forced or compulsory labour in any of our business operations. We do not tolerate any form of unacceptable treatment of employees directly or indirectly involved in our business operations. In keeping

with the relevant employment laws, we do not employ anyone below the age of 18 years. Child labour is an aspect that is completely prohibited in keeping with the applicable laws of the country, while human rights are considered as integral to operating an ethical business concern.

As such, we foster a culture which encourages employees to freely express their opinions and give suggestions towards the improvement of business operations and processes. We encourage employees to share ideas and express their woes and concerns. Employees are also encouraged to take on responsibilities and are empowered to work with minimal supervision. The Company practices equal opportunity employment and does not discriminate based on caste, gender, ethnicity, or political beliefs. In fact, Vallibel Finance encourages diversity, for we believe that a diverse mix of backgrounds, skills and experiences drive for innovative ideas, products and services which will provide us with a sustainable competitive advantage. Equally important, we believe that all our employees should also treat each other with respect regardless of their background and remain committed towards the elimination of discrimination and work towards a culture which fosters such principles. There were no incidents of discrimination reported during the year under review.

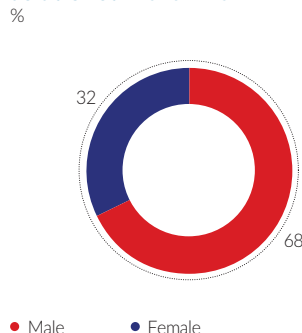


#### Equal Opportunity Employer

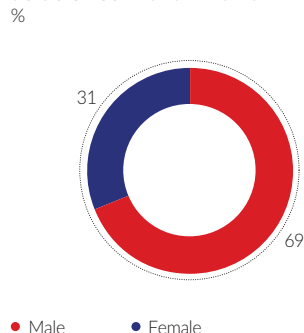
As an equal opportunity employer, all employees are treated as equal, thereby ensuring that the Company's HR processes including hiring, training, promotions, benefits, rewards, and recognition all follow a non-discriminatory policy which ignores ethnicity, gender, religion, age, and/or disability.



### Total employees by Gender as at 31st March 2019



### Total employees by Gender as at 31st March 2020



### Employee Gender Categorisation by Region and Gender as at 31st March 2020

Region	Male	Female	Total
Central	30	9	39
North Central	21	4	25
North Western	54	23	77
Sabaragamuwa	50	13	63
Southern	33	11	44
Uva	9	4	13
Western	482	236	718
<b>Total</b>	<b>679</b>	<b>300</b>	<b>979</b>

### Employees by Employment Category and Gender as at 31st March 2020

Employee Category	Male	Female	Total
Senior Management	11	1	12
Middle Management	130	6	136
Senior Executive	38	6	44
Executive/Junior Executive	236	125	361
Operational Staff	231	161	392
Clerical Staff	32	1	33
In-plant Trainee	1	-	1
<b>Total</b>	<b>679</b>	<b>300</b>	<b>979</b>

### Recruitment and On-boarding

As one of the leading financial institutions in the country, Vallibel Finance attracts high calibre, newly-qualified and experienced professionals in search of a rewarding and fulfilling career. To meet the needs of such passionate and driven individuals, the Company has in place structured and clearly defined recruitment policies and procedures to ensure recruitments and on-boarding of employees follow a standardised process which is non-discriminatory, provides a level playing field, and enables new recruits to seamlessly integrate with the Company culture. Generally, existing employees are considered for new job openings which they may fulfil either by being promoted or through internal transfers. When required, upskilling and relevant training is also given to these employees to enable them to fulfil their new job roles and responsibilities. However, as a growing business entity, the Company must recruit new people annually which adds to our employee cadre and contributes to economic development in the country. As a sought-after employer, all vacancy advertisements posted by the Company in traditional media, social media and using online recruitment tools receives overwhelming and highly-positive responses.

As per policy all new recruits are subject to a period of probation and on successful completion of this period are absorbed into the permanent employee cadre. During the year under review, Vallibel Finance recruited 290 new employees across all departments and branches. All senior managers are locally-hired Sri Lankans.

## CAPITAL MANAGEMENT REVIEW

### HUMAN CAPITAL

New Recruitments by Region and Gender 2019/2020

Region	Male	Female	Total
Central	11	3	14
North Central	7	-	7
North Western	14	8	22
Sabaragamuwa	13	-	13
Southern	12	-	12
Uva	2	-	2
Western	162	58	220
<b>Total</b>	<b>221</b>	<b>69</b>	<b>290</b>
<b>Percentage</b>	<b>76%</b>	<b>24%</b>	<b>100%</b>

New Recruitments by Age Group and Gender 2019/2020

Age group	Male	Female	Total
18-24 Years	149	56	205
24-34 Years	43	13	56
34-44 Years	21	-	21
44-54 Years	5	-	5
54 + Years	3	-	3
<b>Total</b>	<b>221</b>	<b>69</b>	<b>290</b>
<b>Percentage</b>	<b>76%</b>	<b>24%</b>	<b>100%</b>

The Company's comprehensive on boarding procedure ensures candidates are first and foremost screened on their suitability for the job role and the position applied for before proceeding to the first and second interview stages. The final interview is conducted by the Managing Director who then gives approval for hiring the candidate in consultation with the relevant department managers. In keeping with the Company's people centric culture, Vallibel Finance acknowledges all candidates who have applied for jobs with the Company and gives a clear indication of their status in the selection process.

#### Employee Attrition

Current workforce trends coupled with the dynamism and fast paced industry environment has created a challenge in terms of employee attrition for the Company. While some employee attrition is considered a natural part of doing business, in recent years, the changing attitudes of the new generations of employees has resulted in the industry as a whole experiencing higher level of employee turnover, especially among operational level employees in the marketing field. Of the total employee cadre, 80.39% of employees fall within the age categories of 18 to 24 years and 24 to 34 years, indicating that the majority of the Company's employees are from the Millennial and Generation Y demographics for whom changing jobs is an integral characteristic due to relocations, migrations, and wanting to try something new every so often. This reality is a growing trend within operational level marketing personnel as well as a growing concern due to perceived 'better opportunities' by newly-qualified marketing professionals who wish to pursue perceived better opportunities in related organisations and other industries.

Overall, Vallibel Finance considers our employee attrition levels to be well below industry levels showcasing the value creation for employees by the Company due to the belief of employees' in the Company's vision, mission and future growth prospects.

However, employee resignations at executive, manager, and senior management levels is minimal and most often due to pursuing of higher educational goals, migration, lucrative opportunities offered by other organisations, personal reasons, and retirement. Overall, Vallibel Finance considers our employee attrition levels to be well below industry levels, showcasing the value creation for employees by the Company due to the belief of employees' in the Company's vision, mission and future growth prospects.



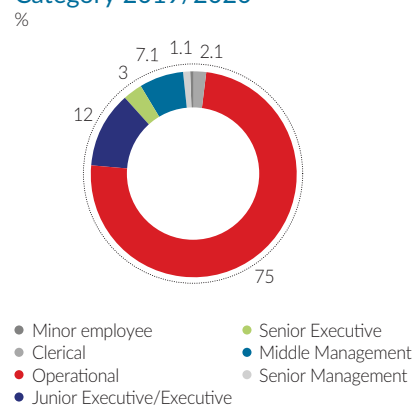
## Employee Turnover by Region and Gender 2019/2020

Region	Male	Female	Total
Central	7	4	11
North Central	6	1	7
North Western	15	7	22
Sabaragamuwa	14	3	17
Southern	5	1	6
Uva	1	1	2
Western	121	46	167
<b>Total</b>	<b>169</b>	<b>63</b>	<b>232</b>

## Employee Turnover by Age Group and Gender 2019/2020

Age group	Male	Female	Total
18-24 Years	107	38	145
24-34 Years	41	24	65
34-44 Years	15	-	15
44-54 Years	5	-	5
54 + Years	1	1	2
<b>Total</b>	<b>169</b>	<b>63</b>	<b>232</b>

## Employee Turnover by Employment Category 2019/2020



## Training and Development

Training and development are key features of how Vallibel Finance creates long-term value for Human Capital. All employees are given many training and development opportunities based on their professional fields and career aspirations. Growth within the ranks in the Company is also encouraged through the deployment of appropriate upskilling and training programmes. To date, 70 employees who joined Vallibel Finance at entry level positions have climbed the corporate ladder to achieve career success and growth.

Training and development programmes for employees are arranged on a need basis on identification of skill/knowledge gap areas, and in instances when new developments occur in their relevant field of expertise. Furthermore, by offering employees training and development opportunities, the Company also concurrently adds value to our other capitals as these are benefited through employee knowledge enhancement and know-how. As such employees are provided both job specific trainings and general soft skills trainings conducted by internal and external trainers which help them to progress in their careers and achieve personal growth. Training is also not limited to those employees who attend such training programs. The Company encourages employees to share knowledge and experience as a means of team learning, thereby developing a learning organisational culture.

Accordingly, Vallibel Finance has invested Rs. 5.22 Mn on employee training and development programmes during the year under review where 1,133 employees received 30,148 hours of training.

As part of the Company's ongoing goals for training and development initiatives for employees, on a monthly average at least one training programmes was attended by employees during the year under review. During the year under review, 47 external training programmes were conducted for 1038 employees, while 61 internal training programmes conducted were attended by 1082 employees. The trained employee numbers consist of both retained and resigned employees during the period. On average, the Company offered 30.79 hours of training per employee during the year under review, while the average training hours per female employee was 16 hours and the average training hours per male employees was 37 hours. These programmes ranged from technical and professional skills development to soft skills development trainings and one-day specialist training programmes in areas such as cyber security, customer relationship management, motivation and positive thinking, leadership skills development, developments in financial management, legal and regulatory framework, grooming and personal branding, and communication skills.

## Induction Programme

The Vallibel Finance induction program for new recruits is the first step in our training process. The Company's induction programme which focuses on the corporate culture and aligning our employees to the Company's work ethic are the first steps which bring success for all concerned stakeholders.



## CAPITAL MANAGEMENT REVIEW

### HUMAN CAPITAL

Average Training Hours per Employee Category

Employee Category	Average Training Hours
Senior Management	67.9
Middle Management	56
Senior Executive	32
Junior Executive/Executive	30
Operational	24
Clerical	4

Overview of Training and Development Programs 2019/2020

Competency Area	No. of Programs	No. of participants
Operations	51	5,793
Character building	19	2,132
Customer Service	5	335
Employee Motivation	2	204
Leadership	3	337
Legal and Regulatory Framework	5	16
Marketing and Branding	5	531
Organisational Skills	8	240
Orientation	11	232

#### Remuneration and Benefits

Vallibel Finance follows the dictates of the Sri Lankan Shop and Office Act and has adopted the stance of paying fair wages and ensuring non-discrimination and equality when compensating and rewarding employees for their hard work. These best employment practices assure employees are rewarded based on their employment category, academic and professional qualifications, skill levels, experience, and the dedication given to their job role and responsibilities. We also recognise that to keep employees motivated and satisfied while meeting their higher-level needs, compensation and benefits provided must be aligned to their expectations. Therefore, to assist the Company in this regard, we have a set of pre-defined policies which enables the standardisation of remuneration package for full-time permanent employees in different categories and in different stages of their lives.

Consequently, in addition to a basic salary, Vallibel Finance rewards employees using an extensive monetary and non-monetary benefits scheme which assists in appropriately rewarding employees of the Company according to their position and performance. The key elements of the Company's monetary rewards are the monthly salary, overtime payments, bonuses, incentive schemes, and other monetary allowances based on employment category, as well as the payments to EPF, ETF, and gratuity schemes as per government regulation.

During the year under review, the Company invested Rs. 1,053.24 Mn in salaries and other monetary compensation schemes as shown below:

We also recognise that to keep employees motivated and satisfied while meeting their higher-level needs, compensation and benefits provided must be aligned to their expectations.

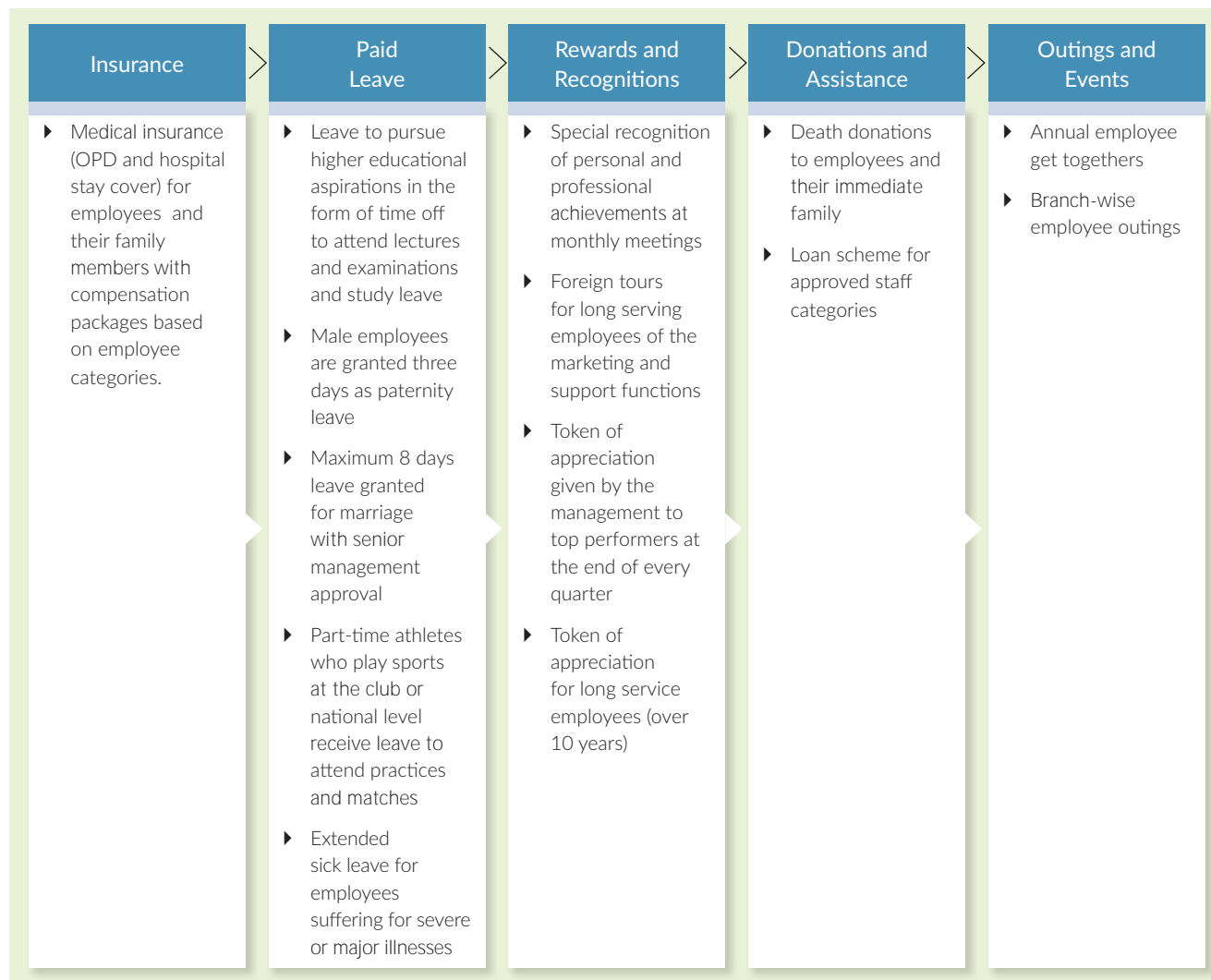
Key Monetary Benefits (Rs. Mn)	As at 31st March 2019	As at 31st March 2020
Salaries and Bonus	745	875
Retirement Benefit Costs	17	24
EPF Payments	57	66
ETF Payments	14	16
Staff Welfare Expenses	73	72
<b>Total</b>	<b>907</b>	<b>1,053</b>

The Company's non-monetary rewards for permanent employees include leave as mandated by the Shop and Office Act of Sri Lanka and other wide-ranging rewards which are dependent on the category and grade of individual employees. These rewards are broadly categorised as insurance, paid leave, rewards and recognitions, donations and assistance, and company-sponsored outings and events.





### The Vallibel Finance Non-Monetary Rewards Scheme



All employees are entitled to parental leave. During the year under review, 30 employees were given parental leave, 15 of whom were females and 15 of whom were males. Of the 15 female employees who were granted maternity leave, 4 returned to work on completion of their maternity leave during the year under review. 1 resigned and 10 are yet to return to work. The return to work rate of female employees is 90.91% based on employees in previous periods who returned to work. Moreover, it is expected that the balance 10 female employees still on maternity leave shall return to work in the forthcoming financial year. Of the 15 male employees who were given paternity leave during the year under review, all returned to work on completion of their leave.

There were 27 employees who took parental leave for the 2018/19 financial year, of these 16 employees are females and 11 employees are male. From the 16 female employees, 7 returned to work and 6 were yet to return. All 7 employees who returned are still employed by the company and exceed 12 months of work post completion of their maternity leave.

#### Safety, Health and Well-being

While the nature of the Company's business does not negatively impact the health and safety of our employees while at work, we are aware that work related stress has an impact on our employees' health and well-being. As such we offer medical insurance to our full-time employees whose cover varies

depending on employee category and grade. Furthermore, in addition to paid leave for illnesses as mandated by the Sri Lankan Shop and Office Act, the Company also offers unpaid leave for employees who face serious ailments. During the year under review, a total of 286 days of unpaid leave was given to seven employees to recover from their illnesses.

As a financial institution where work is office-based, employees are safe from major job-related injuries that may be expected in a factory environment which operated heavy-duty machinery. However, for the safety and wellbeing of our employees, the Company has ensured offices are designed to cause minimal accidental harm to employees. There

## CAPITAL MANAGEMENT REVIEW

### HUMAN CAPITAL

were no major incidents of work related injuries reported or noted during the year under review.

The greatest challenge which the Company faced in the last 15 days of the financial year under review was the spread of the coronavirus, a global pandemic with far-reaching negative impacts. For the health and safety of our employees and their families we followed local government and WHO medical advice by cancelling or postponing all gatherings and Company outings and events and abiding by the Government's work from home regulations.

Vallibel Finance paid Rs. 20.58 Mn in medical insurance premiums to ensure employees' safety and well-being during the year under review.

#### Employee-Management Relations

Vallibel Finance believes that strong bonds with employees across the organisation is the foundation for building good employee-management relations which in turn fosters a shared vision leading to the successful implementation of the Company's strategic purpose. We believe that clear lines of communication between employees and the management will influence the efficiency of our employees and their perception of the Company's strategy and the leadership. Therefore, the management maintains a range of formal and informal communication channels to connect with employees and share information and receive feedback. As part of our efforts to ensure employees are informed on Company progress and performance, monthly meeting are held by all Head Office departments at an external location in Colombo where employees are given information regarding the goals and targets to be achieved in the coming month, and open discussions on any problems or issues faced while carrying out their duties on behalf of the Company are encouraged, together with suggestions for resolving such issues. These monthly meeting also act as a platform for sharing employee success stories and improving employee morale. At the branch level, such employee meetings are conducted

on a weekly basis enabling employees to have discussions on target achievement, progress and even discuss issues related to customers or any customer complaints and how these are being handled.

While no collective bargaining agreements are in place at Vallibel Finance PLC, employees have the freedom to negotiate terms and conditions of employment and join unions if they so desire. However, employees are informed of any changes to operations of the Company in advance on a need basis. Information dissemination regarding these changes are also dependent on the impact to the employees' job and seniority level within the corporate hierarchy.

#### Grievance Handling

The Company maintains an open-door policy where employees are free to voice their issues and raise complaints regarding work, working conditions, and issues with colleagues, peers or even supervisors. While there is no formal grievance handling process currently in place at Vallibel Finance, the Company ensures employees work in a business environment which is professional, respectful and safe and considered as open to discussion at all levels of management. Furthermore, the Company views employees as having a right to legal counsel if ever the need arises and will abide by this right without prejudice or discrimination.

As an initial step to formalise a comprehensive grievance handling process, the existing whistle blowing policy will be further improved and strengthened to assist in matters related to reporting illegal actions, frauds, other financial irregularities or wrongdoing by employees. The policy will be implemented in the forthcoming financial year and will serve as a secure channel for employees to report on such matters in the future without concern of repercussions or retributions.

#### Employee Engagement

The Company views employee engagement as a way to further the camaraderie and good relations between

employees and the management. We understand that Company-sponsored events and programmes are important in promoting greater social unity among employees and keeping them motivated and happy in their workplace. During the year under review, the Company's organised several social and sporting activities as part of our annual event calendar which helped to build team spirit and encourage togetherness amongst all employees across the Company.

#### Annual Get Together

The Company celebrated our 12th anniversary of growth and success at the annual staff event held on the 6th September 2019 at Waters Edge with the participation of all employees.



*Annual get-together held at Water's Edge*

#### Business Review Session

To celebrate a positive nine months performance and to welcome the New Year, a Business Review session followed by a gala dinner was organised for the managers of the Company at the Marino Beach hotel in Colombo on 3rd January 2020. This event also was ideal for building social relationships amongst the Company's employees as the relaxed and friendly environment was open to discussions on current events and issues as well as quarterly achievement of targets in an informal setting.



*Annual get together held at Water's Edge*



### Department Trip

It was the turn of the Finance Department to enjoy the Company sponsored annual department trip which facilitates team bonding. The team enjoyed a day outing at the Seagate Hotel, Kalutara on 25th October 2019.



*Finance Department trip to Hotel Seagate, Kalutara*



*Anuradhapura Branch get-together*

### Sporting Activities

The Company regularly participates in sporting events for the enjoyment and relaxation of employees. As such, on October 2019 some of the Company's employees participated in the sports meet which was organised by the Finance House Association of Sri Lanka.

On 15th February 2020, a cricket match was organised by the Managers of the Maharagama, Rajagiriya and Nugegoda branches for the senior and middle management of the Company. The cricket match was held at the Municipal Council Grounds, Maharagama.



*Friendly Cricket Tournaments*

### Branch Get-togethers

The Company's Embilipitiya branch organised a get-together at the Centauria Lake Resort in Embilipitiya on 22nd November 2019 to mark the occasion of the renovated branch re-opening and to build stronger relationships with our sales teams, agents and suppliers in the vicinity. The event was attended by the Company's senior managers, branch employees, customers and key business partners.



*Embilipitiya dealer get-together*

The Company's Maharagama branch which is the very first branch opened by Vallibel Finance on 4th November 2009, organised a Pirith ceremony followed by a fellowship celebration on 4th November 2019 to mark their 10th year anniversary. The event was attended by senior managers, managers, customers, and other well-wishers.

### Future Outlook

As human resources is an integral part of the Company's business success, the management has continuously endeavoured to strengthen HR processes while allocating adequate resources to meeting the needs of our employees. This has resulted in strengthening human capital value year-on-year, while establishing ever more relevant and competitive HR policies and procedures. However, there is always room for improvement and gaps which must be overcome. An area of focus for the Company in the coming years will be to establish a formal process for handling employee grievances with an established mechanism and procedure as befits a Company of the stature of Vallibel Finance. Furthermore, to remain competitive and relevant as an employer of choice, the Company will continue to review and evaluate all human resource policies and processes.

The Company also foresees several challenges in creating human capital value in the coming years. Attracting and retaining good talent will become highly competitive, mainly due to the cultural adaptation required to attract, retain and motivate Generation Y and Millennial individuals due to their highly-ambitious and achievement-oriented natures with the tendency to change jobs often. Furthermore, as more and more Millennials

climb the career ladder, the way of doing business must also change mainly a result of their use of technology, the high expectations of their employers, their tendency to seek new challenges at work, and their openness to questioning those in authority. As such, we foresee that the HR function as a whole must evolve and adapt, while merging the diverse expectations of all employees of the Company. Employee engagement will also be a focus area in the coming year as we are determined to integrate all employees under one culture and following one vision despite their diverse backgrounds and characteristics.

Training and development will continue to be important into the foreseeable future. Thus, increased resources will be required to enhance employees' technical knowledge and improve soft skills and leadership abilities. In the year under review, the Company increased the investments in training and development, and this area will remain the key creator of value for human capital.

Human Capital will remain a material aspect for Vallibel Finance in the future as our business success and growth is highly dependent on our employees. Thus, Human Capital will be managed taking a multi-pronged approach due to the diverse nature of people and their expectations.



# CAPITAL MANAGEMENT REVIEW

## FINANCIAL CAPITAL



### Material Aspect:



Sustainable Growth of Earnings

### Stakeholders Impacted/Affected:



Shareholders



Business Partners

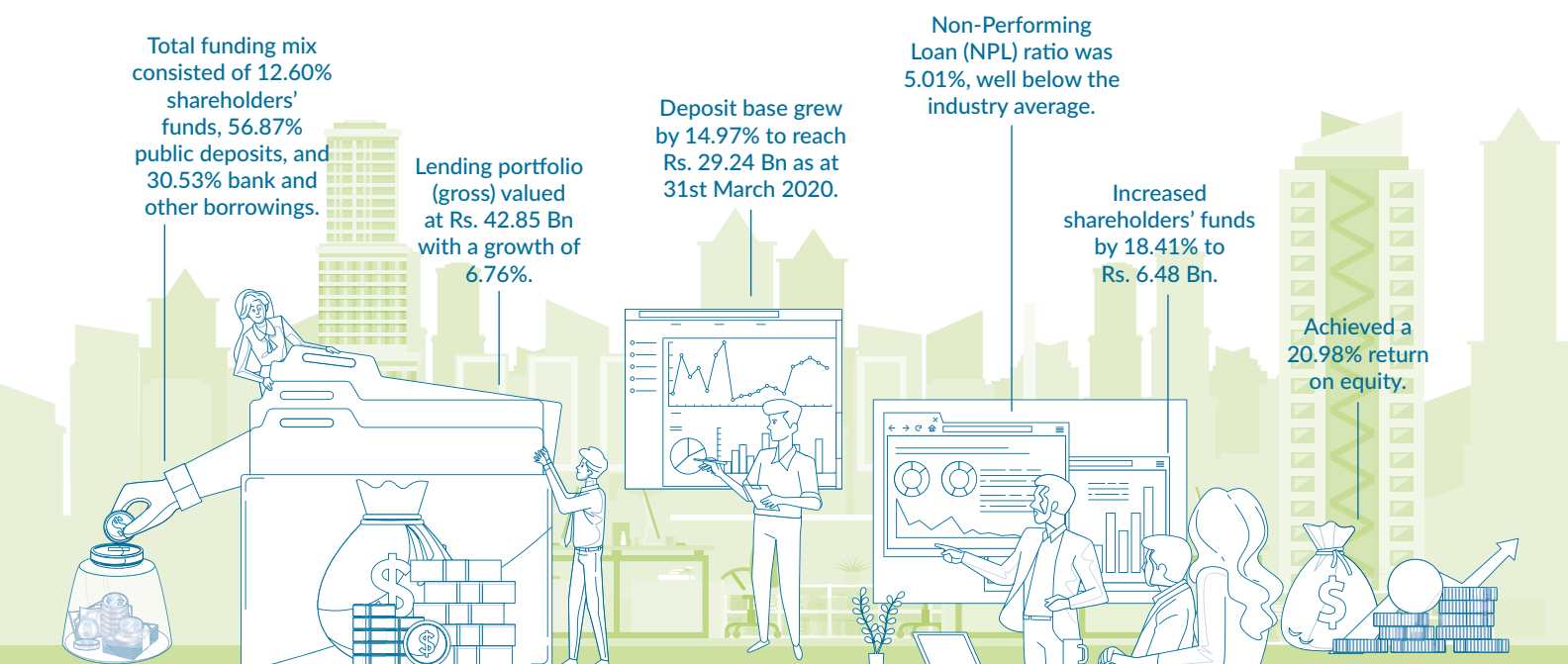


Customers



Government Institutions & Regulators

### Our Achievements 2019/20



### How We Create Value

#### Strategic Goal

To create value for our shareholders by pursuing sustainable strategies for business growth which results in sustained growth of earnings in the long term

#### Our Approach

- ▶ Diversify the Company's funding sources
- ▶ Continually increase business volumes
- ▶ Ensure asset quality and maintain the NPL ratio below the industry average
- ▶ Deliver consistent returns to shareholders

### Challenges Faced & Planned Future Action

Challenges 2019/20	Planned Actions
Unexpected and unforeseen development in the country creating changes to the macroeconomic environment and impacting operating conditions	<ul style="list-style-type: none"> <li>▶ Focus on strengthening liquidity management to continuously maintain the healthy liquidity position of the Company</li> <li>▶ Focusing on pursuing growth with relevant and non-traditional financial products which meet the changing market and consumer needs</li> <li>▶ Diversify funding sources to maintain an acceptable funding mix which strengthens the Company's financial base</li> </ul>
Changing regulatory directions	<ul style="list-style-type: none"> <li>▶ Continue to regularly review and update external policy changes with internal policies</li> </ul>





Challenges 2019/20	Planned Actions
Cost Management	<ul style="list-style-type: none"> <li>▶ Optimising costs proactively by adopting technology advancements and improving operation efficiency through process improvements</li> </ul>
Managing the NPL Ratio	<ul style="list-style-type: none"> <li>▶ Continue to enhance recovery efforts and strengthen field recovery processes</li> <li>▶ Enhance the collection monitoring process to better manage re-payment status and changes</li> <li>▶ Further strengthen the credit evaluation and client investigation processes of the Company to maintain a healthy customer base</li> </ul>

### Overview

Financial Capital plays an important role in the Company's sustainability and business operations as it the principal provider of funds which enables investments in other capitals to create value to the Company's stakeholders. The Company's Financial Capital is also comprised of retained earnings, short and long-term debt capital obtained from banks, and deposits mobilised from the public. The focus for financial capital remains the effective investment of these funds in the Company's chosen business activities such as the disbursement of loans and advances, and other short-term investments which will generate sustainable long-term returns for the Company. This input and output of funds when processed with the Company's business and value creation models create value for stakeholders while enabling the Company to provide satisfactory return to shareholders.

The financial year under review was a challenging year of business operations, due to unstable global and local macroeconomic environments which impacted the Non-Banking Financial Institutions (NBFI) sector of which Vallibel Finance is a leading player. The negative sentiment towards the industry, loss of business confidence, increasing credit issues, and the rising Non-Performing Loan (NPL) ratio together with the general decline in economic activity due to the Easter Sunday attacks of April 2019 and the advent of COVID-19 pandemic in the last quarter of the financial year resulted in impacting the financial performance of the Company. However, the robust contingency plans

together with the utmost dedication of employees, ensured Vallibel Finance remained resilient and attained adequate year-on-year financial growth.

### Management Approach

The Company approaches the management of Financial Capital, principally by adhering to the rules and regulations as set out by the Sri Lanka Accounting Standards (SLFRSs/LKASs), the Companies Act No.07 of 2007, Finance Business Act No. 42 of 2011, the Listing Rules of the Colombo Stock Exchange (CSE), and the Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka. The Company has developed comprehensive systems to meet the diverse and complex requirements of the above-mentioned rules and regulations which ensures a strict adherence of high levels of compliance.

As and when required, the leadership of the Company adopts structural changes key Financial Capital elements to ensure prudent financial resource management. Thus, during the financial year under review, the Company focused on developing procedures to optimise overhead and other operational costs to overcome challenges in the operating environment while still proceeding to meet the set strategic financial objectives of the Company. Vallibel Finance also ensures employment of qualified financial professionals to guide the Company in setting appropriate and acceptable financial policies and processes which meet the needs of financial regulations and regularly incorporate changes

and new developments in accounting policies, financial management tools and methodologies, and in financial reporting aspects.

### Creating Value for Shareholders and Achieving Sustained Business Growth

#### Financial Performance

Despite the many challenges faced by the Company during the year under review, the financial performance of Vallibel Finance continued its growth momentum, with many key financial indicators achieving double digit grow, albeit at lower levels than experienced in the past few years. The focused efforts of the Company to move forward and remain steady in achieving planned strategic objectives enabled us to progress satisfactory forward in achieving sustained business growth. The Company's value to remain flexible, enabled us to adapt to the changes within the macroeconomic environment, and be flexible enough to offer customers terms and conditions to suit their individual situations and changing needs. Thus, Vallibel Finance is one of the few financial institutions to have achieved growth while creating value for our shareholders in these challenging times by overcoming adversities and being true to our vision.

#### Total Income

The total income for the year under review increased by 11.13% amounting to Rs. 9.69 Bn compared to Rs. 8.72 Bn recorded in the previous financial year. The loans and advances portfolio continues to be the primary source of income, recording a growth of 5.55% and earning an interest income of Rs. 8.45

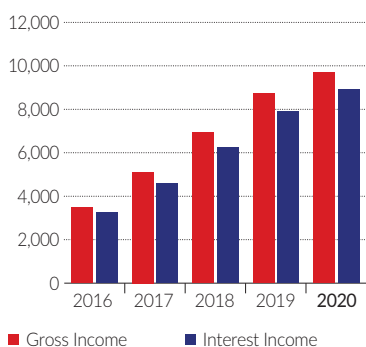
## CAPITAL MANAGEMENT REVIEW

### FINANCIAL CAPITAL

Bn for the year under review compared to Rs. 7.43 Bn recorded in the previous financial year. Other investments achieved a marginal increase during the year ended 31st March 2020, earning an interest income of Rs. 466.18 Mn. However, a slight decline was realised in total non-interest income earned during the year under review which earned only Rs. 783.11 Mn compared to Rs. 836.51 Mn recorded in the previous financial year.

#### Composition of Revenue

Rs. Mn

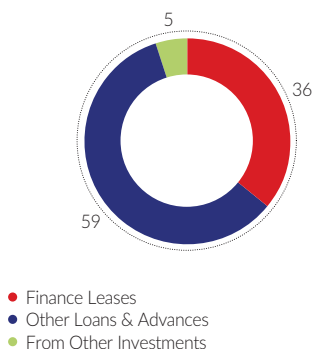


#### Interest Income

The interest income earned by the Company during the financial year under review increased by 12.98% to Rs. 8.91 Bn compared to the Rs. 7.89 Bn earned in the previous financial year. Key sources of interest income earnings for the year under review were finance leases and other loans and advances.

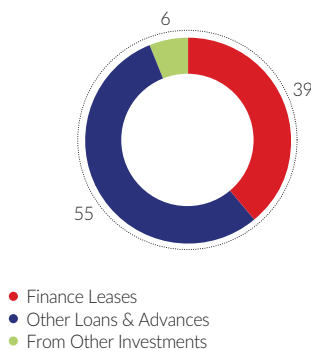
#### Composition of Interest Income 2020

%



#### Composition of Interest Income 2019

%



Interest income from the finance leases portfolio increased by 3.12% amounting to Rs. 3.19 Bn during the year under review compared to Rs. 3.10 Bn increase recorded in the previous financial year. The finance lease component continued its declining trend in the financial year under review, falling by 3% and reducing total contribution to interest income to 36%. Interest income from other loans and advances, however, grew by 21.76% amounting to Rs. 5.25 Bn during the year under review compared to Rs. 4.31 Bn recorded in the previous financial year. Contribution to interest income from other loans and advances continued its growth momentum in the year under review, contributing 59% to the total interest earned by the Company compared to 55% recorded in the previous financial year. The key products of the other loans and advances portfolio are Vehicle Loans, Gold Loans, Auto Draft and Personal Loans.

The impact of the macro prudential policy measures employed to curtail vehicle imports and manage credit issues, low business confidence, and the slowdown in economic activity combined to have a cascading negative impact on the demand for core lending products in the Non-Banking Financial Institution (NBFI) sector and resultantly impacted Vallibel Finance. However, the brand reputation and high regard for the Company, enabled us to maintain growth and minimise extensive

erosions in interest income growth. Thus, the Company's other loans and advances portfolio realised considerable growth due to expanding business volumes despite the challenging operating environment. The growth momentum achieved in the other loans and advances portfolio over the last couple of years is expected to continue in the forthcoming financial year, mainly a result of the focused efforts to build this portfolio as a strategic product range which will give Vallibel Finance a competitive advantage in the marketplace.

The hire purchase portfolio continued its declining trend as the Company has ceased to offer this product to customers over the last few years. Hence, the net hire purchase portfolio amounted to Rs. 5.26 Mn and the total interest earned further decreased to Rs. 2.99 Mn as at 31st March 2020.

The Company discontinued offering the microfinance product since 2018 due to increasing risk factors. To date, the Company's focus remains on recovering the existing portfolio and to managing undue losses arising from non-repayment of such loans. To optimise product mix and manage portfolio risks at acceptable levels, the Company set in place a policy to discourage offering Group personal loans during the last two years. However, as we move forward as a strong institution, the Company with review the validity of this decision depending on the revival of the external economy and re-emergence of a conducive business operating environment in the medium term.

The Company's other interest income comprise interest earned on placements with banks and other finance companies, and interest income from investments in Government securities such as Treasury Bills, Treasury Bonds, etc. During the year under review, the Company's other interest income amounted to Rs. 466.18 Mn.





### Interest Expenses

The Company's interest expenses comprise interest due to customers and banks, debt issued, and other borrowed funds. Interest expenses recorded only a moderate increase of 7.29% during the year under review compared to the 29.27% increase recorded in the previous financial year mainly due to the prevailing low interest rate environment in the economy. Total interest expenses amounted to Rs. 4.85 Bn as at 31st March 2020 compared to Rs. 4.52 Bn incurred in the previous financial year.

Interest expenses on deposit amounted to 67% of the total interest expenses and increased by 8.78% to record Rs. 3.25 Bn during the financial year under review compared to the 17.06% growth amounting to Rs. 2.99 Bn in the previous financial year.

Interest expenses on institutional borrowings including bank overdrafts, bank term loan facilities and securitised borrowings increased by 5.86% amounting to Rs. 1.44 Bn during the financial year under review compared to Rs. 1.36 Bn incurred in the previous financial year. The Company obtained new loan facilities during the year under review of Rs. 9.36 Bn and repaid Rs. 10.04 Bn in loans. Thus, the total institutional borrowings decreased by 7.54% to Rs. 13.00 Bn as at 31st March 2020 compared to Rs. 14.06 Bn recorded as at 31st March 2019. The Company's debentures (subordinated term debts) incurred interest expenses amounting to Rs. 102.71 Mn during the financial year under review.

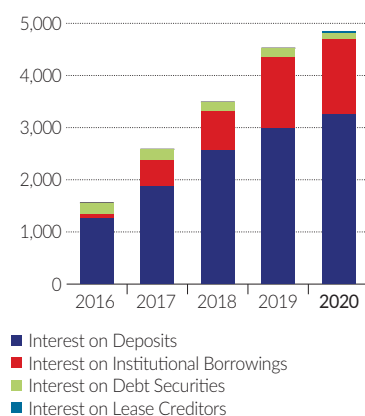
The general low interest expense environment of the Company was a result of the decision to strategically pursue growth in retail deposits to benefit from the prevailing low interest rate operating environment. This shift by Vallibel Finance to focus on growing retail deposits echoed prevalent sentiment within the LFC sector to reduce reliance on bank borrowings and pursue new avenues which provide greater flexibility

and enable better cost management processes. This strategy also had the added benefit of strengthening the Company's liquidity position which supported business operation expansions in challenging times while enabling the Company to effectively manage maturity mismatches between assets and liabilities.

Requirements of the Sri Lanka Accounting Standard SLFRS 16 on "Leases" became effective for Annual Financial periods from 1st April 2019 and accordingly interest expense of Rs. 52.12 Mn charged to income statement.

### Composition of Interest Expense

Rs. Mn



### Net Interest Income

The measures adopted to curb interest expenses through proactive changes to the funding structure and increase interest income by focused re-pricing strategies resulted in the Company achieving a double-digit net interest income growth during the financial year under review. Thus, the Company achieved a 20.64% growth in net interest income amounting to Rs. 4.06 Bn during the year under review compared to Rs. 3.36 Bn recorded in the previous financial year.

### Net Interest Income (Rs Mn)

	2016	2017	2018	2019	2020
Total Interest Income	3,245	4,597	6,257	7,888	8,912
Total Interest Expense	1,559	2,604	3,500	4,525	4,855
Net Interest Income	1,686	1,993	2,757	3,363	4,057

### Other Operating Income

Other operating income also referred to as non-interest income decreased by 6.38% amounting to only Rs. 783.11 Mn during the financial year under review compared to Rs. 836.51 Mn earned in the previous financial year. Non-interest income is comprised mainly of fee and commission income; early termination income; gain/loss on disposals of property, plant, and equipment; and gain/loss from financial investments and other income. During the financial year under review, fee and commission income and early termination income accounted for 71.49% of total other operating income.

### Total Operating Income

Total operating income comprising of net interest income and other income amounted to Rs. 4.84 Bn during the financial year under review compared to Rs. 4.20 Bn recorded in the previous financial year. The increase is mainly attributed to the increase of net interest income which contributed 83.82% to total operating income.

### Operating Expenses

The total operating expenses increased by 11.16% amounting to Rs. 1.91 Bn for the financial year under review compared to Rs. 1.72 Bn incurred in the previous financial year. This increase is mainly attributed to increasing personnel expenses which accounted for 55.11% of total operating expenses. Personnel expenses grew by 16.14% amounting to Rs. 1.05 Bn during the year under review due to new recruitments and increasing employment benefits. Net employee cadre increased by 56 during the financial year under review.

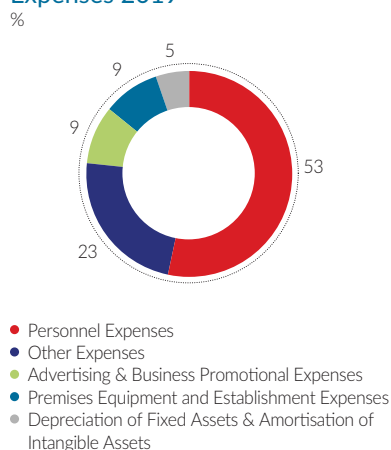
Increasing overhead expenses arising from efforts to review and increase internal efficiencies in alignment with

## CAPITAL MANAGEMENT REVIEW

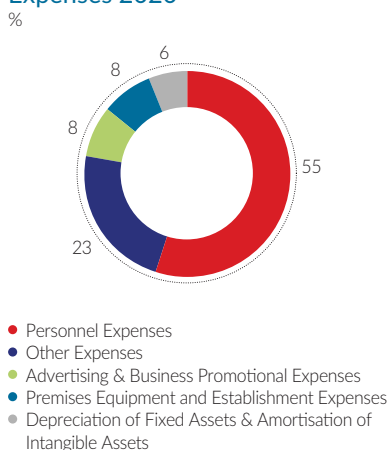
### FINANCIAL CAPITAL

changes in the external operating environment, and the Rs. 155.16 Mn in premises, equipment and establishment expenses due to branch expansion and upgrading plans during the financial year under review also contributed to increasing operating expenses. The total advertising and business promotional expenses amounting to Rs. 148.84 Mn for the year ended 31st March 2020 contributed 7.79% to total operating expenses.

#### Composition of Operating Expenses 2019



#### Composition of Operating Expenses 2020



#### Cost to Income Ratio

The Company continuously strives to improve the efficiency of business operations by monitoring and controlling costs. As a result, cost to income ratio further decreased during the financial year under review to 39.48% compared to 40.93% recorded in the previous

financial year. This reduction showcases the Company's efforts to manage costs being effective while encouraging Vallibel Finance to increase our efforts to further improve operational efficiencies.

#### Impairment Charges

The impairment charge increased by 150.03% amounting to Rs. 487.81 Mn for the financial year under review compared to Rs. 195.10 Mn recorded during the financial year ended 31st March 2019. The key factors which contributed to increasing impairment charges was the increase in gross non-performing loans due to slowdown in economic activities because of both the Easter Sunday attacks in April 2019 and the COVID-19 pandemic of March 2020. These two key uncontrollable external environment developments negatively impacted lending and recovery activities of the sector due to reduced short-term income of individuals and caused business and borrower sentiment to become cautionary.

#### Taxation

Vallibel Finance's taxation charges comprise of both direct and indirect taxes. The Company is eligible to pay corporate income tax and financial service taxes, as well as Value-Added Taxation (VAT) and Withholding Tax, National Building Tax (NBT), and Debt Repayment Levy. The effective tax rate for the financial year under review was 32.69% compared to applicable rate of 35.45% in the previous financial year.

During the year under review, total corporate income tax expenses amounted to Rs. 608.69 Mn compared to Rs. 619.91 Mn owed in the previous financial year. VAT on financial services amounted to Rs. 382.64 Mn for the financial year ended 31st March 2020 compared to Rs. 379.22 Mn payable in the previous financial year. The 7% Debt Repayment Levy with effect from 1st October 2018 was introduced on the value addition attributable to the supply of financial services by financial institutions by the Finance Act No. 35 of 2018 and amounted to Rs. 164.54 Mn for the year under review.

The Company's total tax burden increased only by Rs. 31.60 Mn during the financial year under review, as a result of latest tax revisions of the Government mainly, the abolition of the Nation Building Tax (NBT) on financial services from 1st December 2019, abolition of Debt Repayment Levy from 1st January 2020 and the downward revision of the income tax rate from 28% to 24% applicable from 1st January 2020.

Taxation Charges for the year ended 31st March (Rs. Mn)	2019	2020
Income Tax	620	609
Value Added Tax on Financial Services	379	383
Nation Building Tax on Financial Services	51	33
Debt Repayment Levy	107	165
Total	1,157	1,190

#### Profitability

The Company's profit before taxation increased by 6.84% amounting to Rs. 2.44 Bn for the financial year under review. The increased interest income, low funding cost, and the improved operational efficiency resulting in good cost management were the primary contributors to this growth. While the Company operated in one of the most challenging external environments during the year under review, the strong foundations and in-built reliance enabled Vallibel Finance to manage double-digit Net profit growth of 11.05% amounting to Rs. 1.25 Bn compared Rs. 1.13 Bn recorded in the previous financial year.

Resultantly, the Company's Return on Average Assets (ROA) calculated on profit after tax realised only a marginal decline of 2.53% as at 31st March 2020 compared to 2.62% achieved as at 31st March 2019. Return on Average Equity (ROE) showcased a commendable figure of 20.98% as at 31st March 2020 albeit approximately 5% below that recorded as at 31st March 2019, caused due to the excessive negative pressure on growth prospects from external environmental developments. It must be noted that the Company's ROE still remains well above the industry average of 7.5% (Source: CBSL Annual Report 2019).



### Profitability (Rs. Mn)

	2016	2017	2018	2019	2020
Profit Before Taxation	912	1,324	1,894	2,286	2,442
Taxation	398	598	876	1,157	1,189
Net Profit	514	726	1,018	1,129	1,253

### Financial Position

The Company's financial position is built on 13 years of financial growth and stability. The year-on-year increase in assets and deposits base, together with the strong strategies adopted to navigate troubled waters has further consolidated the Company's strong growth position in the industry. The foresight to develop comprehensive contingency plans and focus on sustaining the Company's credit quality, by maintaining high levels of deposits despite negative perception by the public on Licensed Finance Companies (LFCs), generally lacklustre business sentiment, and increasing shareholder funds has realised much success over the years. A key highlight for the financial year under review was the assets base exceeding the Rs. 50 Bn landmark which makes the Company to leading player in Sri Lanka's NBFi sector.

### Total Assets

The Company's asset base recorded an increase of 7.90% amounting to Rs. 51.42 Bn as at 31st March 2020 amidst turbulent industry and macroeconomic challenges. While growth is below that achieved in the previous financial year, the total assets value increased by Rs. 3.76 as at 31st March 2020 showing the Company's relentless pursuit to fulfil financial objectives and achieve corporate objectives. The growth achieved is mainly attributed to expansion in business volumes of loans and advances products during the financial year under review. The Company continues to apply strict measures for the effective management of the asset mix to ensure optimised asset growth and stability, while maintaining the high quality of the asset portfolio.

According to the requirements of the Sri Lanka Accounting Standard SLFRS 16 on "Leases" which became effective from 1st April 2019, the newly recorded asset of

the Right-of-use Lease Assets amounted to Rs. 398.42 Mn and liability of leases amounted Rs. 392.79 Mn.

### Liquidity Position

The Company's total liquid assets comprising of cash and short-term funds, investment in government securities, treasury bills, and placement with commercial banks amounted to Rs. 5.77 Bn as at 31st March 2020 compared to Rs. 4.17 Bn recorded as at 31st March 2019. This growth reflects a healthy liquidity position of the Company with the liquid assets to total deposits ratio achieving a growth of 19.74% as at 31st March 2020 compared to 16.39% as at 31st March 2019. A point of note is the maintenance of the liquidity ratio well above the industry regulatory requirement empowering the continued financial strength of Vallibel Finance which ensures uninterrupted business operations even in turbulent and uncertain industry and economic environments.

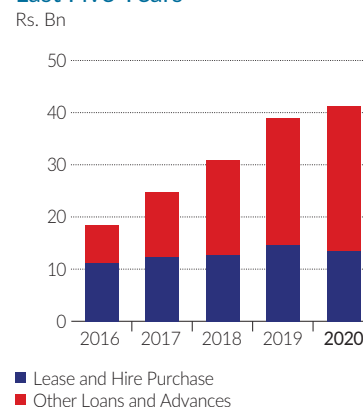
As the Company ventures into the future, maintaining a strong liquidity position will remain a key priority as this constitutes the Company's path to sustainable growth and success in the future. While we continue to reinforce our current strong liquidity position, built over 13 years of hard work and ethical business practices, the Company will comply with the short-term measures enacted by the regulatory authorities to combat negative impacts of COVID-19 pandemic. We will also take all necessary measures to ensure continuation of confirmed credit lines with banking institutions.

### Lending Assets

The Company's net lending portfolio realised a moderate growth of 5.55% amounting to Rs. 41.12 Bn during the year under review, compared to Rs. 38.96 Bn recorded in the previous

financial year. The total finance lease net portfolio of the Company amounted to Rs. 13.49 Bn as at 31st March 2020 compared to Rs. 14.58 Bn recorded as at 31st March 2019, recording a decline of 7.50%. Net hire purchase receivable further decreased to Rs. 5.26 Mn as at 31st March 2020 compared to 42.01 Mn recorded as at 31st March 2019 due to the Company's policy change on hire purchase loans over the last few years. Thus, the Company's lease rental and hire purchase receivables accounted for only 33% of the total lending portfolio, while other loans and advances continued to dominate the total lending portfolio being the largest contributor in recent years. Other loans and advances accounted for 67% of the total lending portfolio as at 31st March 2020.

### Lending Portfolio Distribution for Last Five Years



Other loans and advances (also referred to as loans and receivables to other customers) comprises mortgage loans, personal loans, vehicle loans, gold loans, fixed deposit loans, group personal loans, business loans and microfinance. The other loans and receivables net portfolio increased by 13.53% to Rs. 27.63 Bn as at 31st March 2020, compared to Rs. 24.33 Bn recorded as at 31st March 2019. This increase was largely due to the expansion in vehicle loans and gold loan portfolios. Due to the increasing risk factors associated with group personal loans, business loans and microfinance products, the Company reduced granting new loans under these categories during the financial year under review as a strategic policy decision to propel growth and allow recovery of the existing lending portfolio.

## CAPITAL MANAGEMENT REVIEW

### FINANCIAL CAPITAL

#### Composition of other Loan and Advances (Rs. Mn)

	2016	2017	2018	2019	2020
Gold Loans	522	897	1,510	2,513	3,527
Loans Against Fixed Deposits	277	378	388	532	500
Other Loans & Advances	6,452	11,192	16,175	21,287	23,599
Total other Loans & Receivables (Net)	7,251	12,467	18,073	24,332	27,626

#### Credit Quality

The Company's Non-Performing Loan (NPL) ratio continued to rise in line with the industry trend during the year under review, although it remained at a manageable level, and well- below the industry average of 10.59% (source: CBSL Annual Report 2019). The Company's NPL ratio was 5.01% as at 31st March 2020, a slight 2% increase compared to 3.02% recorded in the previous financial year. The rising NPL ratio of the Company was inevitable as this reflected industry trends and the slowdown of the financial sector during the year under review caused by the cascading effects of global and local economic factors. The Company continued to further strengthen the credit risk management and recovery processes during the year under review by a combination of both prudent lending policies and aggressive recovery strategies. The Vallibel Finance Credit Division and Recovery Division also remained focused on mitigating undue credit risks and maintaining the NPL ratio at levels acceptable to the Company.

As we progress into the forthcoming financial year with COVID-19 continuing to impact economic performance and reduce investor and business confidence, maintaining the NPL ratio at levels acceptable to the Company's business progress will remain a priority as this will also improve risk forecasts and mitigate undue credit risks.

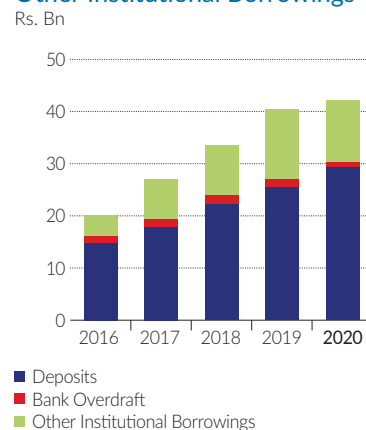
#### Total Liabilities

The total liabilities of the Company comprising the deposit base, bank overdraft facilities, term loan facilities obtained from banks, securitised borrowings, debt securities, and other liabilities amounted to Rs. 44.95 Bn as at 31st March 2020 increasing by 6.54% compared to Rs. 42.19 Bn recorded as at 31st March 2019. Public deposits constituted the largest part of the funding mix, accounting for 65% of the total liabilities as at 31st March 2020 compared to 60% as at 31st March 2019. The key contributor to the 5% increase was from growth in retail deposits due to the Company's strategy to reduce bank borrowings and focus on increasing retail deposits to maintain funding mix advantage to overcome challenging and turbulent operating environments. Thus, the Company's exposure to bank borrowings decreased during the financial year under review, constituting only 29% of total liabilities as at 31st March 2020 compared to 33% recorded as at 31st March 2019.

The Company's bank borrowing constituting of bank overdraft facilities, term loans, and securitised borrowings amounted to Rs. 13 Bn as at 31st March 2020, a 7.54% decrease compared to Rs. 14.06 Bn recorded as at 31st March 2019. Loan facilities amounting to Rs. 9.36 Bn were obtained from leading banking institutions in Sri Lanka, and facilities amounting to Rs. 10.04 Bn were repaid during the financial year under review.

As at 31st March 2019, the Company's subordinated term debts/debentures amounted to Rs. 1.03 Bn, which was the Rs. 1 Bn Unsecured Subordinate Redeemable Debentures issued in 2015, matured as at 31st March 2020 and redeemed in April 2020. The payable balance as at 31st March 2020 is reflected in the Other Liabilities - Debenture Redemption Control Account.

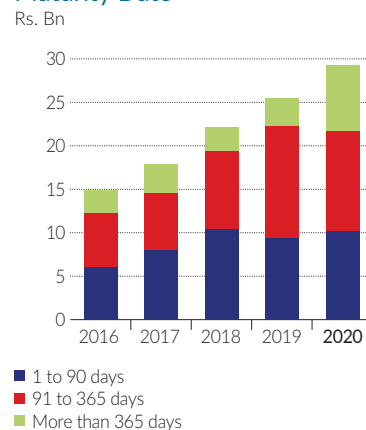
#### Deposit Base, Overdraft & Other Institutional Borrowings



#### Deposit Base

Public Deposits increased by 14.97% amounting to Rs. 29.24 Bn as at 31st March 2020 compared to Rs. 25.44 Bn as at 31st March 2019. The increase in the Company's deposit base amidst the general reduction in business confidence and an increasing mistrust of Licensed Finance Companies is a noteworthy and commendable achievement for Vallibel Finance. This successful growth in deposits is attributed the Company's reputation in the industry as a leading and ethical financial institution as well as the trust placed by the public on the Vallibel Finance brand. As at 31st March 2020, fixed deposit accounted for 97.23% of the total deposit base, while Certificate of Deposits contributed only a modest 2.77%.

#### Analysis of Deposits by Maturity Date



The Company's deposit base constitutes 74% of deposits with a maturity of less



than one year while the remaining 26% of deposits have much longer-term maturities. This mix is maintained as the Company continues to focus on obtaining medium and long-term funding to minimise mismatches in interest bearing assets and liabilities through the provision of competitive rates, thereby improving customer service and the overall efficiency of the system.

The Company's fixed deposits realised a year-on-year increase of 15.69% amounting to Rs. 28.43 Bn as at 31st March 2020 compared to Rs. 24.58 Bn recorded as at 31st March 2019. The value of Certificate of Deposits as at 31st March 2020 amounted to Rs. 811.30 Mn compared to Rs. 859.88 Mn recorded as at 31st March 2019.

### Capital Adequacy

The capital adequacy is the measure of financial strength of a Company expressed as a ratio of its capital to its risk-weighted assets. This ratio indicates the Company's ability to maintain adequate capital in the form of equity and supplementary capital to meet any unexpected losses.

LFCs and SLCs with an asset base less than Rs. 100 Bn are required to maintain minimum Tier I capital adequacy ratio of 6.5% and total capital ratio of 10.5% with effect from 1st July 2019 to 1st July 2021 under the new capital adequacy framework. Thereafter a stage-by-stage annual increase is expected up to 1st July 2022. Accordingly, Vallibel Finance has maintained a Tier I capital ratio of 11.93% as at 31st March 2020 while the total risk weighted capital ratio was 13.04% as at 31st March 2020. Both ratios exceed the minimum regulatory limits of 6.5% and 10.5% respectively. The Company's core capital ratio was 11.13% and total risk weighted capital ratio was 12.61% as at 31st March 2019. The Company's present core capital and Capital funds amount to Rs. 6.34 Bn which comfortably exceeds the regulatory requirements set by Central Bank of Sri Lanka. The detailed breakdown of the capital adequacy ratio computation is given in the Note 53 of the Financial Statements.

### Shareholder Funds

The Company's main source of capital continued to be retained earnings which amounted to Rs. 3.81 Bn as at 31st March 2020, increasing significantly by 24.78% compared to Rs. 3.05 Bn recorded as at 31st March 2019. Thus, total shareholders' fund increased by 18.41% amounting to Rs. 6.48 Bn as at 31st March 2020 compared to Rs. 5.47 Bn recorded as at 31st March 2019. Return on average shareholders' funds, however, decreased as at 31st March 2020 recording a ratio of 20.98% compared to 25.73% achieved as at 31st March 2019.

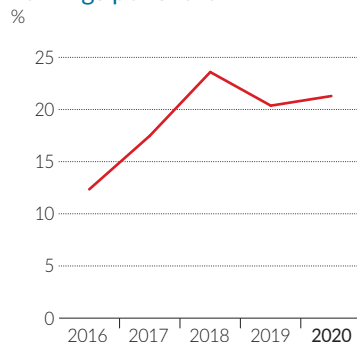
Vallibel Finance continues to focus on creating value to shareholders who are a critical stakeholder of the Company. The successful achievement of growth over the last 13 years, and further progress made during the financial year under review despite the Company considering this one of the most challenging years of operations showcases our commitment to achieving success always without compromising on our ethical business practices and while maintaining financial stability of business operations to continue into the future.

### Review of Key Ordinary Share Indicators

#### Earnings per Share

The earnings per share for the 12-month period ending 31st March 2020 was Rs. 21.29 compared to Rs. 20.37 recorded for the 12-month period ending 31st March 2019. This shows an increase in earnings per share of 4.56% compared to the financial year ended 31st March 2019, attesting to the resilience and reputation of Vallibel Finance.

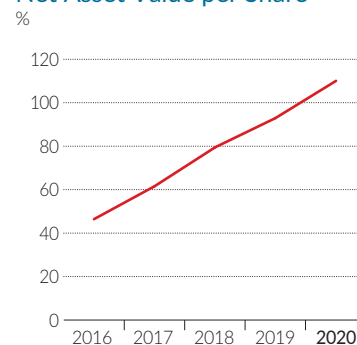
#### Earnings per Share



### Net Asset Value per Share

The net asset value per share increased by 18.41% amounting to Rs. 110.05 as at 31st March 2020 compared to Rs. 92.94 recorded as at 31st March 2019 creating shareholder value and attesting to the Company's successful pursuit of strategic objectives.

#### Net Asset Value per Share

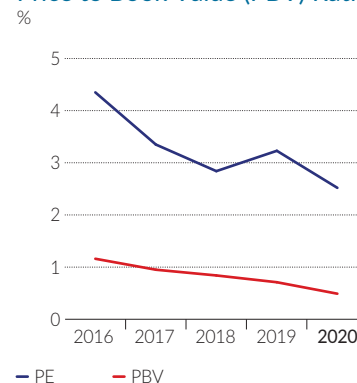


### Price Earnings (P/E) Ratio

The P/E ratio decreased by 21.97% to 2.52 times as at 31st March 2020 from 3.23 times recorded as at 31st March 2019. The Company attributes this decrease to market disruptions due to loss of investor confidence caused by the Easter Sunday attacks and deteriorating macroeconomic growth coupled with market closure from 20th March to 31st March due to curfew imposed to slowdown the spread of the coronavirus.

### Price to Book Value Ratio

#### Price Earnings (P/E) Ratio and Price to Book Value (PBV) Ratio



The price to book value ratio also deteriorated by 0.22 times as at 31st March 2020 falling from 0.71 times achieved as at 31st March 2019 to 0.49



# CAPITAL MANAGEMENT REVIEW

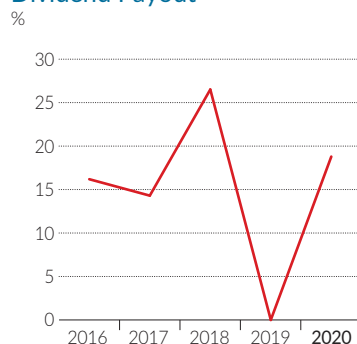
## FINANCIAL CAPITAL

times in the year under review. Uncertain market conditions are attributed to the falling ratio.

### Dividends

The Company regularly pays dividends to shareholders to ensure the creation of direct value for the investment made in the Company.

### Dividend Payout

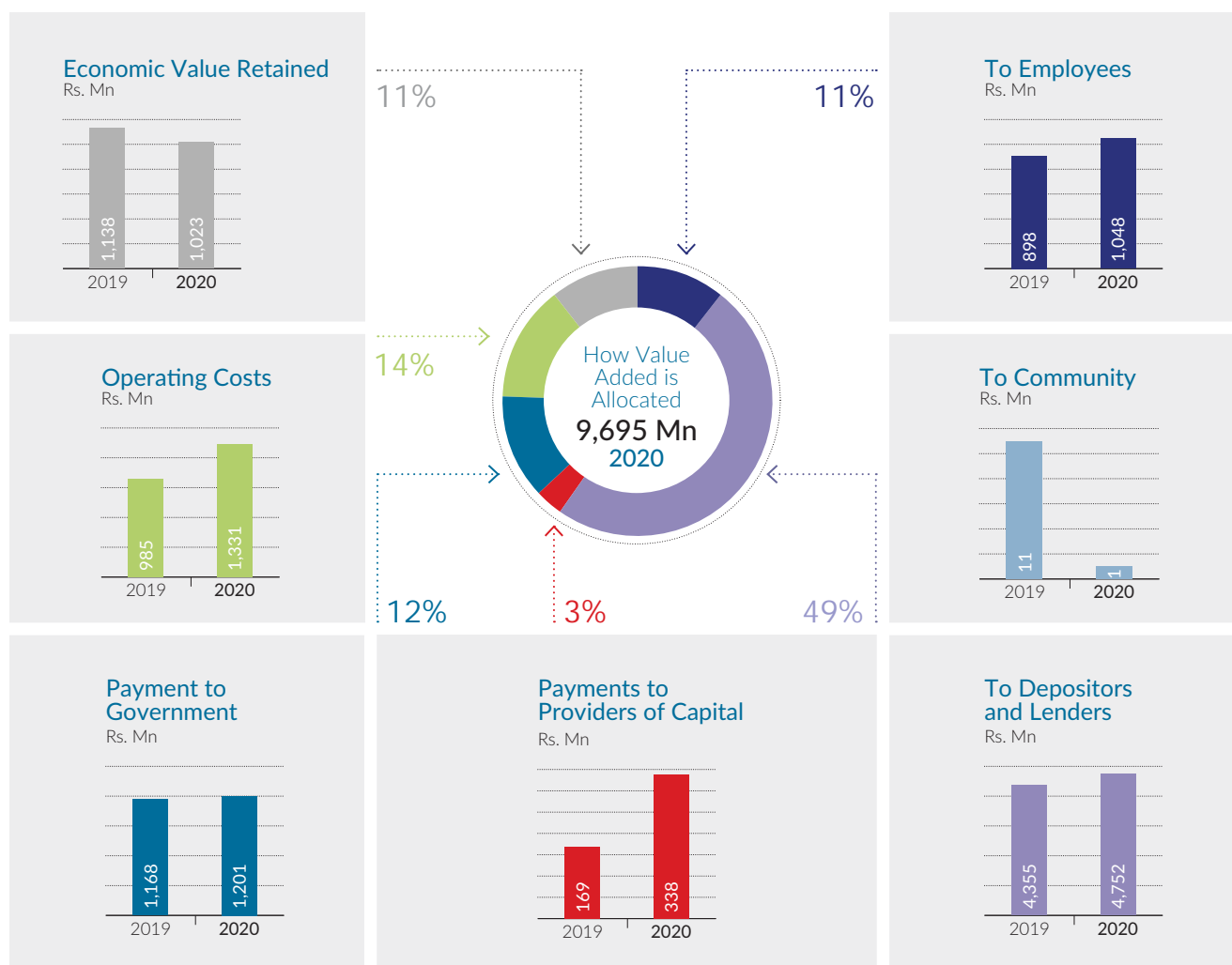


### Value Created to Stakeholders

The Company's value-generated/distributed statement provides information on the value created for the Company's stakeholders from a financial perspective. During the year under review, Vallibel Finance was able to increase the total value generated by 11.13% which resulted in an increase in value distributed to the shareholders, business partners, customers, and employees of the Company.

For the year ended 31st March	2020		2019	
	Rs.	%	Rs.	%
<b>Direct Economic Value Generated</b>				
Interest Income	8,912,195,796	91.92%	7,888,022,365	90.41%
Fee Commission Income	350,337,255	3.61%	361,072,091	4.14%
Net Gain/(loss) From Trading	63,454,552	0.65%	776,259	0.01%
Other Operating Income	369,318,495	3.81%	474,659,627	5.44%
<b>Total Economic Value Generated</b>	<b>9,695,306,098</b>	<b>100.00%</b>	<b>8,724,530,342</b>	<b>100.00%</b>
<b>Economic Value Distributed</b>				
<b>To Employees</b>				
Employees Salaries & Benefits	1,048,021,933		897,641,477	
	1,048,021,933	10.81%	897,641,477	10.29%
<b>To Depositors and Lenders</b>				
Interest Expenses	4,751,804,785		4,355,347,238	
	4,751,804,785	49.01%	4,355,347,238	49.92%
<b>Payments to Providers of Capital</b>				
Dividend to Shareholders	235,453,400		-	
Interest to Debenture Holders	102,711,000		169,281,279	
	338,164,400	3.49%	169,281,279	1.94%
<b>Payment to Government</b>				
Income Tax Expenses	608,691,237		619,909,904	
Debt Repayment Levy	164,541,826		107,199,641	
VAT & NBT on Financial Services	415,253,533		429,780,097	
Crop Insurance & Levy	12,787,286		11,236,371	
	1,201,273,882	12.39%	1,168,126,013	13.39%
<b>To Community</b>				
Social Responsibility Projects	1,201,938		7,908,261	
Donations	121,913		3,162,300	
	1,323,851	0.01%	11,070,561	0.13%
<b>Operating Costs</b>				
Depreciation & Amortisation Set Aside	112,714,413		93,251,698	
Impairment Charge for Loans & Other Losses	487,815,203		195,100,737	
Training Cost	5,219,844		9,200,422	
Other Operating Expenses	725,791,232		687,582,025	
	1,331,540,691	13.73%	985,134,881.37	11.29%
<b>Economic Value Retained</b>	<b>1,023,176,556</b>	<b>10.55%</b>	<b>1,137,928,894</b>	<b>13.04%</b>
<b>Total Economic Value Distributed</b>	<b>9,695,306,098</b>	<b>100.00%</b>	<b>8,724,530,342</b>	<b>100.00%</b>





## Future Outlook

During the year under review, Vallibel Finance has shown great resilience and an ability to pursue strategic direction amidst a highly challenging operating environment. The financial stability build over a 13-year period with focused efforts to maintain an advantageous funding mix with minimal borrowings while pursuing a strong liquidity position has enabled the Company to weather adversities and come out stronger and better as a highly competitive financial institution in the market place.

As we enter the forthcoming financial year amidst the emerging developments from the impact of the COVID-19 pandemic, the Company foresees some shortfalls in meeting strategies and making progress in the short to medium terms. However, the strength of our strategies and future plans bodes well

for recovery and growth of the Company in the long term. While managing fluctuating operating conditions amidst economic disruptions, Vallibel Finance will also continue to focus on meeting the required financial compliances and new regulatory requirements as set out for LFCs to maintain our standing as a leading financial services institution in the industry.

As a financial institution which provides access to funds for the nation's people, we believe that it will be our duty to help our customers navigate these troubled times so that they emerge stronger and better. We believe that financial assistance will play an integral role in re-start economic activities and will re-design our products to suit customer requirements and assist them with relief as per government regulations. As economic activity

returns to normal, we will pursue our branch expansion strategies and further our reach in the nation to offer financial assistance as, when and where required.

The Company will continue to focus on value adding business lines to increase lending portfolio and will also retain a funding mix which adequately addresses both business requirements and considers the dynamic changes to the external operating environment. Thus, while the Company gears up to take on emerging challenges which will come our way in the near term, we will review our long-term strategies to consider the opportunities which will open up in the future as well as develop plans to overcome unexpected and unforeseen events happening in the dynamically changing economic and industry environments.

# CAPITAL MANAGEMENT REVIEW

GRI: 103, 102-4, 102-6, 203, 418

## MANUFACTURED CAPITAL



### Material Aspect:



Sustainable Growth of Earnings



Customer Satisfaction



Ethics, Compliance and Good Governance

### Stakeholders Impacted/Affected:



Business Partners



Customers



Employees



Society/Community

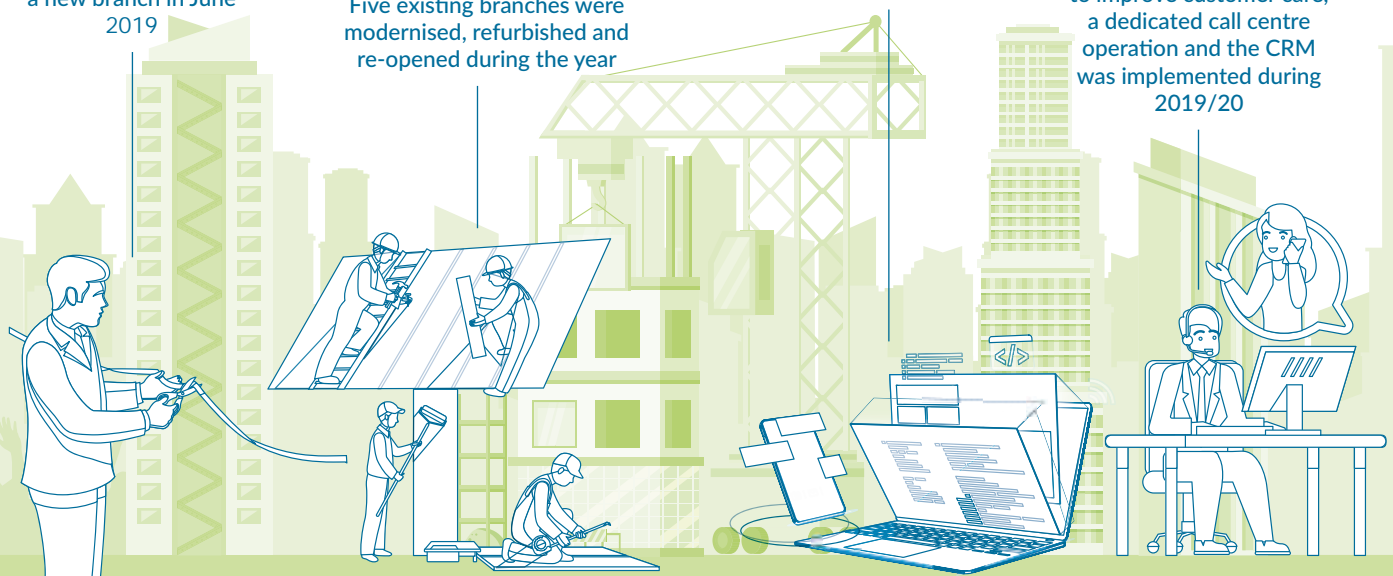
### Our Achievements 2019/20

Expanded to Pelawatte by opening a new branch in June 2019

Five existing branches were modernised, refurbished and re-opened during the year

Invested Rs. 9.69 Mn in IT developments and technology upgrades

Aligned to our commitment to improve customer care, a dedicated call centre operation and the CRM was implemented during 2019/20



### How We Create Value

#### Strategic Goal

To make strategic investments in manufactured capital assets to facilitate the growing needs of business expansion and success, customer convenience and accessibility, and the efficient and effective use of resources.

#### Our Approach

- ▶ Expanding business operations across the island
- ▶ Timely upgrades to branch operations to optimise value creation and increase efficiency
- ▶ Relocation of branches based on strategic priorities of improving energy efficiency, convenience to customers and developing a conducive working environment for employees
- ▶ Leveraging on information technology developments to garner competitive advantage

### Challenges Faced & Planned Future Action

Challenges 2019/20	Planned Actions
Constraints in expanding branch network due to unforeseen developments in the operating environment	<ul style="list-style-type: none"> <li>▶ Re-evaluate branch expansion strategy based on current market and economic conditions without compromising the creating of Manufactured Capital value</li> <li>▶ Recruiting people with local knowledge, more focused evaluations of market trends and opportunities, and screening of different locations to reduce obstacles in finding the 'right fit' locations for geographic expansions</li> </ul>



Challenges 2019/20	Planned Actions
Upgrading branches based on strategic priorities of improving energy efficiency, convenience to customers and ensuring conducive working environment for employees	<ul style="list-style-type: none"> <li>▶ Optimise resource allocation when pursuing branch upgrades to maintain costs at acceptable levels, while pursuing capital value growth</li> </ul>
Enhancing customer service and convenience by leveraging on information technology	<ul style="list-style-type: none"> <li>▶ Further strengthen the call centre where customer inquiries and complaints can be handled more efficiently within the minimum time</li> <li>▶ Integrate the CRM with internal processes for added value and to increase internal efficiencies</li> <li>▶ Continue to regularly review and upgrade information security systems to ensure customer privacy and safety of personal information</li> <li>▶ Continue with the implementation of user-friendly technologies which encourage customers to adopt convenient IT systems to interact with the Company</li> </ul>
High cost of technology investments limiting the pace of adoption of new technologies	<ul style="list-style-type: none"> <li>▶ Strategically invest in information technology infrastructure and systems to improve internal operational efficiencies to manage and leverage cost-benefit aspects</li> </ul>
Transition time from manual to digital processes	<ul style="list-style-type: none"> <li>▶ Review and update change processes to reduce transition time</li> <li>▶ Identify bottlenecks and pursue strategies to eradicate them</li> </ul>

## Overview

Vallibel Finance PLC's Manufactured Capital consists of physical assets which support our business operations. These manufactured assets include the Company's branches across the island; information technology infrastructure; and other property, plant and equipment used in enabling day-to-day business operations. The Company's investment in manufactured capital is aimed at improving efficiency and effectiveness in carrying out business activities; facilitating the needs of business growth and success; and enabling customer satisfaction, retention, and growth.

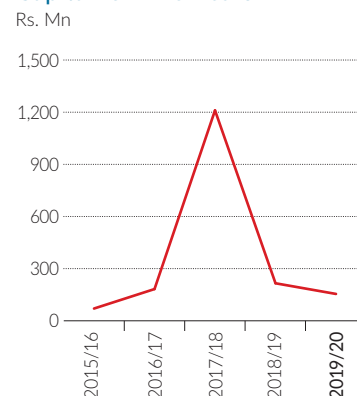
Over the years, the Company has continuously added value to our Manufactured Capital by focusing on expanding our branch network and using information technology to enhance internal and external communications and operational processes thereby increasing customer service experience. Following the principles of a sustainable business model, our focus on optimising use of limited resources to serve our customers and other stakeholders in the best way possible remains at the forefront of all

we do. Thus, minimising costs, enhancing efficacy, and embracing innovative business processes enables the Company to remain viable in an increasingly competitive business landscape while creating Manufactured Capital value for all stakeholders.

With 41 strategic locations across Sri Lanka, and the adoption of latest developments in information technology, the Company is well placed to create value for Manufactured Capital while pursuing business growth and achieving adequate visibility in the marketplace.

During the year under review, the Company invested Rs. 154.42 Mn on Manufactured Capital which includes Rs. 9.31 Mn for branch network expansions, Rs. 1.76 Mn for the purchase of buildings, Rs. 60.49 Mn for the purchase of office furniture and equipment, and Rs. 9.70 Mn on information technology infrastructure to increase service efficiency and information security of customer information. These investments support the expansion of business operations, while creating value to our customers and communities targeted by the new branch operations.

## Total Investment in Manufactured Capital for Five Years



## Management Approach

The strategic approach adopted by Vallibel Finance to create value for Manufactured Capital is based on the inherent principle of increasing and enhancing accessibility of financial services to all consumers across Sri Lanka. Therefore, the Company follows a policy of careful location selection when opening new branches and relocation of branch operations by identifying areas with a dearth of appropriate financial services offerings, focusing on cities and towns which are urbanising at a

## CAPITAL MANAGEMENT REVIEW

### MANUFACTURED CAPITAL

fast pace, as well as towns which are becoming thriving business locations for small and medium sized organisations. The Company's branch strategy also focuses on enhancing the facilities in our branch network with the aim of providing a pleasant and conducive work environment, retaining our brand image of quality services and financial offerings, and providing customers efficient and convenient services.

Strategic investments in Information Technology (IT) infrastructure is a critical aspect of ensuring meeting corporate objectives and the needs of our increasingly tech savvy customers. By adopting and implementing timely advancements in IT infrastructure, the Company is able to enhance and improve customer safety and privacy, utilise the latest equipment and technology to enhance customer convenience and increase operational efficiencies, and implement energy efficient business processes leading to creating greater value for stakeholders.

#### Expanding Branch Network

Operating in Sri Lanka, the Company pursues branch expansion strategies with the belief that our branches must evolve to respond to the rapidly changing operating environment while meeting the increased demands of our rapidly growing customer base. Our branch network operations also assist in the development of small towns thereby propelling economic development in the area. Therefore, the Company focuses on developing bigger and better infrastructure complete with the latest adaptation of technology advancement to offer greater convenience to our existing customers and to reach an ever-wider target market, while meeting our socially responsible obligation to indirectly impact economic growth in the area. As such, Vallibel Finance will continue to improve and upgrade our branch network as the key customer touch points which enhances customer experiences through higher levels of customer service and convenience in the future. In June 2019, Vallibel Finance opened our first branch in Pelawatte at an investment of Rs.

9.31 Mn. Pelawatte is a suburb close to Colombo which has in recent years been transforming to a robust centre of business growth, and the Company's new branch will cater to the towns diverse residence offering our customised products to meet their individual needs. Another branch of the Company in the town of Kohuwala has completed its refurbishment and will officially re-open in the coming financial year. The total cost of branch network modernisations and the development of the new branch was Rs. 38.11 Mn.

Pursuing the Company's branch network relocation and refurbishment strategies,

the four branches located in Kandy, Kuliypitiya, Embilipitiya, and Chilaw were modernised and re-launched on 11th June 2019, 23rd July 2019, 22nd November 2019 and 22nd January 2020 respectively. These operational locations were refurbished with the distinct 'red and white' branding of Vallibel Finance reaffirming the strong brand value and commitment of the Company to these bustling suburban towns. These modernised new branches continue to strengthen the Company's leading position in the marketplace while reiterating our reputation as the Finance Company that guides the way in cutting edge developments.



*Pelawatte branch opening*



*Kandy branch re-opening*



*Chilaw branch re-opening*

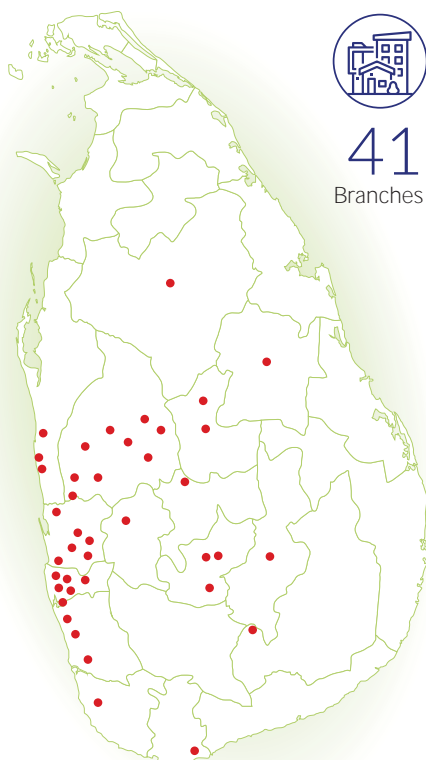


*Embilipitiya branch re-opening*





### Geographical Distribution of the Branch Network



	Number of branches
Colombo District	13
Kalutara District	3
Gampaha District	5
Western Province	21
Kandy District	1
Mathale District	1
Nuwara Eliya District	1
Central Province	3
Rathnapura District	3
Kegalle District	2
Sabaragamuwa Province	5
Galle District	2
Matara District	1
Hambantota District	-
Southern Province	3

	Number of branches
Kurunegala District	4
Puttalam District	2
North Western Province	6
Anuradhapura District	1
Polonnaruwa District	1
North Central Province	2
Badulla District	1
Moneragala District	-
Uva Province	1
<b>Total Branches</b>	<b>41</b>

### New Head Office Complex

A notable milestone for Vallibel Finance during the year under review was the commencement of construction of the 16-storey new Head Office complex, strategically located at No. 480, Galle Road, Colombo 3. The complex is the epitome of modern architecture incorporating state-of-the-art technological and electronic systems as well as adhering to aspects of building sustainability. Once completed, the Company foresees this complex becoming a commercial landmark in Sri Lanka's impressive skyline while providing a range of convenience for our customers and employees.

To ensure our Head Office meets all exacting standards and our expectations, on 5th March 2020, Vallibel Properties Limited was incorporated as a fully-owned subsidiary of Vallibel Finance PLC, to engage in the administration of construction, development, and maintenance of the proposed Head Office building complex of Vallibel Finance PLC.



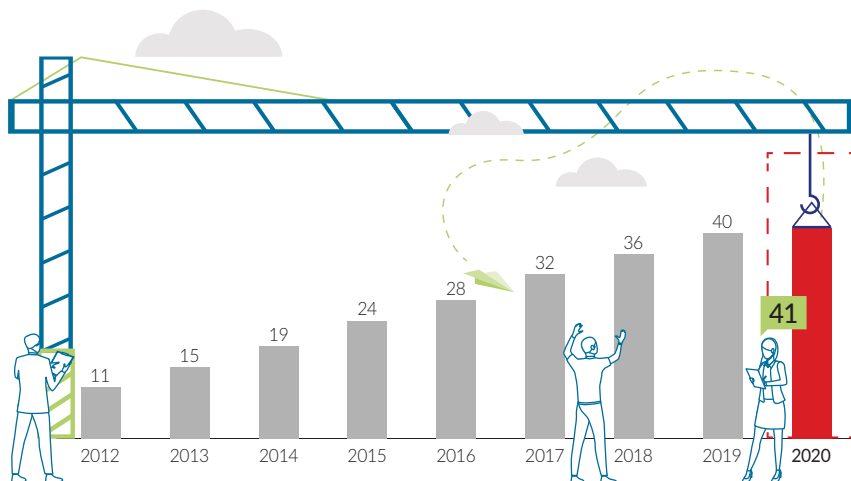
Laying the foundation stone for the new Head Office complex



# CAPITAL MANAGEMENT REVIEW

## MANUFACTURED CAPITAL

### Year-on-Year Growth in Branch Network



### Augmenting Information Technology

Information Technology plays an important role in the financial services industry today. Vallibel Finance uses information technology to increase efficiency of internal processes, improve and enhance service quality to our customers, and to remain competitive in our chosen market space. The highly tech savvy consumers of today make it imperative that the Company pursues relevant technology integrations which add value to stakeholders and the business concurrently. Over the years, the Company has made strategic investment in information technology which has enabled us to successfully pursue strategic goals while remaining relevant in the dynamically changing operating environment.

### The Information Technology Journey of Vallibel Finance



### Key Developments in Information Technology

During the year under review, there were two key developments implemented by Vallibel Finance to improve efficacy and convenience for our customers.

#### Call Centre Operations

The Company set-up and started operating a 24/7 Call Centre with dedicated staff to handle inquiries complaints from our customers, while also accepting calls from new leads. The Call Centre is integrated with the customer relationship management system to enable all leads and inquiries to be directly updated on this system.

#### Customer Relationship Management System

A customer relationship management system was rolled out with the aim of improving the operations of the marketing department enabling more effective workflow processes to be developed. The system has proved to be highly effective in improving overall internal process efficiencies. This system is integrated with the Call Centre for direct input of all leads and inquiries received enabling new customer centric information to be available for organising the work undertaken by the Marketing Department.





### Adoption of Digitalised Marketing Strategies



Over the last few years Vallibel Finance has been pursuing the strategy of adopting new and emerging technology to improve all aspects of business operations. As part of the Company's continued efforts in this regard, during the year under review, the focus was on improving our marketing initiatives and bringing to the fore the corporate brand through digital measures.

- ▶ Optimising search engine ranking of the corporate website using specific keywords.
- ▶ Publishing all Vallibel Finance branches on Google Maps using Google My Business.
- ▶ Integrating Google Maps with the corporate website.
- ▶ Implementing website monitoring using Google Analytics.
- ▶ Revamping the corporate Facebook page to improve its attractiveness to the target audience while concurrently pursuing a comprehensive Facebook marketing strategy.
- ▶ Enhancing the corporate YouTube channel by adding commercials and documentaries.
- ▶ Pursuing SMS marketing campaigns via the Vallibel Finance SMS Gateway.
- ▶ Increasing focus on digital advertising strategy through placement of digital advertisements/banners in popular Facebook pages and on marketplace websites such as www.ikman.lk.
- ▶ Setting-up employee WhatsApp groups for each product to easily share important information and updates with the marketing department personnel.

### Information Security Systems/New Software updates

Vallibel Finance is aware of the importance of safeguarding personal and confidential information gathered from customers and other stakeholders as part of our business process. Accordingly, the Company has invested in security infrastructure by implementing the most current and world-renowned security systems and

technologies to safeguard business information systems and databases from hacking. Furthermore, regular reviews are undertaken to ensure firewalls and cyber security systems are upgraded thereby mitigating emerging threats of viruses and hacking while databases are encrypted, and access is limited and secured using encrypted password protection. Accordingly, the Company periodically updates and improves information security and software. In addition, Vallibel Finance ensures that we use only licensed software

and all such licences are renewed annually or as per licensing requirements. During the year under review, the Company invested Rs. 4.14 Mn in purchasing and upgrading computer hardware system and, Rs. 5.56 Mn for purchasing, upgrading and renewing software used by all employees.

During the year under review, no substantiated complaints were received regarding customer privacy and losses of customer data.



### Future Outlook

The management approach adopted for monitoring and reviewing value creation for Manufactured Capital has over the year enabled the Company to benefit from long term returns for our stakeholders. Vallibel Finance continued to review the management approach periodically, but at present believes that the approach taken fulfils both the needs of the Company and our stakeholders.

As Vallibel Finance continues to expand our business reach across the island, we will continue to focus on furthering business expansion within the Western Province by opening new branches in Colombo and focusing on expanding in the Greater Colombo area. Over the last four years, the Company has successfully opened four branches annually, thereby not only effectively expanding our presence in the country but contributing to the economic growth and employment generation of those localities. While the Company had in place similar plans for 2019/20, these were thwarted due to the tragedy of the April 2019 Easter Sunday attacks together with the political uncertainties which adversely affected economic growth and contracted economic activities during the year under review. The impact of the COVID-19 pandemic also brought to a halt the official opening of the new Kohuwala branch in March 2020. The Company plans to have the ceremonial launch once the current situation is controlled and the country returns to normal. Furthermore, plans are firmly in place to re-align our goals and focus efforts to expand our regional presence in the medium term by opening the new branches in Ambalanthota and Ja-Ela in the coming financial year. The Company will also continue to analyse the need for additional new branches in newly-urbanised regions and new towns across the nation while branch refurbish and modernisation will continue

to play a key role in our strategy to increase customer accessibility and convenience while making business operations more effective and efficient.

The highly-anticipated 16-storey Head Office complex will be a focus in the coming year as we foresee this as our most valuable addition to Manufactured Capital value. Many resources will be deployed to ensure meeting targets and working with pre-defined plans as the Company envisages changes in both the operational and regulatory environments in the forthcoming year mainly due to the impact of unforeseen developments in global economies.

The Company will also continue to invest in information technology advancements to help to meet our efforts to render an efficient and effective service to our current and future customers. One initiative already under review is an online payment gateway which will provide a secure and efficient method for customers to settle their payments or make deposits to their accounts. There are also plans to further improve digital marketing efforts using digital signage at Vallibel Finance branches across the country, featuring our products, fixed deposit rates, and special promotions. It is also expected that the newly implemented CRM system and call centre will work concurrently to monitor and pursue leads generated from such digital advertising efforts.

However, it must be mentioned that any new strategies and goals of the Company to create value for Manufactured Capital including opening of new branches, branch refurbishments, and new investments in information technology shall have to be re-evaluated in alignment with the development and persistent impact of the COVID-19 pandemic which has brought to a standstill a greater part of the economic activity of the country.

# CAPITAL MANAGEMENT REVIEW

GRI: 102-16, 103, 205, 206

## INTELLECTUAL CAPITAL



### Material Aspect:



Company Brand and Reputation



Ethics, Compliance and Good Governance

### Stakeholders Impacted/Affected:



Employees



Business Partners



Shareholders



Customers



Government Institutions & Regulators

### Our Achievements 2019/20

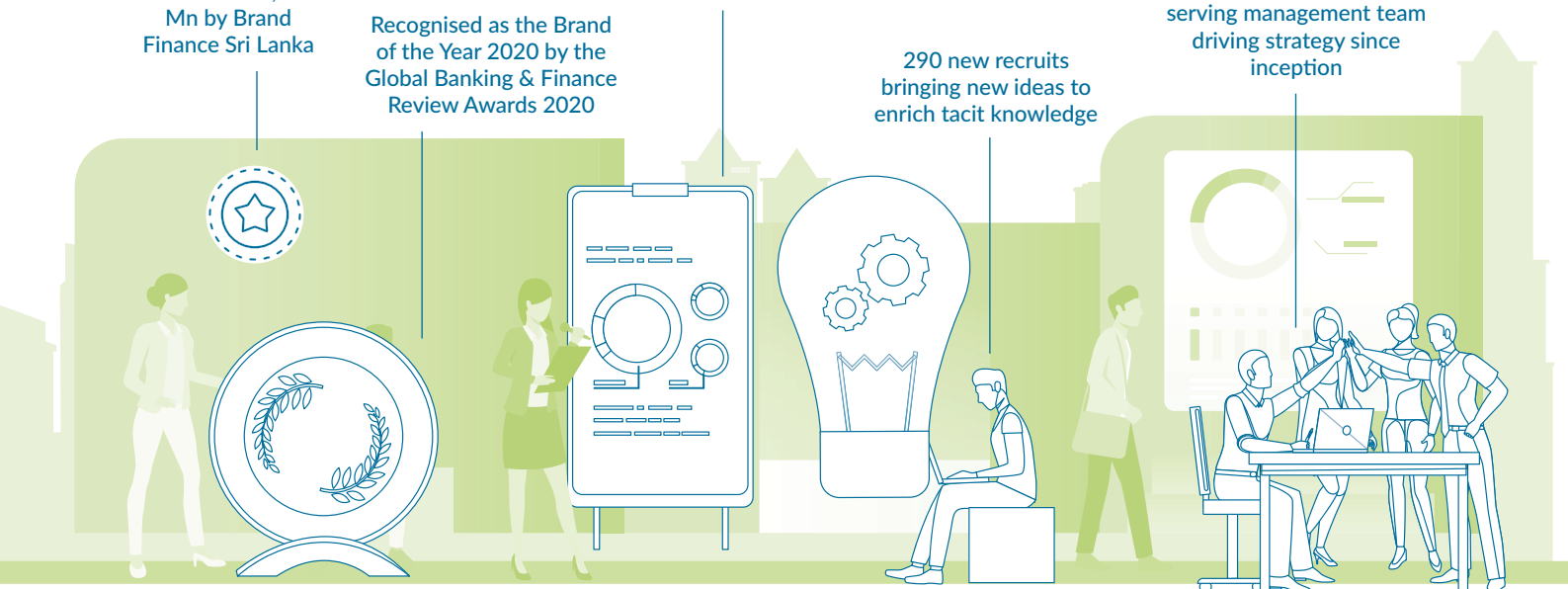
Given a BBB brand rating with a brand value of Rs. 1,152 Mn by Brand Finance Sri Lanka

Recognised as the Brand of the Year 2020 by the Global Banking & Finance Review Awards 2020

Credit rating of [SL] BBB with stable outlook maintained

290 new recruits bringing new ideas to enrich tacit knowledge

A dedicated and long-serving management team driving strategy since inception



### How We Create Value

#### Strategic Goal

To create intellectual capital value for our stakeholders by strengthening our corporate brand and reputation; improving credit ratings; enhancing value of non-tangible assets such as culture, governance structures, leadership styles, internal processes and procedures, and developing a collective knowledge base which supports a learning organisational culture driven by innovation at Vallibel Finance.

#### Our Approach

- ▶ Continue to strengthen the Vallibel Finance brand year-on-year
- ▶ Improve/maintain the Company's credit rating year-on-year
- ▶ Nurturing a learning organisation culture
- ▶ Continuously enhance ethical and transparent business practices to align with industry and global best practices
- ▶ Review, re-evaluate, upgrade and enhance internal processes and procedures
- ▶ Adhere to all relevant governance and regulatory requirements to improve corporate brand reputation

### Challenges Faced & Planned Future Action

Challenges 2019/20	Planned Actions
Retention of tacit knowledge due to intensive competition and loss of key personnel	<ul style="list-style-type: none"> <li>▶ Increase employee motivation and engagement</li> <li>▶ Increase investment in employee training and development</li> <li>▶ Focus on building mentorship programmes for employees with proven leadership abilities</li> <li>▶ Develop processes and systems to promote greater workplace collaborations</li> </ul>



Challenges 2019/20	Planned Actions
Sustaining the brand and corporate reputation	<p>Continuously focus on building a brand which becomes synonymous with trust by</p> <ul style="list-style-type: none"> <li>▶ increasing the adoption of voluntary best practices and standards</li> <li>▶ improving ethical business standards and continue to fulfill and comply with all applicable regulations in the non-banking financial sector</li> </ul>
Enhancing process efficiencies	<ul style="list-style-type: none"> <li>▶ Replacing manual processes via system automation</li> <li>▶ Introducing new and advanced systems to enable business efficiency</li> <li>▶ Providing more training to employees on new technologies and how to effectively use it</li> <li>▶ Involving employees in change management discussion from inception to gain buy-in</li> </ul>

### Overview

Intellectual Capital consists of the Vallibel Finance brand, credit rating, culture, governance structures, leadership styles, collective knowledge, robust systems and processes, and innovative abilities. These elements enable the Company to consistently meet expectations of our stakeholders, while distinguishing us from the competition. Thus, it is not surprising that the Vallibel Finance's Intellectual Capital value supports the Company's reputation as a leading Sri Lankan Finance Company with a widening reach across the nation. Furthermore, these elements create value to stakeholders as the Company can continuously enhance inherent knowledge and know how while positioning the organisation as a reputable and trustworthy brand in the marketplace, which in turn improves market awareness thereby enabling to capture new customers who will drive the Company's future growth and success. To date, credit ratings together with awards and recognitions have professed the increasing respectability and standing of Vallibel Finance within not just the business community of Sri Lanka, but with employees and customers as well. It is our belief that the Company's efforts to enhance Intellectual Capital value eases the way to becoming a truly sustainable business for our stakeholders, while aiding business growth and productivity.

### Management Approach

The foundation of maintaining and creating added value to Intellectual Capital is the Company's focus on adopting ethical, lawful, and transparent business practices such as the disclosure of pertinent developments in business operations and changes to the Company's leadership, and the timely dissemination of information related to changing terms and conditions of products and services together with robust internal systems and processes. This is strengthened by the integration of high levels of corporate governance practices within our overreaching corporate strategy. These organisational practices are supported by employees who are experts in their professional fields and possess wider industry experience with knowledge on current market trends and developments, financial services products, and an understanding of the importance of the integration of technology in industry. Vallibel Finance believes that Intellectual Capital also is enhanced when we work within a competitive environment which does not tolerate corruption and/or bribery as part of achieving business success. It is through a strategic integration of these combined factors which allows Vallibel Finance to remain competitive in the marketplace while staying far away from behaviours considered as anti-competitive while strengthening our inherent knowledge and know how, resulting in sustainable business growth.

**To date, credit ratings together with awards and recognitions have professed the increasing respectability and standing of Vallibel Finance within not just the business community of Sri Lanka, but with employees and customers as well.**

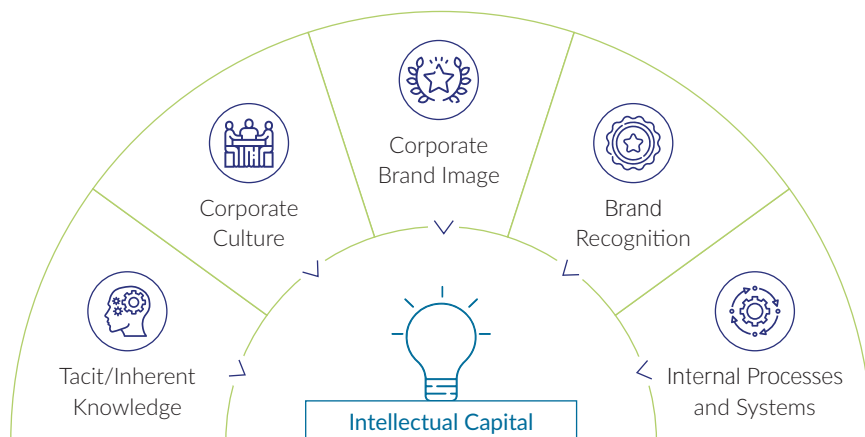
The Company has not been charged with accusations related to anti-competitive or anti-trust behaviour during the reporting year and is considered to be a strategically competitive financial services provider with an innovative approach to enhancing industry services to customers.

The Company endeavours to conduct all our operations in an honest and ethical manner, taking a zero-tolerance approach to bribery and corruption. We are committed to acting professionally, fairly and with integrity in all our business dealings and with all stakeholders. Vallibel Finance upholds all laws relevant to countering bribery and corruption in all the jurisdictions of our business operations. The Company has not been accused of bribery and/or corruption nor has the Company been fined for matters related to same during the year under review.

# CAPITAL MANAGEMENT REVIEW

## INTELLECTUAL CAPITAL

### Key Elements of Intellectual Capital



### Tacit/Inherent Knowledge

Creating value for inherent knowledge is dependent on the knowledge and knowhow of the Company's skilled and experienced employees together with the processes and procedures implemented. It is this which enables the effectiveness and efficiency of our business operations and the incorporation of new techniques and technology in our business activities. The Company's policies ensure employees are highly skilled, and our procedures ensure that those employed have relevant experience and possess the required qualifications to drive business goals and strategies. These same policies also facilitate skills development as and when required. The Company's new recruits are of a generation which thrives on learning and knowledge enhancement. Hence, many have completed their tertiary education and are holders of professional and/or degree level qualifications, while others are pursuing the achievement of their educational aspirations while simultaneously gaining work experience.

As Vallibel Finance employs a mix of experienced and new graduates, the Company is well poised to benefit from the industrial and fields experience of veteran employees such as our senior management team and obtain the skills and knowledge of new latest business practices to the company's business operations. Over the Company's 13 years in operation, the rapid growth and success is partly attributed to the amalgamation of Company-developed systems and

processes and the knowledge and knowhow brought to us by our employees. To ensure shared knowledge, the Company promotes an open-door policy, is open to employees' suggestions, and by holding regular team meetings. More details on employee communications and knowledge sharing is available in the

### Corporate Values



#### Simplicity

ensures our processes remain simple while providing the best in speed and quality.

#### Trust

helps us to develop and maintain long-term relationships with all our stakeholders.

#### Integrity

ensures that we adhere to honesty when we interact with our stakeholders, while undertaking day-to-day business operations with the premise of expecting the same from others.

#### Flexibility

allows us to meet the needs of our stakeholders while still adhering to internal controls and procedures.

The Company's corporate governance framework adds to our corporate values by ensuring business operations comply with the rules and regulations as required by the relevant regulatory authorities and voluntary standards which we subscribe to as a leading financial sector organisation in Sri Lanka. The Company's risk management framework is also important as it identifies and clarifies the risks that must be faced and provides guidance on minimising or mitigating these risks when undertaking business activities. In fact, the proactive approach to risk management ensures our employees consider the relevant risks when they undertake work on behalf of the Company.

Human Capital review on pages 52 to 61 of this Annual Report. In addition, as the majority of our leadership team have been with Vallibel Finance from inception, they are the basis of strengthening the base of the Company's tacit knowledge while being able to provide success stories and best practices which continually drives growth and success.

### Corporate Culture

The Company's corporate culture is founded on the Company's vision and mission, which drive corporate strategy. The Vallibel Finance values of simplicity, trust, integrity and flexibility provide the basis on which we work with our stakeholders while guiding our interactions with them. The governance framework, leadership structure, corporate hierarchy and approach to risk management adopted by the company further ensures that our culture is ingrained with our constant emphasis on ethical and transparent business practices.

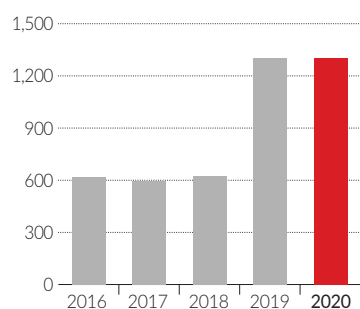


### Corporate Brand Image

As a Company which is still in the growth phase of our business lifecycle, Vallibel Finance, which is only 13 years old has already gained a very high standing in the industry and in the minds of our customers. This has been possible because of the Company's excellent leadership who are inspired to succeed by our vision and are focused on building a strong brand in the process. The inherent knowledge and our corporate culture also drive employees to be flexible while pushing on with the Company's forward-thinking strategic focus. Testament to our success and hard work is the credit rating we have achieved to date, the wide-spread recognition of the Vallibel Finance brand across the country, and the robust relationships built with our multiple stakeholders which have ultimately contributed to building and outstanding brand which is trusted and responsible while offering innovative financial solutions to consumers.

### Brand Value of Vallibel Finance

Rs. Mn



### Brand Promotional Activities

As part of the Company's continued efforts to maintain and build the Vallibel Finance brand image and reputation, during the year under review an investment of Rs. 148.84 Mn was made on brand promotional activities in partnership with third parties which add value to the larger community, while bringing to the fore Vallibel Finance's commitment to the nation. Key Brand promotional activities 2019/20 are detailed below.

- ▶ Supported the Faculty of Medical Sciences at the University of Sri Jayawardenapura to hold the graduation ceremony for the class of 2019.
- ▶ Sponsored a classical musical show organised by Pan Asia Bank which featured legendary local singers.
- ▶ Supported the Welfare Society of the Department of Motor Traffic to celebrate the Sinhala and Tamil New Year 2019.
- ▶ Sponsored the Maradana Bak Maha Ulela organised by the Maradana Sports Society for the 26th consecutive year.
- ▶ Sponsored a Bak Maha Ulela in Kuliypitiya organised by the Kuliypitiya Police Head Quarters for 87 Grama Niladari Divisions.
- ▶ Sponsored the annual convention night of the Lions Club of International District 306A1 which is held to honour all members' service to the less fortunate.
- ▶ Made a monetary donation in aid of refurbishments to the Siri Alanmathiniyarama Purana Viharaya in Kirulapone, Colombo 05.
- ▶ Supported the Rasanjana Musical Show, organised by the Music Academy in Panadura which is a platform for students to showcase their talents.
- ▶ Sponsored the annual dinner dance organised by the Royal College Old Boys Association of 2005 in aid of personal and technical skill development of young sportsmen.
- ▶ Contributed as a Bronze sponsor for a musical night with Annesley Malawana and Super Chimes organised by the Old Girls Association of St. Anthony's College, Kandy in aid of infrastructure development of the school.
- ▶ Main sponsor for the Walk for Rahula 2020 organised by the Rahula College Old Boys Association, Matara in celebration of their School Day.
- ▶ Sponsored M.S Fernando Unplugged with Marians Live in Concert organised by Old Boys Association 2002 batch of Mahanama College, Colombo 3.

### Brand Recognition

The Company measures brand recognition mainly on accolades received from external sources as this is the ultimate acknowledgement of our success in this regard. As the Vallibel Finance brand reputation has strengthened, so has the Company's brand image and resultantly our brand value. This has been proven by the increasing number of awards and recognitions received over the last few years.

### Awards and Recognitions Received in 2019/20

The Company was ranked at 57th place, climbing two places higher than 2019, with a brand rating of BBB valued at Rs. 1,152 Mn, bestowed by Brand Finance Sri Lanka during the financial year 2019/20. Vallibel Finance was recognised as Financial Services Brand of the Year Sri Lanka 2020 by the Global Banking and Finance Review Awards 2020 which is created to recognise companies of all sizes that are prominent in particular areas of expertise and excellence within the global financial community. The Company is also proud to state that we also received the Most Innovative Finance Product Sri Lanka 2020 for our Vallibel Wheel Draft product by the Global Banking and Finance Review Awards 2020. Showcasing our consistent efforts to remain as a leading employer of the nations, Vallibel Finance was certified as one of the 'Top 25 Best Places to Work in Sri Lanka' and also received the 'Great Place to Work Certification' for the second consecutive year by Great Place Research & Consultancy (Pvt) Ltd.



## CAPITAL MANAGEMENT REVIEW

### INTELLECTUAL CAPITAL



*Great Place to Work*



Awards and accolades bestowed on Vallibel Finance over the years are shown on **pages 12 and 13** of this Annual Report.

Our efforts to become a reputable and recognised financial services brand in Sri Lanka has over the years been driven by our increasing presence across the island, supported by the promotional activities undertaken annually, efforts to integrate with surrounding communities as well as the focused efforts to adhere to being an ethical business entity providing a quality and reliability service to our consumers. Thus, not only has Vallibel Finance grown in reputation but has also strengthened the Company's market positioning and presence while creating value for all our stakeholders.

#### Credit Rating

Vallibel Finance continues to enjoy the credit issuer rating of [SL] BBB with a stable outlook which was re-affirmed in April 2019 by ICRA Lanka, a group company of Moody's Investors.

#### Internal Processes and Systems

The Company's internal processes and systems also contribute towards creating value for intellectual capital of the Company. It is these processes and systems which enable Vallibel Finance to offer high levels of customer service standards, work with suppliers in an effective manner, and implement ethical and transparent business practices. Our internal processes and systems are also guided by regulatory requirements of the non-banking financial sector, the regulations and governance practices

#### Future Outlook

The management approach adopted by Vallibel Finance to create value for Intellectual Capital considers many different aspects which must combine to provide a cohesive result. While the Company adheres to relevant laws and regulations and voluntarily adopts standards of business conduct and ethical business practices, there are some areas that still require formalised processes to ascertain and monitor conduct and progress. These include areas such as conflicts of interests and the avoidance of anti-corruption measures by our employees which are currently expected norms of the Company's culture. Vallibel Finance will review current informal processes and further develop more formal measures in the medium term.

Brand image and recognition is inherently dependent on the Company's reputation and adherence to ethical and transparent business practices which satisfy our stakeholders. As such, adequate resources will be used to ensure that the Company continues to review and keep abreast of new developments and issues to proactively minimise or mitigate negative views through positive and approbating actions. Therefore, a key focus in the coming years will be to strategically invest in adopting relevant value-adding technologies which will concurrently drive the creation of value across stakeholder groups and enable the Company to maintain robust, efficient and effective internal processes and systems to deliver on our brand vision and promise.

required for operating as a listed entity, the general laws and regulations of the country, and the voluntary standards and best practices which the Company adopts as a good corporate citizen. Thus, considerable strategic focus and resources are allocated to ensure internal systems are regularly reviewed, renewed and modified to ensure the business operated effectively and efficiently while progress is made in the creation of value to stakeholders.

Aligned to the Company's efforts to improve internal systems, a call centre and the customer relationship management system were implemented during the year under review at an initial investment of Rs. 2.7 Mn aimed at enhancing customer service levels of Vallibel Finance.



Innovation will play a more critical role in creating Intellectual Capital value in the future as it will be the underlier in building greater corporate brand value and reputation. Innovation must be applied to new product developments, new processes and systems, and in how business is conducted to remain relevant within the robustly changing operating environment. Technological advancement will play an integral role as will the Company's abilities to convert tacit knowledge to new process applications. Thus, it will become imperative that our employees receive adequate training and be given opportunities to interact with like-minded peers, thereby improving their knowledge and know-how. To maintain our focus on developing a learning organisational culture, the Company will need to provide opportunities for employees to remain current with developments in their professional fields, while keeping abreast of developments in the industry and consumer and technology trends which continuously changes as it will have an impact on the sustainability of the Company's business operations.

It is our belief that progressing along the path we have adopted to date will enable Vallibel Finance to continue to yield just rewards while creating intellectual value for all our stakeholders.



# CREATING VALUE WITH DEDICATION

The year-on-year growth in capital values is a testament of the dedication of Vallibel Finance in creating value across stakeholder groups despite the challenging macroeconomic and industry conditions.

# CAPITAL MANAGEMENT REVIEW

GRI: 103, 102-9, 102-10, 203, 204, 413, 416, 417

## SOCIAL & RELATIONSHIP CAPITAL



### Material Aspect:



Customer Satisfaction



Ethics, Compliance and Good Governance



Community Upliftment

### Stakeholders Impacted/Affected:



Customers



Business Partners



Society/Community



Government Institutions & Regulators

### Our Achievements 2019/20

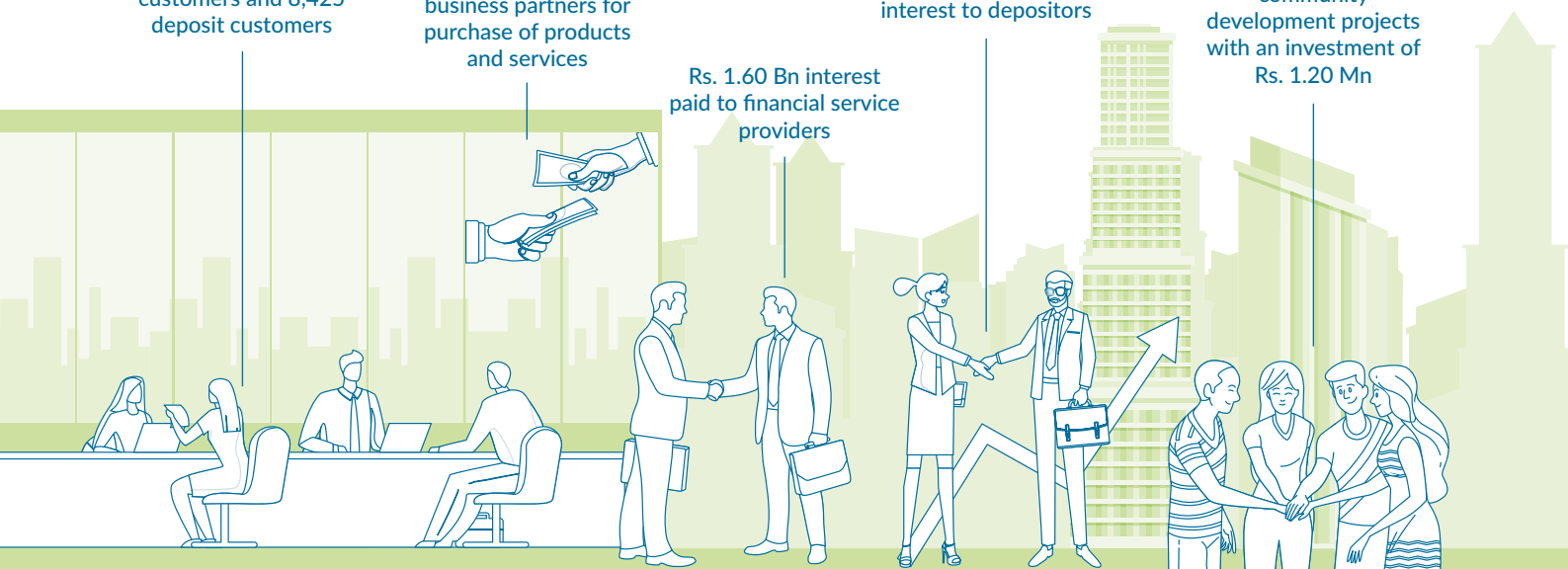
Successfully served 62,345 lending customers and 8,425 deposit customers

Paid Rs. 434.56 Mn to business partners for purchase of products and services

Rs. 1.60 Bn interest paid to financial service providers

Increased deposit base to Rs. 29.24 Bn and paid Rs. 3.25 Bn as interest to depositors

Engaged in 16 community development projects with an investment of Rs. 1.20 Mn



### How We Create Value

#### Strategic Goal

To create value for customers, business partners, suppliers, government and regulators, shareholders and the wider community by considering their needs and expectation when pursuing business activities and developing strategies for growth.

#### Our Approach

- ▶ Continually enhance customer value and service experience
- ▶ Allocate resources to build and maintain mutually beneficial relationships with business partners
- ▶ Collaborate with relevant authorities to enhance relevant regulatory and voluntary policies and procedures
- ▶ Build mutually beneficial relationships with shareholders for long-term support
- ▶ Directly and indirectly assist in developing communities

### Challenges Faced & Planned Future Action

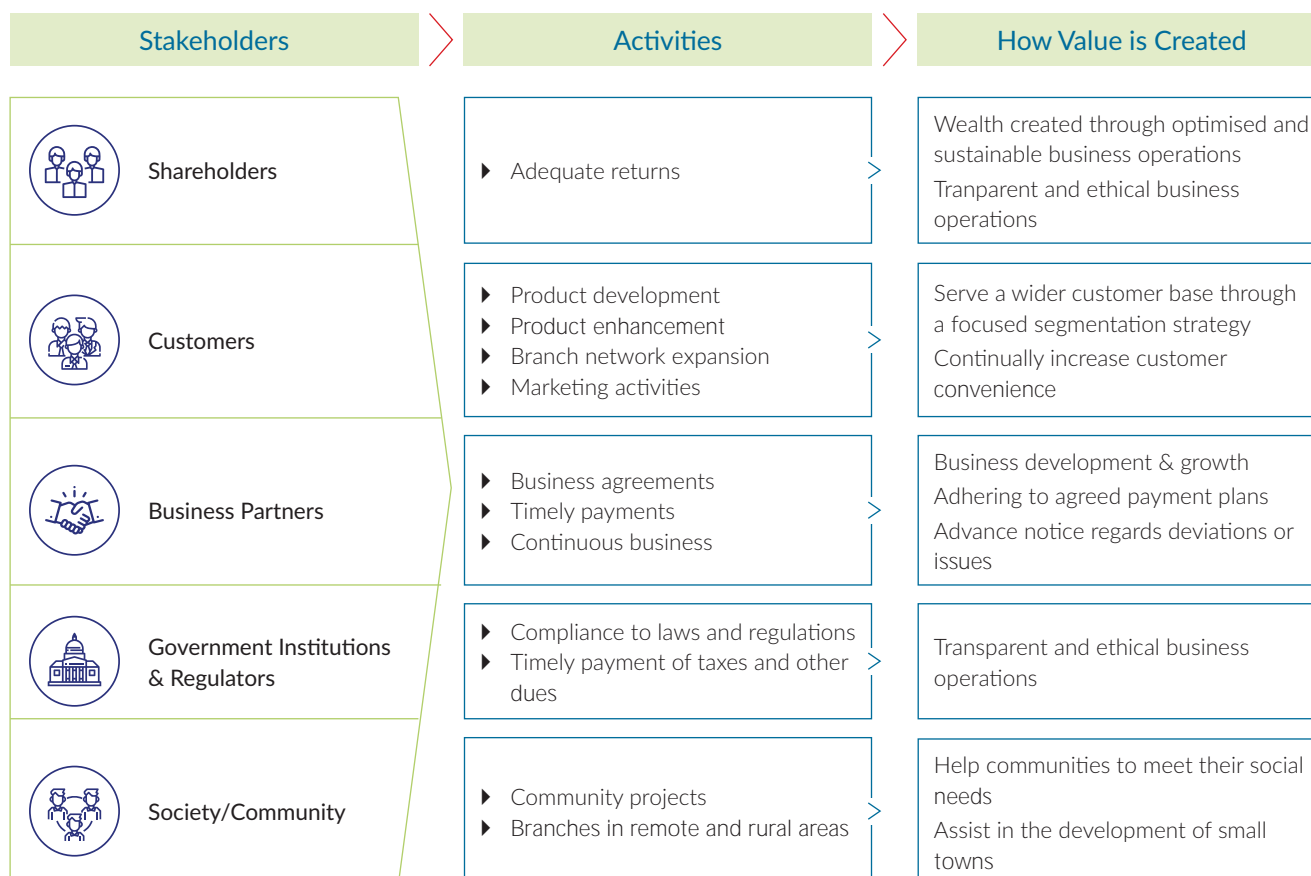
Challenges 2019/20	Planned Actions
Ever-changing customer needs and wants and satisfying the customer	Continuously research and develop innovative products and improve operational processes to meet customer requirements in the most efficient manner
Addressing customer complaints in a transparent and satisfactory manner	Customer complaint handling process to be streamlined aligned to the customer relationship management system
Rapidly evolving competitive landscape	Need to focus on digitisation efforts and embarked on process re-engineering initiatives with the aim of creating more value for our customers



Challenges 2019/20	Planned Actions
Discovering the 'right fit' alliances to help boost value creation for the community while concurrently serving other stakeholders to their satisfaction	Identifying the most critical community development projects and uplift the well-being of critical communities

## Overview

For Vallibel Finance PLC, Social and Relationship Capital constitutes the value created to stakeholders through relationships created and sustained over the years, as well as the inter-relationships between our different stakeholder groups. To add value to Social and Relationship Capital, the focus remains to create sustainable value by achieving set objectives for the mutual benefit of all stakeholders. As such, understanding and meeting the needs of our customers, business partners, suppliers, and the community at large are fundamental to the success of our value creation efforts. We are aware that financial performance and business growth are inter-dependent and will thrive only if we build and sustain strong relationships with our stakeholders by meeting their needs and thereby creating capital value.



## Management Approach

The management of Vallibel Finance approaches the creation of social and relationship capital by first identifying the needs of our customers, business partners, shareholders, Government and regulators, and communities in neighbourhoods surrounding our business operations and embarking

on a stakeholder engagement process as explained in pages 44 to 47 of this Annual Report.

Over the years Vallibel Finance has operated on the premise of building trust with these stakeholder groups. Thus, business activities such as new product developments, products

enhancements, and branch expansions are undertaken keeping at the forefront not only business growth but also the needs of customers and the community at large. While the most direct impact is realised by customers in terms of convenience and efficiency, some of the Company's business operations such as the set-up and opening of

## CAPITAL MANAGEMENT REVIEW

### SOCIAL & RELATIONSHIP CAPITAL

new branches have a direct impact on surrounding communities in terms of creating new job opportunities and increasing the economic development in these areas. As such, through the stakeholder engagement process we take into consideration community member expectations while the Company strives to directly or indirectly benefit these communities while pursuing business growth and expansion. Ancillary business activities such as extensive marketing campaigns and community development projects are also integrated within business operations to provide added value to the wider community and ensure timely and adequate availability of information to current and prospective customers.

Our business partners and suppliers are also an important element of how we create value for Social and Relationship Capital. While developing mutually beneficial business relations due consideration is given to the needs of these stakeholders which mainly revolve around timely settlement of payments and the continuation of business activities in the longer term. The government, regulators, and shareholders are also given due consideration by the management by essentially following principles of transparency and ethical business practices.

To assist the Company to follow through on our attempts to create value to these stakeholders, we embrace state-of-the-art information technology systems and periodically review and update business processes and procedures. Currently, the Company's marketing, credit, and recovery departments primarily oversee relationships building with relevant stakeholders as an integral part of their work processes. Furthermore, changing trends in the external operating environment are also reviewed, thereby ensuring that our business remains relevant while meeting changing stakeholder needs and expectations.

**Customers are the foundation on which Vallibel Finance builds business continuity and growth. As one of the most critical stakeholder groups of the Company, we must ensure their needs and expectation lead the way when developing strategies and formulating operational plans.**

The Company also gives consideration to new developments which may negatively affect communities from time to time and relevant and fair procedures are adopted without compromising the value creation process for the organisation and our stakeholders. The Company has in place a process aligned to the directives as set out by the Central Bank of Sri Lanka to evaluate such situations and provide relevant assistance which will positively

contribute to the livelihood and lives of the Company's stakeholders.

#### Creating Value for Customers

Customers are the foundation on which Vallibel Finance builds business continuity and growth. As one of the most critical stakeholder groups of the Company, we must ensure their needs and expectation lead the way when developing strategies and formulating operational plans. The Company's business activities such as product enhancements, new product developments, market development and penetration, segmented social media marketing, applying current trends in marketing activities and in developing new products, increasing distribution channels and expanding our branch network is directed towards the creation of long-term value to our customers. These efforts are made possible only because of the Company's focussed strategies to retain customers while simultaneously acquiring new customers making our efforts cost effective and enabling a wider market reach.

Value for Customers	Value for Vallibel Finance	Value for the Society
Customise products to satisfy diverse and specific financial needs of individual customers	▶ Income generated from the lending portfolio	▶ Ensure financial well-being ▶ Enable economic growth
Investment in new products to increase the choice for customers to meet their savings and life goal needs	▶ Enabling customer retention and the acquisition of new customers ▶ Receive funds for business growth and further investments in innovative product development	▶ Develop trust in the financial services industry and the Company ▶ A more sophisticated customer enabling economic development to the next level
Responsible and objective financial advice	▶ Improving corporate reputation and thereby enabling increasing market share through new customer acquisitions ▶ Increasing customer retention goals and developing long term relationships thereby strengthening future business growth	



### Offering a Diversified Product Portfolio

Vallibel Finance offers a wide range of products to our customers. They are categorised as Lending and Deposit products. The primary lending product is leasing facilities while the primary deposit product is Fixed Deposits. The Company's leasing facilities provide customised solutions which extend beyond traditional leasing products, are offered at attractive rates and are configured to suit the unique financial requirements of our customers. The Company's fixed deposits product, a financial instrument provided by both banks and financial institutions, offers investors a higher rate of interest than a

regular savings account. Products such as the Auto Draft, Gold Loan, Property Loan, Bonus Lease, Microfinance, Wheel Draft and Western Union make up the Company's total lending portfolio. During the year under review the Vallibel Wheel Draft was re-launched with changed terms and conditions, and its success was proven by winning the Most Innovative Finance Product Sri Lanka 2020 by the Global Banking & Finance Review Awards 2020. The Company's customer facing employees are also trained to clearly and carefully explain all product and service specific terms to customers, while marketing collateral with extensive product details is developed, which existing and prospective customers can

easily obtain from any of the Company's branches. The corporate website also has a dedicated section which gives pertinent information about products and services offered by the Company.

Vallibel Finance ensures that all products on offer for customers meet the relevant laws and regulations and the customer centric approach utilised to develop product features enables the Company to offer products which do not become a financial burden to our customers causing undue stress related health issues. As such, no fines or warnings were issued during the year under review for non-compliance of health and safety laws and regulations.



Vallibel **FD**

Vallibel **සියලුම** Leasing

Vallibel **විල්** Draft

Vallibel **AUTO Draft**

Vallibel **MICRO** Leasing

Vallibel **BONUS** Leasing

Vallibel **PROPERTY** LOAN

Product	Description
Deposits	Deposit products are the main source of funds for the Company, offering several options – from one-month deposits to five year deposits.
General Leasing	A leasing facility for medium to high income earners requiring the purchase of high-value products.
Micro Leasing	A leasing facility offered for the financing of low investment vehicles such as three wheelers and motor bikes with tailor made payment plans and competitive interest rates.
Vehicle Mortgage Loans	A facility for obtaining a loan by mortgaging their vehicles.
Personal Loans	A facility which provides financial assistance for any personal requirement of individuals by offering competitively low interest rates and a convenient application and settlement process.
Property Mortgage Loans	A facility for Government and private sector employees as well as self-employed professionals and businessmen in urgent need of cash or those required to purchase a land or building to obtain a loan by mortgaging their property.
Group Personal Loans	A facility for salaried employees to obtain financial assistance to improve their lifestyle and living standards.
Business Loans	A revolving facility that offers flexible financing to small and medium-sized businesses which require short-term loans for the purchase fast moving stocks.
Auto Draft	A speed draft product considered to be more economical than a bank overdraft facility.
Wheel Draft	An innovative product coupled with the features of an overdraft facility targeted at owners of registered and un-registered three-wheel vehicles.
Gold Loans	A facility for individuals to obtain loans secured against their gold jewellery.
Loans against Fixed Deposits	A facility specifically aimed at a niche customer segment – the Company's most valuable fixed deposit customers. Loans against fixed deposits are offered as a short-term solution to meet urgent financial requirements while offering low cost rates.

## CAPITAL MANAGEMENT REVIEW

### SOCIAL & RELATIONSHIP CAPITAL



**For Vallibel Finance, providing our customers with an unparalleled customer experience is central to our brand promise to customers. As such enhancing customer experience is incorporated into our corporate strategy and cascaded across the Company's processes.**

#### Customer Relationship Management



Building a trusted brand through effective customer relationship management.

As a regulated financial institution in Sri Lanka, Vallibel Finance firmly believes that there is more to a financial institution than appearing trustworthy and dependable. Sincerely earning the trust of customers by demonstrating our commitment and reliability to meeting their financial needs ethically plays an important role in our business operations

as well. Thus, we believe that our strength lies in our robust value proposition which encompasses diverse investments, financial and value-added product lines and our commitment to maintain a branding and customer awareness strategy based on transparency. These fundamentals enable the Company to put the interest of our customers first always.

Our 244 marketing personnel also play an important role in ensuring high levels of customer experience through effective customer relationship management (CRM) processes. To enforce this commitment, the Company has developed clear policies, procedures and guidelines for our client-facing marketing personnel to follow during their interactions with customers. These guidelines are reinforced through monthly refresher trainings. Client-facing employees are also provided with the necessary skills development programs and tools to enable them to serve our customers at exceptional service levels. CRM has enabled the Company to maintain long-term customer relationships, improve customer retention rates and attract new customers thereby increasing value to our customers while also enhancing business volume growth which creates value to other key stakeholder groups.

#### Enhancing Customer Experience

For Vallibel Finance, providing our customers with an unparalleled customer experience is central to our brand promise to customers. As such enhancing customer experience is incorporated into our corporate strategy and cascaded across the Company's processes.

#### Branch Network Expansions



41 Strategic operational locations across the island ensures the distribution of our products and services to markets with limited or no access to such services while concurrently enhancing customer convenience and experience.

One way in which the Company ensures improved customer experience is through our branch expansion strategy. Thus, over the years, Vallibel Finance has continued to open new branches while concurrently relocating and modernising existing branches to reach customers efficiently and effectively. We continue to make significant investments to enhance customer experience, and during the year under review we invested Rs. 9.31 Mn in branch network expansion and enhancements to ensure we are there for our customers when, where and how they need us. Additional details are included in the Manufactured Capital review on pages 72 to 77 of this Annual Report.

#### Marketing and Communication

The Company's marketing and communications efforts also help in ensuring enhancing customer experience through the dissemination of timely and relevant information about the Company, our products and services, and special promotions. Our marketing efforts are targeted at both existing customers and prospective customers. Our marketing campaigns are carried out in all three languages – English, Sinhala and Tamil, and in different media – newspapers,



magazines, televisions, radio, outdoor hoardings and social media to ensure reaching all people of the country. The Company also uses information technology to provide seamless and efficient access to information via our website, social media platforms and other online access. While undertaking extensive marketing activities, Vallibel Finance subscribes to ethical advertising and marketing practices and ensures that pertinent information is shared so as not to mislead the public. During the year under review, Vallibel Finance undertook a range of traditional and non-traditional marketing promotions and also invested in increasing segmentation through targeted social media marketing campaigns to reach a wider target audience, especially the younger generations who are dependent on social media to obtain information about products and services. The Company continued to invest in above-the-line and below-the-line advertisements and significantly increased investments in social media marketing and advertising to reach a wider customer base and provide a greater choice of obtaining information for existing and prospective customers based on their media of choice.

During the year under review the Company invested Rs. 148.84 Mn on marketing and promotional activities.



*Hoardings at Sri Jayawardenepura Kotte*



*Hoardings at Colombo 07*



*Sponsored event at BMICH*



# CAPITAL MANAGEMENT REVIEW

## SOCIAL & RELATIONSHIP CAPITAL







## CAPITAL MANAGEMENT REVIEW

### SOCIAL & RELATIONSHIP CAPITAL

#### Call Centre



Dial +94 11 7 480 480 for immediate access to our dedicated Call Centre

During the year under review the Company set-up and executed a dedicated call centre to add value to our customers service experience. The Call Centre which operates from the Company's Head Office is geared to handle customer inquiries on products and services as well as branch operations during designated Company work hours. The Customer Relationship Management (CRM) software used for this service records caller data and sends out email notification to pre-designated personnel across the Company's branch network when calls are received during non-working hours and holidays. The CRM system also notifies call centre personnel to follow-up with the caller on status of their query on recommencement of manned operations during business work hours. The system's use of real time client data to coordinate between departments has also enabled a more streamlined and efficient process for responding to queries by both existing and prospective customers.

In its short period of use, the Call Centre has enabled Vallibel Finance to enhance customer service experience by resolving customer issues, queries and problems at a faster rate, while providing more accurate information related to business and product data. The state-of-the-art CRM system uses predictive data models to systematically review and combine insights from customer behaviour to enable more personalised customer care and drive agent productivity while delivering connected, intelligent and personalised service from the phone to the field. During the last quarter of the financial year under review, the Call Centre has also started handling customer complaints.

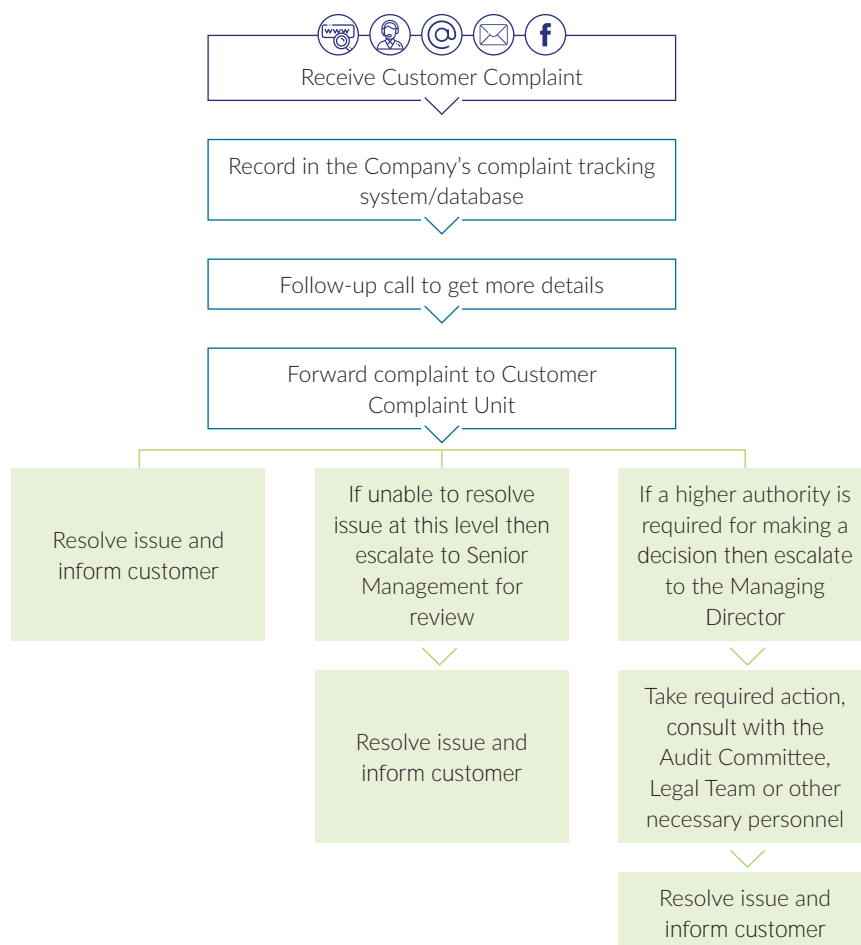
#### Customer Grievance Handling

The Company is committed to delivering an efficient and timely service to customers on occasions when they are not satisfied with or have complaints

regarding the services and products offered by us. Customers can contact the Company through a dedicated email address, the newly established Call Centre operation, via the Company's website, or by writing a letter to the Senior Manager-Process Development based at the Company's Head Office. The Company also carefully reviews messages and posts on our Facebook page which sometimes brings to our notice customer's issues and/or problems. Such complaints are also formally handled by the Company. Details of contacting the Company when customers have grievances are formally stated in the Company's website, while notices are also put-up in prominent locations at the head office and at all branches and service centres operated by the Company.

The Company endeavours to respond to customer complaints within one working day once the complaint is lodged with a follow-up call. Thereafter, the complaint is sent to the Customer Complaint Unit which review the complaint and based on seriousness of the issue, either resolves and responds to the customer or forwards it to higher authority levels within 48 hours of receiving the complaint. If the complaint cannot be attended within 48 hours, the customer is informed that his/her complaint is being reviewed and a solution will be provided within ten working days. If added time is required due to the nature of the complaint, the customer is informed of progress made and updated with an estimated response time.

The Company's customer grievance handling process is shown below.



During the year under review, the Company as a part of our efforts to improve the customer grievance handling process, developed a formal Customer Complaint Handling Policy which is planned to be cascaded to all employees in the coming financial year.



### Creating Value for Business Partners and Suppliers

For Vallibel Finance our business partners and suppliers are an integral part of how we operate our business. They provide us with goods and services we require to conduct day-to-day business activities without interruption or delay. Being a financial institution offering a variety of products to customers, Vallibel Finance has many suppliers ranging from individual consultants, small and medium sized business to larger corporates. The Company works with business partners and suppliers who are based in Sri Lanka and has a centralised procurement process for capital intensive investments. However, suppliers of janitorial services, stationery and other small investment products and

services are based in the towns/cities across Sri Lanka at which our branches are located. The Company's suppliers are broadly categorised based on the degree of functional support they provide to the Company. These suppliers also form Vallibel Finance's supply chain network as they provide the requisite products and services which support's the Company uninterrupted services to our customers.



Our relationships with business partners and suppliers are managed on the principles of supply chain management thereby minimising waste, ensuring the most competitive pricing, and timely availability and delivery of goods and services.

Value for Business Partners	Value for Vallibel Finance	Value for the Society
Timely settlement of payments	Better market success through business continuity	<ul style="list-style-type: none"> <li>▶ Improves trust in the NBFI sector</li> <li>▶ Enhanced service quality</li> </ul>
Building long-term relationships	<ul style="list-style-type: none"> <li>▶ Increased profits</li> <li>▶ Reduced mistakes/returns</li> </ul>	<ul style="list-style-type: none"> <li>▶ Uninterrupted financial services</li> <li>▶ Increased economic prosperity</li> </ul>

### Supply Chain Management

The Company's procurement process for all goods and services is managed centrally by our Administration Department. The department adheres to the general procurement guidelines of the Company when identifying, screening and confirming partnership with relevant suppliers. The adoption

of the principles of supply chain management ensures procurement process is effectively streamlined to meet the requirements of each business unit. The administration department is also responsible for developing sustainable supplier relationships, while meeting the expectations of these stakeholders.

### Strong Strategic Partnerships

To date, the Company has been successful in building strategic partnerships with our business partners and suppliers. This has been made possible only due to the strict adherence to the Company's procurement guidelines which forms the basis on which we conduct business with them. A vital



## CAPITAL MANAGEMENT REVIEW

### SOCIAL & RELATIONSHIP CAPITAL

element of the Company's procurement guidelines is to treat all our suppliers irrespective of size or value equally and fairly, thereby ensuring sustainable strategic partnerships which are mutually beneficial for all concerned. Furthermore, as we progress in the adoption of more inclusive and sustainable procurement practices, Vallibel Finance will strive to ensure our business partners incorporate ethical and non-discriminatory labour practices within business operations and apply standards of responsible and sustainable sourcing for goods and services.

To add value to our business partners, the Company

- ▶ sponsored the Annual General Meeting of the Vehicle Importers' Association, which was held at the Shangri La Hotel, Colombo in July 2019,
- ▶ organised a gathering of business partners who work with the Vallibel Finance's Embilipitiya branch at the Centauria Lake Resort in Embilipitiya on November 2019, and
- ▶ organised a get together with branch employees for suppliers who work with Vallibel Finance's Anuradhapura branch on March 2019 to further strengthen relationships.



AGM of Vehicle Importers' Association



Embilipitiya branch get together



Anuradhapura branch get together

#### Creating Value for the Government and Regulators

When considering Social and Relationship Capital, it is equally important for the Company to consider our efforts to create value for the country's Government and industry regulators. As such, we focus on continually enhancing value to these stakeholders by adhering to the rules and regulations, and the laws related to industry and business. We strive to work with regulators to contribute to the betterment of the industry and work towards building a reliable and trustworthy relationship. Additional details in the Corporate Governance Report on pages 112 and 143 of this Annual Report.

Value for the Government and Regulators	Value for Vallibel Finance	Value for the Society
Maintain transparent and ethical business practices	Recognition as a responsible and reliable Company	▶ Taxes paid will directly influence economic growth
Payment of fees and other dues on time		▶ Will improve the industry's reputation and standing in the society
Compliance with laws and regulations		





### Creating Value for Shareholders

Keeping our shareholders at the forefront of all we do, the management of the Company primarily aims to increase shareholder wealth as an integral return of business operations. Thus, a key long term strategic imperative is to maximise shareholder wealth through business operations while adhering to the principles of transparency and ethical business practices at all times. To create value for our shareholders, we continually improve business processes and spread our business reach which leads to greater market share and an increasing return for shareholders, which in turn increases business value and sustainability of the business entity. Comprehensive details of value created to shareholders is available in the Financial Capital Review on pages 62 and 71 of this annual report.

Value for Shareholders	Value for Vallibel Finance	Value for the Society
Increasing income resulting in increased profits	Increasing market share	▶ Assist in economic and industry growth
Embracing a long-term mindset ensuring the going-concern concept	Garner higher returns and plan for successful future growth	

### Creating Value for the Community

Vallibel Finance believes that an empowered community is the foundation of a strong country. This belief together with the Company's vision and desire to serve our nation is the basis on which our strong corporate social responsibility agenda has developed and progressed over the years. Vallibel Finance has always strived to create value to the wider community by continually engaging with surrounding communities to understand their needs and contribute to their advancement. During the year under review, the Company invested Rs. 1.20 Mn on community development projects related to health and wellbeing; education enhancement; and the promotion of culture, arts and religious activities.

Value for the Community	Value for Vallibel Finance	Value for the Society
Development of rural community locations	▶ Recognition as a responsible Company thereby increasing brand recognition and equity ▶ Increasing market share ▶ Pride in being a corporate citizen ▶ Acceptance by community members	▶ Advancement of the nation's socioeconomic agenda
Upliftment of Communities		▶ Aiding in the upliftment of the living standards of the society as a whole
Contributing to community projects and programmes		▶ Assisting in economic growth ▶ Helping communities to develop and prosper

An overview of individual community development projects undertaken by the Company during the year 2019/20 is given below.

### Health and Wellbeing of Community Members

<b>Annual Blood Donation Campaign</b> <b>Date:</b> 17th August 2019 <b>Participants:</b> 115 people	
<b>Description</b>	For the seventh consecutive year, a blood donation programme in collaboration with the National Blood Transfusion Service, Colombo was held by the Company. This year's slogan was 'Donate Blood, Save Life'.
<b>Social Impact</b>	▶ To raise awareness that individuals can save lives and improve the health of others by donating blood ▶ To encourage people to donate blood voluntarily without compensation ▶ To support the operation of safe and reliable blood donation services
<b>Stakeholders Engaged</b>	Employees, community and customers

## CAPITAL MANAGEMENT REVIEW

### SOCIAL & RELATIONSHIP CAPITAL



Annual blood donation campaign



#### Assisting the Differently-Abled Fraternity of the Nation

Project 1 Date: 20th November 2019

Project 2 Date: 10th July 2019

##### Description

As a responsible corporate, it is our obligation to shape our society and show leadership in doing what is right. As such, when our employees who read about the plight of these two individuals in the local newspapers brought these two worthy causes to the Company's notice, Vallibel Finance was happy to endorse these under the Company's CSR banner.

**Project 1:** A wheelchair was donated to a woman with two children from a low-income family who met with an accident seven years ago and has since been unable to walk. Having been burdened with medical expenses, leading to the sale of her home, the Company's Nuwara Eliya branch employees contributed towards this project which aids in enabling this person to lead an easier life.

**Project 2:** A prosthetic leg (knee prosthesis) was donated to a 12-year-old boy in Kuliapitiya who suffered from a damaged knee since birth, resulting in one shorter leg. The Company's Kuliapitiya Branch employees in collaboration with Mathammana Orthopaedic Suppliers (Pvt) Ltd contributed towards this project to assist the youngster to lead a normal life and interact with others his age without any concerns of social isolation.

##### Social Impact

- Improving the lives of community members
- Reducing societal discrimination

##### Stakeholders Engaged

Employees and Community



Donating a knee prosthesis



Donating a wheel chair



### Assisting Public Sector and Religious Organisations

**Project 1 Date:** 11th September, 2019

**Project 2 Date:** 14th October 2019

**Project 3 Date:** 22nd July 2019

<b>Description</b>	<p>The Company appreciates the services rendered to the nation by the public sector and religious organisations. As such, we endeavour to assist them to improve their workplace facilities whenever the need arises. Three such projects were undertaken during the year under review.</p> <p><b>Project 1:</b> Supply of 200 cement blocks for the Piliyandala Police Station to upgrade and refurbish the building.</p> <p><b>Project 2:</b> Two ceiling fans were donated to the Homagama Police Station</p> <p><b>Project 3:</b> Sponsorships of a magazine published by the Christian United Guild which contains articles on peace, unity, developing religious corporation and racial harmony amongst all.</p>
<b>Social Impact</b>	<ul style="list-style-type: none"> <li>▶ Improving facilities for a better tomorrow</li> <li>▶ Improving community relations</li> </ul>
<b>Stakeholders Engaged</b>	Community

### Accident Awareness Boards

**Project 1 Date:** October 31st 2019

<b>Description</b>	In collaboration with the Wellawa Police Station, the Kurunegala Metro branch of the Company sponsored the accident awareness boards which were set-up in key locations across the city to promote road safety.
<b>Social Impact</b>	<ul style="list-style-type: none"> <li>▶ Promote road safety among pedestrians and drivers</li> </ul>
<b>Stakeholders Engaged</b>	<ul style="list-style-type: none"> <li>▶ Community</li> </ul>

### Education Advancement Projects

#### School Infrastructure Development

**Project 1 Date:** 14th October 2019

**Project 2 Date:** 6th April 2019

**Project 3 Date:** 26th April 2019

<b>Description</b>	<p>One of the key CSR strategies of the Company is to aid in the infrastructure development of schools in rural and low-income communities. As such, during the year under review, Vallibel Finance undertook three projects for the development of school infrastructure and facilities.</p> <p><b>Project 1:</b> Contribution towards the construction of a gate and a name board for the Mawilmada Maha Vidyalaya in Kandy.</p> <p><b>Project 2:</b> Sponsorship of the Kandy Bash 2019, an event organised by the Old Boys Association of Kandy Schools, Colombo chapter to raise funds for the development of schools in Kandy.</p> <p><b>Project 3:</b> Sponsorship of Ignite 19, a carnival organised by the prefects' body of St. Peter's College, Colombo to raise funds for school development.</p>
<b>Social Impact</b>	<ul style="list-style-type: none"> <li>▶ Improving the livelihoods of community members by improving school facilities leading to better education of tomorrow's leaders</li> <li>▶ Improving community relations</li> </ul>
<b>Stakeholders Engaged</b>	Employees and community

## CAPITAL MANAGEMENT REVIEW

### SOCIAL & RELATIONSHIP CAPITAL

#### Helping Students

Date: 29th November 2019

Description	The USQ Alumni, Sri Lanka Chapter organised a project aimed at gifting school shoes and bags for 210 students from Thalkote Vidyalaya, Nagalawawa Vidyalaya and Palutawa Vidyalaya in Dambulla. Vallibel Finance sponsored bags and shoes for 10 students under this project.
Social Impact	<ul style="list-style-type: none"> <li>▶ Improving the lives of school children</li> <li>▶ Reducing the burden on low-income families</li> <li>▶ Improving community relations</li> </ul>
Stakeholders Engaged	Community



Accident Awareness Boards



Construction of a school gate for Mawilmada Maha Vidyalaya

#### Projects Promoting Culture, Arts and Religious Practices

##### School Infrastructure Development

Project 1 Date: 18th to 21st May 2019

Project 2 Date: 13th October 2019

Project 3 Date: 13th to 14th October 2019

Description	<p><b>Project 1:</b> The Company was one of the sponsors of the annual Bauddhaloka Wesak festival organised by the All Ceylon Buddhist Congress. The event is open to all and draws people from all walks of life to view the elaborate Wesak lantern arrangements on displays.</p> <p><b>Project 2:</b> The Company was one of the sponsors of the 57th consecutive Esala Maha Perahera held in Kandy organised by the Walukaramaya Raja Maha Viharaya to commemorate the Sacred Tooth Relic of Lord Buddha.</p> <p><b>Project 3:</b> The Company was one of the sponsors of the annual Katina Perehera organised by the Sri Isipathanarama Viharaya, Colombo 14 at the temple premises.</p>
Social Impact	<ul style="list-style-type: none"> <li>▶ To develop the spirituality of communities</li> <li>▶ To develop affinity between different people</li> <li>▶ To develop social and societal tolerance</li> </ul>
Stakeholders Engaged	Community

##### Company Organised Events

Date: 16th July 2019

Description	An ice cream dansala was organised by the Company's Balangoda Branch employees who contributed to this project in addition to seeking donations from external parties. Vallibel Finance also donated to this project which was aimed at spread happiness and joy amongst people of all ages and backgrounds.
Social Impact	<ul style="list-style-type: none"> <li>▶ Improving community relations</li> </ul>
Stakeholders Engaged	Employees and community





Ice Cream Dansala organised by Vallibel Balangoda Branch



### Bronze Sponsorship for the 'Lalitha Sira Sara Concert'

Date: 9th September 2019

<b>Description</b>	To encourage rehabilitation of society, the Company sponsored a talent show for inmates organised by the Department of Prisons, Rehabilitation and Skills Development Division which was held at the BMICH.
<b>Social Impact</b>	<ul style="list-style-type: none"> <li>▶ Give inmates an opportunity to express their abilities and uncover their talents to the free society</li> <li>▶ Help develop self-confidence and self-esteem in prison inmates</li> </ul>
<b>Stakeholders Engaged</b>	Community

### Future Outlook

The Company's approach to managing Social and Relationship Capital is comprehensive and periodically reviewed for gaps and enhancements. Such an approach has helped Vallibel Finance to improve our internal processes and systems to manage different stakeholder requirements and implement changes which benefit business operations in the long-term.

In the coming years, as the Company continues to focus on enhancing and creating value to our Social and Relationship Capital, we will continue to build our branch network, spreading our services into more town and rural locations across the nation. We will focus on customer relationship management and work towards fulfilling the needs of stakeholders to the best of our abilities and available resources. We will also continue to add to our product portfolio and focus on re-designing existing products to adapt to changing market conditions and customer needs. Plans are also under way to increase customer convenience and privacy by developing and implementing a secure payment gateway on the corporate website

and displaying digital signage of product flyers, FD rates and special promotions at Vallibel Finance branches as part of our efforts to increase the effective of transparency of marketing communications. Both these projects are expected to be operational by end of the forthcoming financial year.

The Company's supply chain management activities has more room for improvement and the Company plans to review and further refine supply chain processes to benefit our business partners in the longer term. We will also continue to integrate supply chain management principles more comprehensively within our corporate strategies thereby enabling to add value to many stakeholders, both directly and indirectly. All these activities will be supported by a competitive pricing strategy, promotional activities, and new and enhanced business partnerships enabling continued success for all.

Vallibel Finance will continue to support Government and regulatory efforts to streamline and refine industry wide processes and systems which will help to develop the

industry as a whole and benefit the country's economy in the long term. Progress on the implementation of ethical and transparent business operations across our value chain will always remain an area which is important as this is the fundamental in building value for our stakeholders and for the Company's future sustainability.

The Company's concentrated efforts for community development will remain a priority. We shall support and sponsor relevant and value adding projects, especially those related to educational advancement and health and wellness, as these become more important as seen in today's global context. Through strategic branch openings in underserved locales, the Company will support small business with customised financial services and help to indirectly impact positively the economic growth and prosperity of the region. All efforts to create long term value for Social and Relationship Capital will be undertaken by allocating adequate resources without compromising business growth and development which is the ultimate aim of our Company.



# CAPITAL MANAGEMENT REVIEW

GRI: 302, 303, 306, 307

## NATURAL CAPITAL



### Material Aspect:



Commitment to the Environment

### Stakeholders Impacted/Affected:



Society/Community



Employees

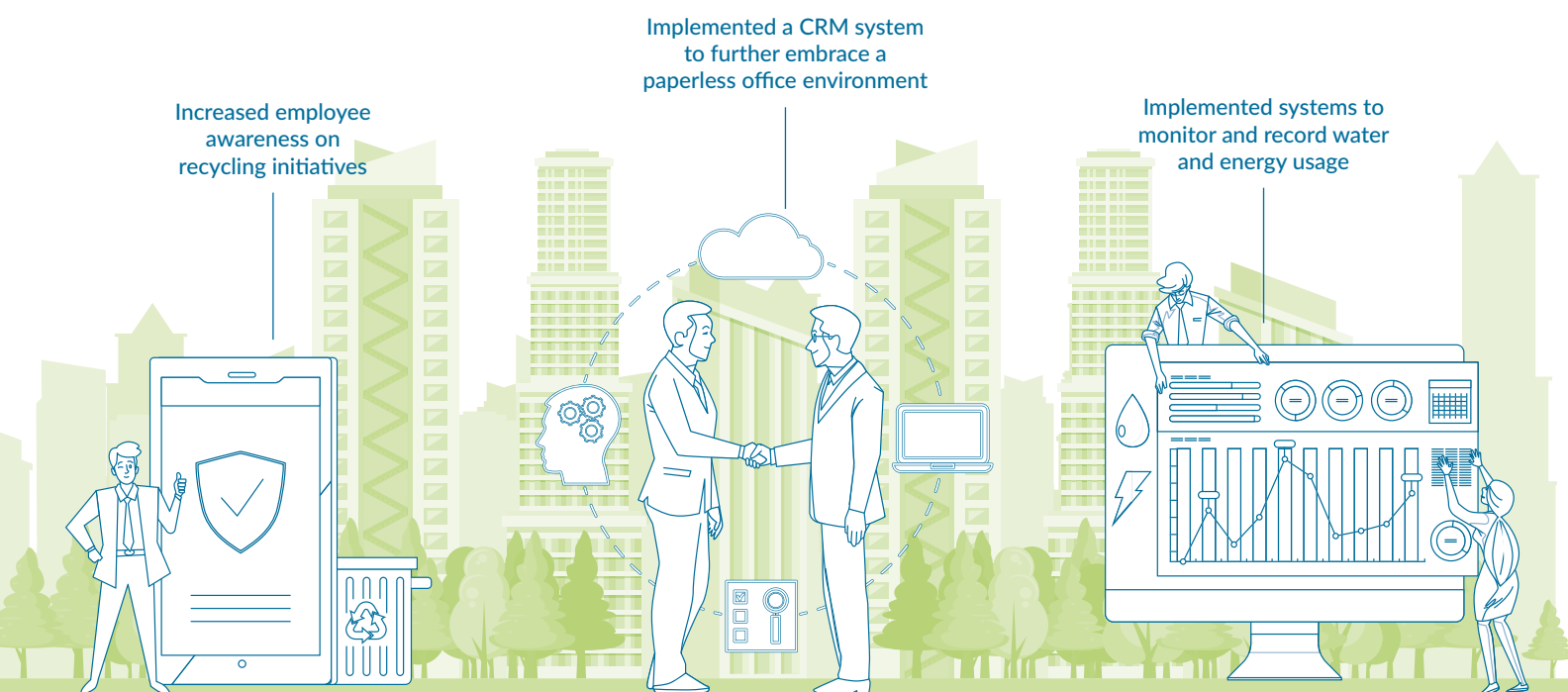


Business Partners



Regulatory Authorities

### Our Achievements 2019/20



### How We Create Value

#### Strategic Goal

To adopt progressive environmentally friendly initiatives to help reduce the impact of our business operations on the ecosystem and to pave the way towards a more sustainable way of doing business

#### Our Approach

- ▶ Wherever and whenever possible minimise use of non-renewable natural resources
- ▶ Adoption of energy saving measures
- ▶ Apply the principles of the 3R concept – Reduce, Reuse & Recycle
- ▶ Promote the purchase of environmentally friendly products
- ▶ Promote the establishment and growth of eco-friendly business operations

### Challenges Faced & Planned Future Action

Challenges 2019/20	Planned Actions
Reducing paper usage through customers conversions and transferring paper-based systems to electronic systems	Promote electronic and online communication methods and monitoring of paper usage
Lowering carbon footprint in all location across in which the Company operates	Educate employees on the importance of reducing energy usage and efficient use of natural non-renewable resources





## Vallibel Finance anticipates this first venture into formalising reporting of quantitative data and qualitative information using the GRI Standards will enable the Company to improve our internal recording and monitoring process of Natural Capital resources in the coming years.

### Overview

Vallibel Finance PLC's Natural Capital elements consists of all renewable and non-renewable natural resources consumed in support of current and future business operations of the Company. While the nature of business is not heavily dependent on the use of natural resources, the Company, both directly and indirectly uses water, energy, fuel and paper in carrying on day-to-day business activities. The Company also generates waste and causes emission while undertaking business processes. This has resulted in increasing use of and impact on natural capital elements with the growth of our business operations. As such, over the last few years, Vallibel Finance has been incorporating progressive environmentally friendly initiatives to reduce the use of such natural resources. We continue to apply control measures which reduce materials used in our normal business processes, water used by employees for their basic hygiene needs, energy consumption while conducting business activities and undertake measures to reduce the waste generated and emissions while doing business.

### Management Approach

Vallibel Finance has always considered the use of natural resources as a privilege and has endeavoured to minimise use of non-renewable resources such as

water, electricity, and fuel by adopting in-house practices of conservation and minimisation. The Company has also in the last few years implemented the 3R concept of Reduce, Reuse, and Recycle for waste management by educating employees and promoting such practices through visual communications methods.

While environmentally friendly practices have been adopted over the years, no formal recording and monitoring processes were implemented. However, to further improve the Company's continued efforts to enrich natural capital conservation and minimise usage, we started recording the Company's water consumption, electricity consumption, and fuel usage during the financial year under review. This first step is expected to enable the Company to further our conservation efforts by enabling year-on-year comparisons and evaluations to identify areas for more focused improvements in the medium to long terms.

The 3R concept for waste management currently has no recording mechanism. However, with the implementation of segregated waste collection by the national municipal council, the Company's efforts in this regard have also improved, especially in financial year under review. Green lending facilities has also been a part of the Company's business operations, although no specific policy currently exists and as such no related goals.

Vallibel Finance anticipates this first venture into formalising reporting of quantitative data and qualitative information using the GRI Standards will enable the Company to improve our internal recording and monitoring process of Natural Capital resources in the coming years. It is also expected that this will enable more inclusive reporting which will increase transparency and accountability of reporting in the future.

## Responsible Business Operations



### Water Conservation

The Company considers water a material topic as it is a scarce resource, with many people being deprived of access to adequate and clean drinking water and as such endeavours to reduce the indirect consumption of water by acknowledging that even our smallest actions impact water quality and quantity. Therefore, to create greater awareness among employees on the importance of conserving water and reducing water use, the Company has put up posters which act as visual reminders and encourage our employees to use only the required amount of water and to close taps to conserve water. The Company relies on water supplied by the national water board and does not use any other water source for the daily needs of the Company's employees, except for drinking water. As part of the Company's efforts to supply clean drinking water to all employees, Vallibel Finance has contracted with a third-party supplier of mineral water which provides all drinking water used at the Head Office and all branch locations.

The Company is of the view that there is likely an increase in water consumed year-on-year due to the increase in the number of employees as a result of business growth. However, the Company is still assured that our water consumption is comparatively lower than that of other water intensive industries.

The water consumed during the year under review is shown below. There is no comparison as recording of data was implemented only in the year under review.

## CAPITAL MANAGEMENT REVIEW

### NATURAL CAPITAL



#### Water Consumption

**14,550m<sup>3</sup>**

Total Consumption\*\*

**14.86m<sup>3</sup>**

Consumed per Employee<sup>1</sup>

**49m<sup>3</sup>**

Consumed per Workday

**5,900m<sup>3</sup>**

Consumed at Head Office  
(employees - 397)

**216m<sup>3</sup>**

Consumption per  
Branch/Service Centre

**8,650m<sup>3</sup>**

Consumption by all 40 Branches/  
Service Centres  
(total employees - 584)

<sup>1</sup> Total consumption per employee is calculated based on number of employees as at 31st March 2020 using the total water consumed from 1st April 2019 to 31st March 2020.

<sup>2</sup> There is a total of 296 working days from 1st April 2019 to 31st March 2020. Hence, the total consumption was divided by 296. It is calculated as 24 working days per month (including ½ day working Saturdays) from 1st April 2019 to 31st March 2020 (12 months).

\*\*Due to the current COVID-19 situation, the Company did not receive water bills for all the branches for the month of March and data for the month of March was calculated by taking an estimate based on the monthly average value for the year



#### Energy Consumption

The main forms of energy consumption are from the use of lights, air-conditioners, and electronic and office equipment used to carry out day-to-day business operations at the Head Offices and branches of the Company. It is assumed the year-on-year use of electricity has been increasing mainly due to the growth of business operations from the addition to the branch network of the Company. However, the Company has in place simple measures such as switching off lights, air conditioners

and fans when not being used, putting computers on low power mode when not in use, and generally adopting responsible electricity usage practices in all aspects of business operations. As part of our efforts to conserve energy, over the last few years the Company has started implementing the use of energy efficient lighting systems such as the use of LED lights. To date, all lighting systems at the Head Office have been converted LED system, and this same process will be implemented in our branches and service centres over the coming years.

The primary source of energy used by Vallibel Finance is supplied by the national electricity grid which

predominantly uses hydro power. However, the Company also uses non-renewable sources such as petrol and diesel to operate generators in case of emergency or during power outages at the Head Office and other operating locations, and to operate vehicles in the course of undertaking business activities. During the year under review, the Company purchased 12,235.14 litres of diesel and 4,319.61 litres of petrol to operate vehicles for business activities.

The electricity consumption for the year under review is shown below. There is no comparison as recording of data was implemented only in the year under review.



#### Electricity Consumption

**1,072,809KwH**

Total Consumption\*\*

**15,944 KwH**

Consumption per Branch

**3,624KwH**

Consumed per Workday

**435,041 KwH**

Consumed at Head Office  
(employees - 397)

**1,096KwH**

Consumed per Employee<sup>1</sup>  
(Total Employees as at 31st  
March 2020 = 979)

**637,768KwH**

Consumed at 40 Branches/  
Service Centres  
(total employees - 582)

<sup>1</sup> Total consumption per employee is calculated based on number of employees as at 31st March 2020 using the total electricity consumed from 1st April 2019 to 31st March 2020.

<sup>2</sup> There is a total of 296 working days from 1st April 2019 to 31st March 2020. Hence, the total consumption was divided by 296. It is calculated as 24 working days per month (including ½ day working Saturdays) from 1st April 2019 to 31st March 2020 (12 months).

\*\*Due to the current COVID-19 situation, the Company did not receive electricity bills for all the branches for the month of March and data for the month of March was calculated by taking an estimate based on the monthly average value for the year



### Green Lending Facilities

Aligned to the Company's efforts to safeguard the environment and help promote the establishment of eco-friendly business operations and purchase of environmentally friendly products, Vallibel Finance has provided lending facilities to customers to purchase hybrid vehicles renowned for fuel efficiency and low emission profile. During the year under review, 700 lending facilities amounting to Rs. 1.62 Bn were obtained by the Company's customers to purchase hybrid vehicles. Such initiatives will assist the Company to indirectly contribute towards the reduction of carbon emissions and air pollution.

The Company has a more ambitious plan for green lending in the longer term, where we hope to extend lending facilities to business ventures selling environmentally friendly products and services or have operation models which are conducive to promoting eco-friendly business activities.

### Green Operational Concepts

As an integral part of the Company's commitment towards developing an internally sustainable business environment, Vallibel Finance continues to embed green business concepts and practices within our day-to-day business processes and operations. A key initiative towards meeting this objective is the adoption of the universally accepted best practice of 3Rs-Reduce, Reuse and Recycle. As such, the Company has implemented numerous internal corporate practices such as reusing paper and envelopes for internal purposes, printing on both sides of the paper, limiting the number of printers and photocopy machines per floor to reduce the energy usage, avoiding the use of plastic plates and cutlery, and encouraging the use of glass water bottles by employees which inculcate 'good habits' within our corporate culture. These practices have enabled employees to become and remain 'cost conscious' while reducing wastage of resources contributing to becoming a sustainable business within the context of our expanding business operations.

A green operational concept which the Company is very proud of is the use of SMS notifications for advertising and promotional efforts for gold loans and other lending facilities. This initiative, which was first implemented in January 2019, has proven to be highly successful and cost effective in reaching a wide audience across the country thereby extending our reach to beyond our existing customer base.

### Waste Management

Vallibel Finance, as a service-based business organisation, generates normal organic, plastic and paper-based waste as part of the day-to-day business operations. All waste is segregated as required by the Municipal Council waste management operations and disposed of in a responsible manner.

Aligned to the 3Rs concept, paper used in the Company's business operations is subject to the reduce, reuse and

recycle concepts. As such, employees are encouraged to reduce the use of paper by printing on both sides and adopting a best practice of emailing notices and updates while sharing documents electronically. The Company plans to review different options available for the recycling of used paper, electronics and electronic waste in a responsible and acceptable manner in the future.

The Company's business operations do not generate any hazardous waste or effluents and as such there are no discharges of hazardous waste water into any natural water bodies.

### Environmental Compliance

The Company has had no cause to pay any fines and has not been reprimanded with other non-monetary sanctions for non-compliance with Sri Lankan environmental laws or regulations during the year under review.



### Future Outlook

Vallibel Finance's Natural Capital conservation and reduction policies and processes are still under review, although efforts to conserve natural resources have been adopted over the years. The most significant has been our effort to start recording water, electricity, and fuel consumption in the year under review to enable the Company to formalise the process and improve processes adopted for reduced usage in the future. The Company is pleased to have embarked on this journey with the aim to improve our efforts to adopt and implement sustainable business practices while concurrently researching and reviewing new and better methods of implementing eco-friendly business practices for the future.

The next stage will be the introduction of new monitoring systems for waste management and recycling of waste. This is a gap that we currently see in our approach to environmental management. As we learn and gain more knowledge through our currently implemented water and energy recording systems, the Company will be in a better position to develop more advanced initiatives for the minimisation and reduction of water usage while considering new actions to be implemented

for energy management in the medium term. Furthermore, the introduction of the customer relationship management system and the paper usage monitoring planned for 2020 and beyond will enable Vallibel Finance to monitor and evaluate innovative ways of reducing paper usage for day-to-day business operations. The Company will also continue to promote employee awareness for being environmentally friendly not only at work but also in their personal lives. New and innovative methods to use information technology for online communications with customers will continue to be researched and adopted as relevant and possible in the future. There is much room for improving the Company's green lending facilities and formalising goals and objectives. While Vallibel Finance plans to pursue this avenue for the future, such a progressive step will only be undertaken after much market research and once the industry and operating environment conditions improve post the negative impact of COVID-19 pandemic being overcome. Other initiatives which will support the adoption of systematic methods to reduce the Company's carbon and environmental footprint in the longer-term are in the pipeline awaiting conducive operating conditions to be further developed.

# BUSINESS REVIEW



**A year inundated with challenges, overcome through focused strategies, commitment and trust of our stakeholders...**

Expanded business by expanding our geographic presence, reengineering products to cater to changing consumer preferences, and expanding communication reach through use of social media.

Vallibel Finance PLC had a challenging 2019/2020 mainly due to the external global and local economic and social factors which impacted business plans and progress. However, despite the challenging times faced, the Company was able to increase the loan portfolio and deposit base, albeit at reduced

year-on-year growth levels compared to the previous financial year. Focused efforts to increase market share and offer products to suit changing consumer needs remained the key strategic imperatives which ensured the Company was able to create sustainable value for all stakeholders.

## Highlights



Total assets base

**Rs. 51.42 Bn**

in 2019/20 exceeds the fifty billion landmark.



Total loan portfolio

**Rs. 41.12 Bn**

in 2019/20 grows by 5.55% compared to the previous financial year



Fixed deposit base

**Rs. 29.24 Bn**

in 2019/20 continues to strengthen our position within the Licensed Finance Companies sector.

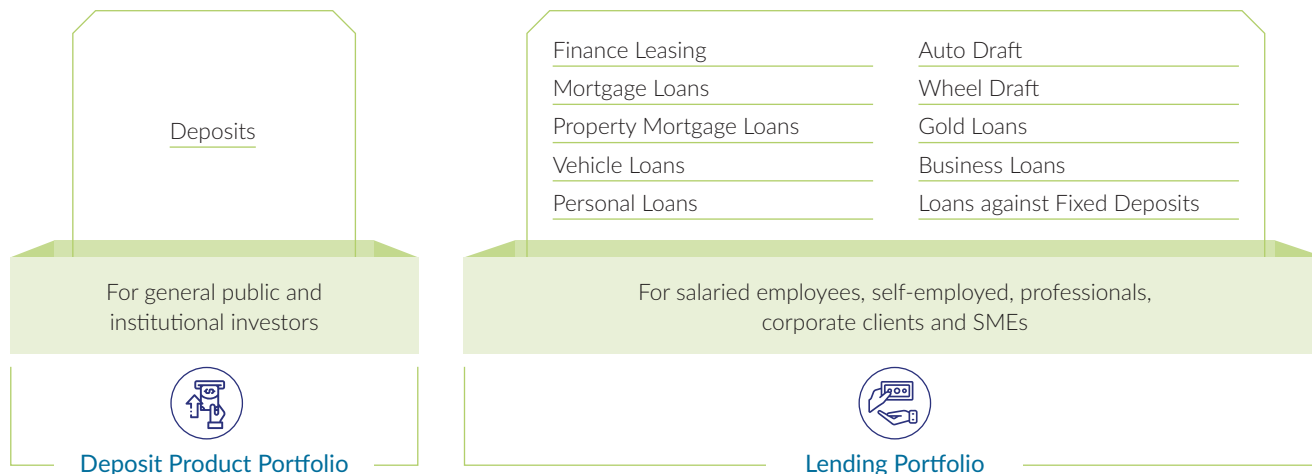


Gold loan portfolio

**Rs. 3.53 Bn**

as at 31st March 2020 grew by 40.33% compared to the previous financial year.

## Our Product Portfolio



## Deposit Products

### Vallibel FD

Fixed deposits have been a cornerstone of Vallibel Finance's product offering with attractive rates and a guaranteed return on capital investment. The Company has developed several fixed deposit options—from one-month deposits to 60 month-deposits, with different terms for interest payable, thereby making deposits available to a wider consumer base. The year-on-year growth in the deposit base of the Company proves success of the attention given to quality and security of the product, as well as the trust placed in the Company by the public.

The Company's guaranteed return on investment and capital policy together with the ability to obtain a pre-approved loan against the fixed deposit with an interest being charged only on the amount used is a fundamental differentiating factor. The Company's enhanced customer service model also ensures free investment advisory services to guide customers in the best solution to suit their individual risk and needs profiles. In consideration of our social obligations, the Company also offers senior citizens with the required eligibility a higher interest rate on fixed deposits. As part of our risk management process,

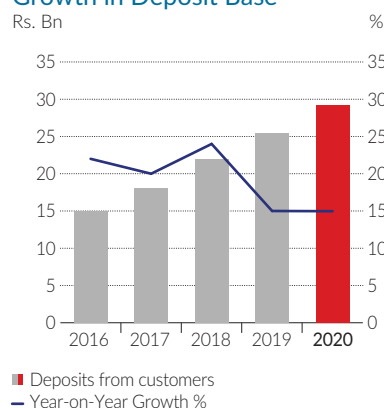
### Product performance:

The total deposits portfolio grew by 14.97% during the year under review, amounting to Rs. 29.24 Bn as at 31st March 2020 compared to Rs. 25.44 Bn recorded as at 31st March 2019. The interest expenses of the deposit portfolio concurrently increased by 8.78% amounting to Rs. 3.25 Bn for the financial year under review, compared to Rs. 2.99 Bn recorded in the previous financial year. As at 31st March 2020, fixed deposit accounted for 97.23% of the total deposit base, while Certificate of Deposits contributed only a modest 2.77%.

the Company insures eligible deposits with the Sri Lanka deposit insurance scheme.

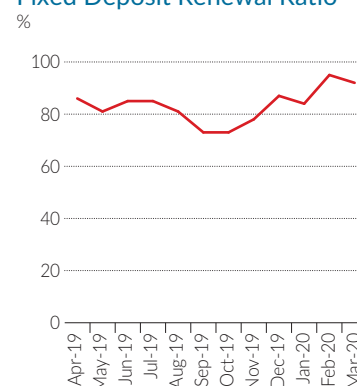
while building the Vallibel Finance brand as a trustworthy and ethical financial institution.

### Growth in Deposit Base



It is the Company's belief that our product flexibility and quality, competitive interest rates, and the adoption of ethical and transparent business practices together with focused promotional activities has enabled us to strengthen our fixed deposit base over the years

### Fixed Deposit Renewal Ratio

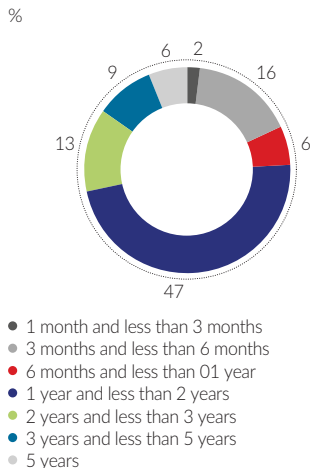


With the experience of providing fixed deposit products to our customers for over 13 years, the Company has successfully built a secure deposit base by developing long-term credible relationships with our customers. Hence, Vallibel Finance successfully retained a fixed deposit renewal ratio well-above 80% for the year under review.



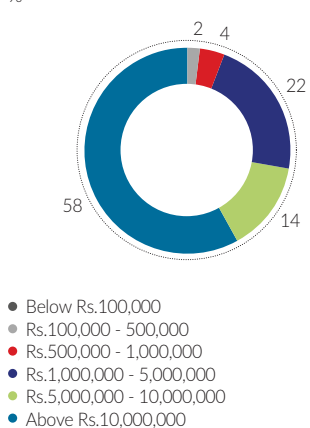
## BUSINESS REVIEW

### Tenure wise Fixed Deposits Base as at 31st March 2020



The Company continued to pursue medium to long term tenured fixed deposit growth in the year under review, as a strategy to ensure an optimal deposit mix. Thus, the focus was on fixed deposits which ranged from one month to five years with monthly or at maturity interest payments.

### Amount wise Deposits Base as at 31st March 2020



Of the Company's deposit base, 58% of deposits amount to greater than Rs. 10 Mn each, while 36% of deposit range between Rs. 1 Mn and Rs. 10 Mn. This shows the Company has a large share of high worth deposit customers whose trust we have earned and continue to retain even in challenging times.

### Future Focus

The increasingly uncertain industry and economic conditions currently prevailing due to the outbreak of the COVID-19 pandemic is expected to have short to medium-term negative impact on the deposit base of the Company in the coming year. This is mainly due to the increasing concerns for safety and security of personal savings as well as the increasing uncertainty of the stability of financial entities operating within the non-banking financial institutions (NBFI) sector of the economy. It is expected that as less stable and smaller Licensed Finance Companies (LFCs) reduce service levels offered to service depositors' interests due to the slower economic activity of the country, a significant withdrawal of funds by the public due to panic and dissatisfaction will prevail. Thus, the priority for Vallibel Finance in the forthcoming financial year will be to build confidence in the Company's sustainability and our brand, and highlight the strength and resilience which we have shown over the last 13 years to retain and grow our deposit base. Together with the strong and beneficial relationships developed with our deposit holders over the years, the Company is confident that that we will be well-placed to serve the needs of our deposit holders without interruptions or undue hassle in these turbulent and uncertain times.

### Lending Products

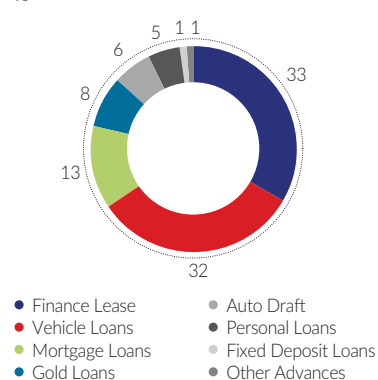
#### Product performance:

The Company's total lending portfolio grew by 5.55% amounting to Rs. 41.12 Bn compared to Rs. 38.96 Bn recorded in the previous financial year. The key drivers of growth were Vehicle Loans and Gold Loans. Vehicle Loans, which was introduced to the Company's lending portfolio during the financial year 2018/19 grew by 53.17% amounting to Rs. 13.72 Bn, while gold loans grew by 40.25% amounting to Rs. 3.53 Bn during the year under review. Vehicle loans is a key product of the lending portfolio due to its popularity with consumers, and together with leasing, accounted for 65.36% of the total lending portfolio as at 31st March 2020. The re-launched Auto Draft facilities under a separate product category in the year under review was successfully received in the market and amounted to Rs. 2.72 Bn and accounted for 6.36% of the total lending portfolio. The interest income generated by the total lending portfolio increased by 13.64% amounting to Rs. 8.45 Bn for the year ended 31st March 2020 compared to Rs. 7.43 Bn generated during the previous financial year.

Vallibel Finance offers a wide range of lending products to customers to meet their diverse needs and wants. The Company's key products are Vehicle Loans, Finance Leasing Facilities, Mortgage Loans, Auto Drafts, Personal Loans, and Gold Loans. The Company regularly reviews the appropriateness of the lending portfolio with the changing needs of consumers to ensure a product portfolio which is relevant in meeting the needs of current and future customers. The Company is recognised as offering competitive interest rates to customers despite differences which exist due to the type of lending product and facility, tenure, security offered, credit worthiness of individual customers, and prevailing market conditions. The Company has also considered business risks and makes adequate provisions for loan recoveries

in a transparent manner by pre-agreeing on terms and conditions with customers and stating them in the loan agreement. This procedure also safeguards customer interests and preserves long term relationships with our customers.

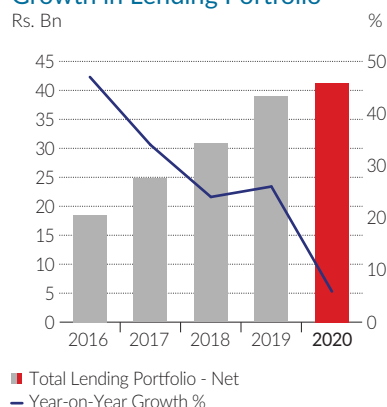
### Lending Portfolio Composition as at 31st March 2020





The largest share of the Company's lending portfolio is mainly formed of finance leasing facilities and vehicle loans due to the Company's strategic pursuit of capitalising on opportunities which exist in the marketplace and aligned to current needs of consumers. The lending portfolio shows a negligible percentage of other advances which refers to hire purchase and micro loans due to the withdrawal of these two products from the market as a measure of portfolio risk management.

### Growth in Lending Portfolio



The Company's viable and relevant product portfolio together with the opportunity given to customise lending product features to suit individual customer needs has propelled year-on-year growth even in times of slow economic activity and growth.

To maintain the growth momentum of the lending products portfolio, the Company regularly reviews product offerings against consumer trends and market development and makes strategic changes to product offerings to ensure a viable product mix to meet corporate financial and non-financial objectives. In addition, service quality, product innovations and re-engineering, and new product developments together with focused promotional and marketing activities enable Vallibel Finance to satisfy the financing needs of our customers while diversifying risks and expanding income generating avenues. Furthermore, our expanding branch network, highly skilled and experienced workforce, high standards of customer service levels, a convenient customer support service, and

the increasing focus on marketing and promotions has assisted in the growth of the Company's lending products portfolio over the years.

Vallibel Finance experienced the lowest year-on-year lending product portfolio growth during the year under review due to the cascading effects of external economic and market conditions. The overall slowdown in the demand for loans and advances due to reduced economic activity in the aftermath of the Easter Sunday attacks, political uncertainty, and a general atmosphere of low confidence levels and uncertainty in local economic growth, together with the increased emphasis on credit screening due to the increasing Non-Performing Loans (NPL) ratio both at the industry and Company level resulted in reducing the lending portfolio growth. Macro prudential policy measures to curtail importation of motor vehicles together with the curtailment of LTV ratios for motor vehicle loans and credit facilities further reduced the growth potential of the lending portfolio of the Company as it slowed down growth of a key product of the portfolio. However, focused strategic directives and timely changes to relevant lending policies proved successful, enabling Vallibel Finance to maintain the viability

of the lending portfolio amidst a situation of deteriorating sector performance.

### Future Focus

To further aggravate an already challenging operating environment, the impact of the COVID-19 pandemic is expected to further reduce the growth potential of financial institutions in Sri Lanka which were already inundated with increasing credit costs, muted loan growth, and the impacts from sluggish economic growth. The current situation with the coronavirus has increased pressure on the Company to remain strong while providing relief measures to customers to maintain business viability in the longer term. While Vallibel Finance has taken every measure to assist our customers to remain financially viable in these trying times, these measures are likely to have a negative impact on the short term growth of the Company. To maintain some business growth in the near term, it is expected for the industry as a whole to halt granting of new loans as a short term measure to curtail losses in an environment inundated with uncertainty and an increasing loss of investor confidence. The Company will further review its plans as the industry and economy slowly return to business as normal in the coming few months.

### Leasing Facilities



#### Product performance:

The adverse macro prudential policies which prevailed during the financial year under review together with the reduced economic activities resulted in a decline of 5.68% in the Company's gross Leasing portfolio which stood at Rs. 14.28 Bn as at 31st March 2020 compared to Rs. 15.14 Bn as at 31st March 2019. However, the Company successfully granted 12,851 new Leasing facilities and disbursed Rs. 7.55 Bn to customers across the country despite challenging operating conditions. The total Leasing portfolio accounted for 33.34% of the total Lending portfolio which shows a marginal reduction compared to the previous financial year. Micro Leasing facilities amounted to 67% of the total Leasing facilities, while the balance comprised of general Leasing facilities granted to customers. Interest income from Finance Leases increased by 3.12% amounting to Rs. 3.19 Bn compared to Rs. 3.10 Bn recorded in the previous financial year.



## BUSINESS REVIEW

The Company's Leasing facilities are categorised into two key Leasing Products – General Leasing and Micro Leasing. General Leasing Facilities provide individuals or businesses funds to purchase high-value products, while Micro Leasing facilities offer tailor-made payment funding options with competitive interest rates for the purchase of low investment vehicles such as three wheelers and motor bikes. The Company's Leasing products are available at all Vallibel Finance branches in Sri Lanka and comprise the largest share of the total Lending portfolio.

During the year under review, challenging macroeconomic conditions and the measures to curb motor vehicle imports by the upward revision of import duties, tightening of LTV ratios, and increased regulatory controls had an adverse impact on the growth of the Company's Leasing products portfolio. However, the continued promotional activities and the flexibility of the Company's leasing facilities ensure acceptable performance despite the challenging operating environment. The Vallibel Finance brand reputation is also a key competitive advantage in attracting and retaining customers whose trust we continue to earn due to business reputation and our friendly and high service levels.

### Future Focus

The forthcoming year will remain challenging for the growth of the Leasing portfolio due to the prevailing market uncertainties and the continued impact in free-movement due to the COVID-19 pandemic. Thus, the Company foresees taking a cautionary approach in pursuing growth of the Leasing portfolio in the short term. The focus will be to maintain satisfactorily the current Leasing portfolio while pursuing growth only in terms of reliable and good quality Lending activities. In this context, it is likely a selective Lending strategy will be adopted by Vallibel Finance to ensure maintenance of a consistent margin with minimum risk of default

### Vehicle Loan

#### Product performance:

The gross Vehicle Loans portfolio increased by 53.17% to Rs. 13.72 Bn as at 31st March 2020 compared to Rs. 8.96 Bn as at the end of the previous last financial year. Interest income earned amounted to Rs. 2.16 Bn for the year under review. Vehicle Loans accounted for 32.03% of the total lending portfolio during the year under review.



The Vehicle Loan product introduced during the previous financial year was a key growth driver of the total lending portfolio, growing by 53.17% within the span of one year. The flexibility offered to customers through a customisation policy and the much faster and more convenient processes in obtaining the loan facility resulted in the Vehicle Loan product becoming the second largest contributor to Lending Portfolio during the year under review.

### Future Focus

The continuing macroprudential measures to curb Vehicle imports is expected to impact growth prospect of the Company's vehicle loans portfolio. Thus, Vallibel Finance will focus on adequately maintaining the existing portfolio by navigating risk aspects in collaboration with our Vehicle Loan customer base. Like Leasing Facilities, the Company will adopt a cautionary approach in pursuing growth and use a selective lending strategy with extensive screening measures and strict adherence to processes for reviewing loan applications.

### Mortgage Loan

#### Product performance:

The gross Mortgage Loan portfolio decreased by 44.91% amounting to Rs. 5.50 Bn during the year under review compared to Rs. 9.98 Bn recorded in the previous financial year. The primary reason for the decline in growth was the Company's strategic decision to slowdown vehicle Mortgage Loan facilities towards the latter part of the last financial year due to the increasingly complicated and cumbersome processes involved in loan disbursement and resulted delays in meeting customer needs. However, the introduction of a substitute product – Vehicle Loans caused minimal disruptions to customers. The interest income earned from Mortgage Loans amounted to Rs. 1.37 Bn for the year under review. Mortgage Loans accounted for 12.84% of the total Lending portfolio during the year under review.



Mortgage Loans are designed to enable customers to obtain funds by mortgaging assets such as vehicles or property owned. The Company offers a flexible Mortgage Loan product which can be customised to the financial situations and needs of individual customers.

## Property Mortgage Loan

# Vallibel PROPERTY LOAN

## Product performance:

The Property Mortgage Loans amounted to Rs. 970.01 Mn of the gross lending portfolio during the year under review compared to Rs. 1.05 Bn as at 31st March 2019 and accounts for 2.26% of the total Lending portfolio as at 31st March 2020.

Property Mortgage Loan product is targeted at Government and private sector employees and self-employed professionals and businessmen. Customers can obtain a property mortgage loan facility by mortgaging their property to facilitate the purchase of a land or a land with a house or a building, for the construction of a house or a building, to redeem or to settle an existing loan facility, or for any other personal requirement.

## Future Focus

The prevailing market conditions is expected to result in increasing applications for Mortgage Loan facilities as individuals and SMEs slowly endeavour to recover from the adverse impact from the slowdown in economic activity due to the prevalence of the COVID-19 pandemic. Thus, Vallibel Finance plans to focus on the Housing Loan market in the forthcoming year to further develop the Mortgage portfolio base and propel long-term growth by widening customer reach through our island wide branch network and increasing targeted promotional and marketing efforts to create greater awareness in the marketplace.

## Gold Loans

## Product performance:

The gross Gold Loan portfolio grew by 40.25%, exceeding the Rs. 3 Bn landmark amounting to Rs. 3.53 Bn as at 31st March 2020 compared to Rs. 2.52 Bn recorded in the previous financial year. This Company's focused efforts to grow the Gold Loan customer base by increasing its reach through a branch expansion strategy has continued to be successful, with 04 new branches adding the Gold Loan facility as part of their total product portfolio during the year under review. Thus, the Gold Loan facility is now available in a total of 38 branches of the Company as at 31st March 2020. The interest income earned by the Gold Loans portfolio amounted to Rs. 762.77 Mn for the financial year under review. Gold Loans accounted for 8.25% of the total Lending Portfolio as at 31st March 2020.

Another key contributor to the Lending Portfolio in terms of year-on-year growth, Gold Loans remains a popular product in demand by customers since its introduction seven years ago. The Company's Gold Loan facility is offered to individual customers to obtain loans secured against their gold jewellery. The value of the loan is dependent on the value of gold at the date of obtaining the funds.

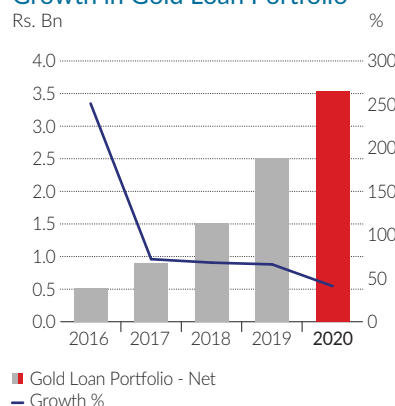
During the year under review, there was a slight decline in year-on-year growth compared to the previous financial year, mainly due to the prevailing uncertainties in the marketplace, together with fluctuations in world gold prices and the increasingly stronger competition in the market.

The Company has achieved exceptional growth of our Gold Loans portfolio since its introduction in 2016. While year-on-year growth has shown slight declines over the last few years, this is attributed to the negative impact of the external macroeconomic factors on the Company's business line.

## Future Focus

As we proceed towards a new financial year, the Company will pursue strategic growth of the Gold Loans portfolio through market penetration activities, while reviewing acceptable market growth strategies which will enable us to diversify into new markets heretofore unexplored by the non-banking financial services sector. The Company's focus on providing flexible and customised products to cater to individual customer needs will give Vallibel Finance a competitive advantage to reach a diverse customer base to for long-term sustainable growth of this business line.

## Growth in Gold Loan Portfolio



## BUSINESS REVIEW

### Vallibel Auto Draft

## Vallibel **AUTO Draft**

#### Product performance:

The Company's total Auto Draft portfolio amounted, including Auto Drafts under different products lines, to Rs. 7.78 Bn as at 31st March 2020 compared to Rs. 8.81 Bn recorded in the previous financial year. The interest income earned amounted to Rs. 1.58 Bn for the year ended 31st March 2020. The Vallibel total Auto Draft portfolio accounted for 18.17% of the total loan portfolio as at 31st March 2020.



Vallibel Auto Draft is an innovative product offering introduced in 2014 by the Company to offer greater convenience and hassle-free loan option to consumers. The facility operates on the concept of a speed draft product which is more economical than obtaining a bank overdraft facility, although with a requirement to provide security against a vehicle or personal guarantor. Key differentiating features of the product are its highly competitive interest rates and unmatched repayment terms designed to be easily re-payable in 12 parts—the interest amount in the first eleven months and the capital in the 12th month together with the interest amount for that month. Furthermore, the Company also offers an option where the tenure of the loan can be customised to meet individual customer needs for a maximum of 24 months.

During the year under review, the Company revamped the Auto Draft product to enable this product to operate independently as a separate product line to meet evolving customer needs and marketplace requirements amidst changing policies and operating conditions. Previously, the Company offered different forms of the Auto Draft facility integrated within the main products of the Company's lending portfolio.

### Vallibel Wheel Draft

## Vallibel **වීද් Draft**

The Vallibel Wheel Draft is an offshoot of the Company's innovative Auto Draft facility offering a loan facility which closely resembles a traditional bank overdraft facility. The Vallibel Wheel Draft is aimed at owners of registered and un-registered three-wheelers offering a customised repayment period depending on the value of the loan facility and a flexible capital repayment term agreed upon with the customer up to a maximum of 24 months.

#### Future Focus

The Company's popular Auto Draft and Wheel Draft products will be impacted due to the LTV restrictions resulting in lowering demand and slowing growth in market share for these products in the short to medium terms. Vallibel Finance plans to support growth of this business line in the short term by focusing on increasing existing market share in the registered three-wheeler segment. However, to ensure these popular lending products of the Company remain viable in the longer term, new and emerging markets

will have to be researched and developed in the coming years. There is potential to enter the emerging market for the mini vehicle range, and the Company plans to further explore suitable entry strategies in the forthcoming financial year with a view to diversifying our product portfolio for future sustainable business growth.

### Personal Loan

#### Product performance:

The gross Personal Loan portfolio decreased by 15.01% during the financial year under review, to record Rs. 2.28 Bn as at 31st March 2020 compared to Rs. 2.69 Bn achieved in the previous financial year. The reduction in growth is mainly attributed to the Company's strategic directive to promote other lending facilities to maintain an acceptable lending portfolio mix to manage risks and ensure sustainability of the business in the longer term. Resultantly, Personal Loans only accounted for 5.33% of the total Lending portfolio. The interest income earned from Personal Loans amounted to Rs. 447.29 Mn for the year ended 31st March 2020.



The Personal Loan product is designed to offer customers financial assistance for any personal requirement by offering competitively low interest rates and an easy and convenient application and settlement process.

#### Future Focus

Given the demand for Personal Loans is predominantly market driven, the Company plans to focus on increasing our market share by pursuing focused strategies to promote this product to both existing and new customers in the forthcoming year to meet growth targets. However, given the Personal Loans business lines is a highly competitive market space, Vallibel Finance will need





to strongly focus on differentiating factors and high customer service levels to propel growth in an environment which is expected to remain challenging in the short to medium terms.

## Business Loan

### Product performance:



The gross Business Loan amounted to Rs. 41.04 Mn as at 31st March 2020 compared to Rs. 48.05 Mn as at 31st March 2019. The reduction in growth is mainly attributed to the Company's strategic directive to promote other lending facilities to maintain an acceptable Lending Portfolio mix and manage risks thereby ensuring sustainability of the business in the longer term.

The Company's Business Loan facility offers a flexible financing solution to small and medium sized businesses which require short-term loans for the purchase fast moving stocks. This loan facility enables small and medium sized businesses to pursue business growth and expansion while still being able to fulfil their financial obligations without undue stress.

### Future Focus

The Company will continue to monitor the prevailing low growth economic situation and revalue the current strategic directive of a slowdown in promoting the Business Loan facility to the market. By undertaking careful analysis of the growth potential of the SME sector in the medium to longer terms the likelihood of making business loan products available to eligible customers will be considered as a mechanism to support SME sector growth in these challenging times.

## Loans against Fixed Deposits

### Product performance:



The Loans against Fixed Deposits portfolio amounted to Rs. 499.90 Mn as at 31st March 2020 compared to Rs. 532.33 Mn recorded in the previous financial year. The interest income earned amounted to Rs. 82.55 Mn for the year ended 31st March 2020. The Loans against Fixed Deposits portfolio accounted for 1.17% of the total Loan Portfolio as at 31st March 2020.

Loans against Fixed Deposits is a unique offering taking the form of a value-added service for the Company's most valuable Fixed Deposit customer base. Loans against Fixed Deposits is offered at a low cost compared to other Lending Products as a short-term solution to meet the urgent financial requirements of select long-term Fixed Deposit customers of Vallibel Finance.

### Future Focus

The prevailing challenges in the industry and marketplace is expected to result in an increased demand for Loans against Fixed Deposits, as individuals and SME adopt recovery strategies to emerge from the low levels of business confidence and slow economic activity due to the impacts of the COVID-19 pandemic. Vallibel Finance while endeavouring to serve our customers to the best of our abilities will ensure distributing such loan facilities to customers who meet the credit standards set by the Company.

# CORPORATE GOVERNANCE

## Approach to Corporate Governance

Vallibel Finance PLC believes that corporate governance, which is a system of mandatory rules and regulations supplemented by the adoption of voluntary best practices, enables the Company to direct and control business operations to the highest standards of corporate conduct and ethical and transparent business operations. As a public company listed on the Colombo Stock Exchange, the Company is aware that it is its duty to keep the trust of its shareholders and other stakeholders.

As a financial services institution which works with public deposits and disburses funds to those in need, working within a system of governance ensures building of long-term trust, accountability, and acceptability by these key stakeholders.

The Board of Directors (BOD) of Vallibel Finance plays a critical role in overseeing all governance related matters on behalf of the Company. They are responsible for setting governance policies and enabling the governance process by mandating accountability and reporting lines across the organisational hierarchy. The BOD is the top line of control for corporate governance and have delegated responsibilities to Board Sub Committees and Management Committees to ensure comprehensive oversight for corporate governance mechanisms at Vallibel Finance. The Company's corporate governance framework eases the way in which it governs the business entity by clearly demarcating and defining roles and responsibilities, establishing clear reporting lines, enabling regular review of external and internal environmental impacts on business operations, and in improving the reputation and brand value of Vallibel Finance within the industry.

The concepts of accountability, transparency, and ethical business practices are embedded within the Company's corporate governance framework. In developing the Company's corporate governance framework both external and internal rules and regulations which impact the way in which

governance is conducted in the Company have been considered. As such, we have incorporated both mandatory and voluntary rules and regulations as set out by the Companies Act No. 07 of 2007, Continuing Listing Requirements of the Colombo Stock Exchange (CSE), Finance Business Act No. 42 of 2011, Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka, and the Code of Best Practice on Corporate Governance issued jointly by Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission of Sri Lanka (SEC) in 2013.

To successfully embed governance practices within the Company's operating processes, the Company pursues corporate governance from the highest level of leadership and management and integrates relevant processes and systems of control and monitoring practices within business strategies. This ensures that corporate governance principles are firmly embedded in the strategic decision-making process and when undertaking day-to-day business operations. Furthermore, the Company's corporate governance framework provides guidance and direction to the management and employees which paves the way for taking an integrated value creation approach to sustainable business development and success.

The Company's commitment to being transparent and accountable in everything it does has over the years resulted in improving and enhancing its corporate governance practices by the adoption of not only mandatory rules and regulations, but also voluntary governance best practices. Furthermore, the Company also considers stakeholder views and expectations and the impact on material topics when developing governance processes. The focus on improving corporate governance mechanisms has enabled the Company to increase emphasis on ethical business practices while ensuring integrity and transparency in all the Company's dealings with stakeholders. These

measures have also resulted in the creation of financial and non-financial value to all stakeholders. The Company continuously reviews, updates, and refines its corporate governance structure, systems, and processes to align internal governance practices with evolving regulations and newly emerging best practices. This reflective process helps the Company to have a clearly defined and relevant governance framework to adhere to the mandate of being accountable to its stakeholders.

## Application of Corporate Governance Practices at Vallibel Finance

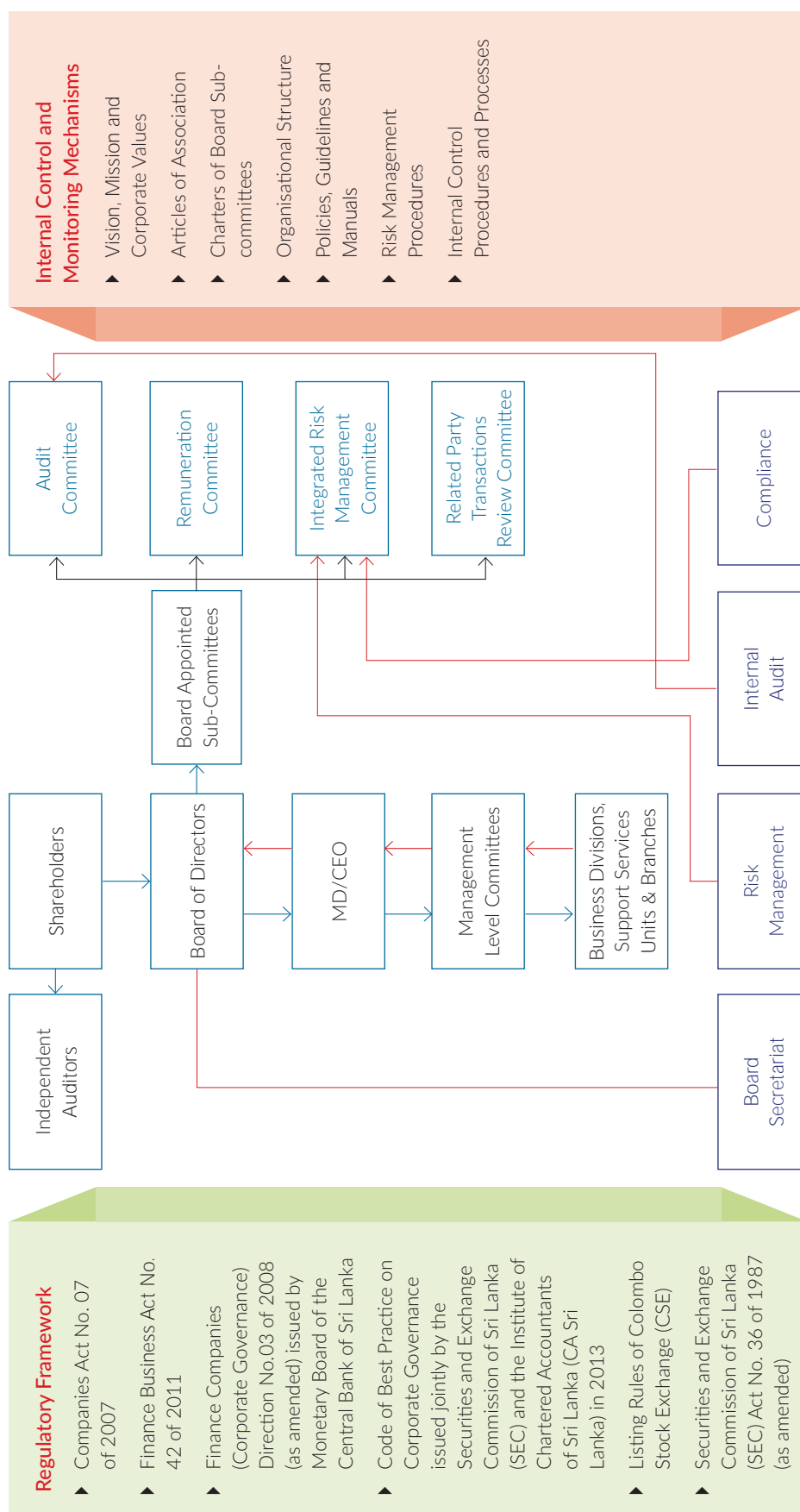
Vallibel Finance considers all mandatory regulations in approaching corporate governance. The section which follows describes and details the application of corporate governance practices within the Company for the financial year ended 31st March 2020.

## Board of Directors

The Board is the highest governing body of Vallibel Finance PLC and carries the responsibilities of directing the Company's business operations. The responsibilities of the Board include making an accurate assessment of the Company's position, taking strategic decisions, holding regular meetings of the Board and Board Sub Committees, ensuring good governance and overseeing the risk management of the Company.



## Corporate Governance Framework



→ Appointment flow → Reporting flow

# CORPORATE GOVERNANCE

## Composition and Independence

The Board comprises eight (08) members, five (05) of whom including, the Acting Chairman, are Non-Executive Directors with a balance of skills and experience which is appropriate for the business carried out by the Company.

No.	Name of Director	Status	Date of Appointment to the Board
01	Mr. R M Karunaratne	Acting Chairman - Independent Non-Executive Director	30.04.2013
02	Mr. S B Rangamuwa	Managing Director	14.03.2007
03	Mr. Dhammika Perera*	Executive Director	22.08.2005
04	Mr. T Murakami	Non-Executive Director	16.07.2014
05	Mr. K D A Perera	Non-Executive Director	12.08.2014
06	Mr. A Dadigama	Independent Non-Executive Director	15.09.2014
07	Mr. S S Weerabahu**	Executive Director	20.04.2018
08	Mr. J Kumarasinghe	Independent Non-Executive Director	01.02.2019
	Mr. H Ota (Alternate Director to Mr. T Murakami)	Non-Executive Director	10.12.2015

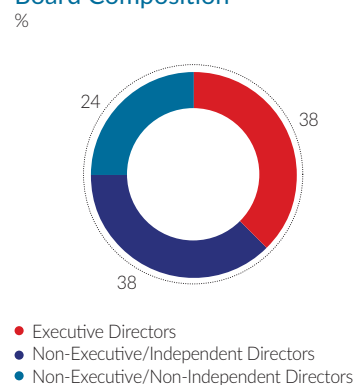
\*Re-designated as an Executive Director w.e.f. 21.08.2014

\*\*Re-designated as an Executive Director w.e.f. 19.12.2019

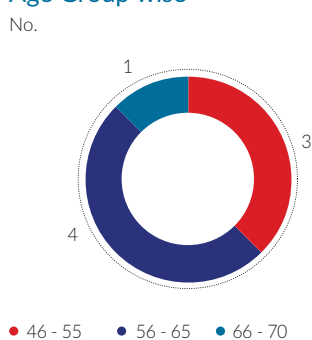
In terms of paragraph 7(3) of the Finance Companies Direction No. 3 of 2008, it is declared that Messrs Dhammika Perera and K D A Perera are siblings.

Based on declarations submitted by the Non-Executive Directors, the Board has determined that three (03) Non-Executive Directors, namely Mr. R M Karunaratne, Mr. A Dadigama and Mr. J Kumarasinghe are 'Independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange and the Finance Companies (Corporate Governance) Direction No. 3 of 2008.

## Board Composition



## Age Group wise



## Chairman and Managing Director

The functions of the Chairman and the Managing Director are separate with a clear distinction drawn between responsibilities, which ensure balance of power and authority. Mr. R M Karunaratne serves as the Acting Chairman and Mr. S B Rangamuwa serves as the Managing Director/CEO.

## Tenure, Retirement and Re-election of Directors

At each Annual General Meeting one of the Directors for the time being, shall retire from office and seek re-election by the shareholders.

The provisions of the Company's Articles of Association also require Directors appointed by the Board during the year to hold office until the next Annual General Meeting and seek appointment by the shareholders at that meeting.

## Board Meetings

The results of the Company are regularly considered and monitored against the budgets at Board meetings at which a standard agenda is discussed together with other matters that require the attention of the Board. The Board meets once a month, and wherever necessary Special Meetings of the Board are held.

During the year ended 31st March 2020, eleven (11) meetings of the Board were held. The attendance at the meetings was:

## Tenure of Directors

Tenure	No. of Directors
Less than three years	2
3 to 5 years	3
Above 5 years	3



Name of Director	Executive/Non-Executive/ Independent Non-Executive	Attendance
Mr. R M Karunaratne	Independent Non-Executive	11/11
Mr. Dhammika Perera	Executive	09/11
Mr. S B Rangamuwa	Executive	11/11
Mr. T Murakami	Non-Executive	-
Mr. K D A Perera	Non-Executive	09/11
Mr. A Dadigama	Independent Non-Executive	10/11
Mr. S S Weerabahu	Executive	11/11
Mr. Janaka Kumarasinghe	Independent Non-Executive	11/11
Mr. H Ota (Alternate Director to Mr. T Murakami)	Non-Executive	10/11

### Audit Committee

An Audit Committee functions as a Sub-Committee of the Board. The names of the Directors who serve on the said Committees and attendance at meetings are given below.

Name of the member	Position	Meeting Attendance
Mr. A Dadigama	Independent Non-Executive Director	5/5
Mr. R M Karunaratne	Independent Non-Executive Director	4/5
Mr. T Murakami*	Non-Executive Director	0/5
Mr. S S Weerabahu**	Executive Director	5/5
Mr. J Kumarasinghe***	Independent Non-Executive Director	2/5

\*Ceased to be a member w.e.f. 27.06.2019

\*\*Ceased to be a member w.e.f. 19.12.2019 upon being re-designated as an Executive Director

\*\*\*Appointed w.e.f. 27.06.2019

The Report of the Audit Committee is given on pages 160 and 161 of this Annual Report.

### Remuneration Committee

A Remuneration Committee functions as a Sub-Committee of the Board. The names of the Directors who serve on the said Committees and attendance at meetings are given below.

Name of the member	Position	Meeting Attendance
Mr. J Kumarasinghe	Independent Non-Executive Director	1/1
Mr. R M Karunaratne	Independent Non-Executive Director	1/1
Mr. K D A Perera	Non-Executive Director	1/1

### Related Party Transactions Review Committee

A Related Party Transactions Review Committee functions as a Sub-Committee of the Board. The names of the Directors who serve on the said Committees and attendance at meetings are given below.

Name of the member	Position	Meeting Attendance
Mr. A Dadigama	Independent Non-Executive Director	4/4
Mr. R M Karunaratne	Independent Non-Executive Director	4/4
Mr. T Murakami*	Non-Executive Director	0/4
Mr. S S Weerabahu**	Executive Director	3/4
Mr. J Kumarasinghe***	Independent Non-Executive Director	2/4



## CORPORATE GOVERNANCE

\*Ceased to be a member w.e.f. 27.06.2019

\*\*Ceased to be a member w.e.f. 19.12.2019 upon being re-designated as an Executive Director

\*\*\*Appointed w.e.f. 27.06.2019

The Report of the Related Party Transactions Review Committee is given on page 162 of this Annual Report.

### Integrated Risk Management Committee

In compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 an Integrated Risk Management Committee functioned under the Chairmanship of Mr. J Kumarasinghe and consisted of senior management personnel supervising broad risk categories. The names of the Directors and Officers who serve on the said Committees and attendance at meetings are given below.

Name of the member	Position	Meeting Attendance
Mr. J Kumarasinghe***	Independent Non-Executive Director	3/4
Mr. R M Karunaratne*	Independent Non-Executive Director	1/4
Mr. A Dadigama	Independent Non-Executive Director	4/4
Mr. S B Rangamuwa	Executive Director	4/4
Mr. S S Weerabahu**	Executive Director	3/4
Mr. Niroshan Perera	Senior Deputy General Manager - Credit	4/4
Mr. K D Menaka Sameera	Senior Deputy General Manager - Finance & Administration	4/4
Mr. T U Amaraweera	Deputy General Manager - Asset Management	4/4

\*Ceased to be a member w.e.f. 27.6.2019

\*\*Ceased to be a member w.e.f. 19.12.2019

\*\*\*Appointed w.e.f. 27.06.2019

The Report of the Integrated Risk Management Committee is given on page 163 of this report.

### Compliance Officer

Ms. D D Wijayathilaka functions as the Compliance Officer to ensure compliance with the Regulatory and Statutory requirements and the laws and regulations governing Finance Companies, Public Listed Companies and business activities undertaken by the Company in general.

### The Management

The day-to-day operations of the Company are entrusted to the Corporate and Senior Management headed by the Managing Director/CEO. They ensure that risks and opportunities are identified

and required steps are taken to achieve targets within defined time frames and budgets.

### Financial Disclosures and Transparency

The financial statements of the Company are prepared in accordance with the revised Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS), the Companies Act, the Finance Business Act and the directions and rules issued thereunder. As a Listed Company, Vallibel Finance PLC publishes unaudited quarterly/half yearly Financial Statements and audited Financial Statements in compliance with the Listing Rules of the Colombo Stock Exchange and Finance Companies (publication of half yearly Financial Statements) Guideline No. 2 of 2006.

Messrs KPMG, Chartered Accountants, act as Independent Auditors of the Company. The Auditors are allowed to act

independently and without intervention from the Management or the Board of Directors to express an opinion on the financial statements of the Company. All the required information is provided for examination to the Auditors.

### Ethical Standards

The Company requires that all its employees maintain the highest standards of integrity in the performance of their duties and dealings on behalf of the Company.

The Company focuses on the training and career development of employees for the creation of an empowered and committed group of employees.

### Statutory Payments

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided for. Retirement gratuities have been



provided for in accordance with Sri Lanka Accounting Standards No.19, Employee Benefits.

### Compliance Statement

We confirm that throughout the year ended 31st March 2020 and as at the date of this Annual Report, the Company was compliant with the Listing Rules of the Colombo Stock Exchange and Finance Companies Direction No. 03 of 2008 on Corporate Governance and amendments thereto.

In addition, tables set out in pages 130 to 139 depict the extent of adherence with the Code of Best Practice on Corporate Governance, issued jointly by the ICASL and SEC. Further, the Company has complied with the provisions of the Companies Act No. 07 of 2007 and other statutes as applicable to the Company.

### Accountability and Disclosure

The members of the Board of Directors have reviewed in detail the Financial Statements to satisfy themselves that they present a true and fair view of the Company's affairs.

By Order of the Board  
**VALLIBEL FINANCE PLC**

**P W Corporate Secretarial (Pvt) Ltd**  
Secretaries

2nd June 2020

# CORPORATE GOVERNANCE

## Section one

The Finance Companies (Corporate Governance) Direction No. 3 of 2008 and subsequent amendments thereto on Corporate Governance for Licensed Finance Companies in Sri Lanka issued by Monetary Board of the Central Bank of Sri Lanka:

The disclosures below reflect the Company's compliance and the extent of its compliance with the above Direction which comprises nine subsections, namely:

1. The Responsibilities of the Board of Directors
2. Meetings of the Board
3. Composition of the Board
4. Fitness and Propriety of Directors
5. Delegations of Functions
6. The Chairman and Chief Executive Officer
7. Board Appointed Committees
8. Related Party Transactions
9. Disclosures

Directions	Extent of Compliance
<b>2. The Responsibilities of the Board of Directors</b>	
<b>2. (1) The Board of Directors shall strengthen the safety and soundness of the finance company by-</b>	
a) Approve, oversee and communicate the strategic objectives and corporate values;	<p><b>Complied with.</b> Strategic objectives and values are incorporated in the Board approved strategic plan and these have been communicated to the staff.</p> <p>The Board of Directors approves and oversees the implementation of strategies mainly through the monthly Board meetings and the Board's views relating to such strategies are communicated to the staff through management meetings.</p>
b) Approve the overall business strategy, including the overall risk policy and risk management procedures and mechanisms;	<p><b>Complied with.</b> A Board approved strategic plan is in place addressing the Company's overall business strategy.</p> <p>The Board provides direction in the development of short, medium and long term strategies of the Company. The Board approves and monitors the annual budget with updates on execution of the agreed strategies.</p> <p>The Board sub-committees namely, Audit Committee and the Integrated Risk Management Committee oversee the risk management aspect of the Company. The Board approved risk policy and risk management framework is also in place.</p>
c) Identify the risks and risk management procedures;	<p><b>Complied with.</b> Identifying major risks, establishing governance structures and systems to measure, monitor and manage those key risks are carried out mainly through the Board Integrated Risk Management Committee.</p> <p>Risk Reports are submitted to the Committee by the Management on a quarterly basis. The decisions and actions taken are submitted for Board's information where necessary.</p> <p>Please refer Risk Management report on page 144 to 155 and Integrated Risk Management Committee report on page 163 for further details.</p>



Directions	Extent of Compliance
d) Communication with all stakeholders;	<p><b>Complied with.</b> Board approved Communication Policy covering all stakeholders are in place.</p>
e) Review company's internal control systems and management information systems;	<p><b>Complied with.</b> Adequacy and integrity of the Company's internal control systems and management information systems are reviewed by the Board Audit Committee. The Committee is assisted in this function by Internal Audit.</p> <p>Internal Audit undertakes both regular and ad-hoc reviews of internal control systems and management information systems, the results of which are reported to the Audit Committee. The Committee appraises the scope and results of internal audit reports and system reviews. The decisions and actions taken are submitted for Board's information and/or action (if deemed necessary).</p>
f) Identify and designate the Key Management Personnel;	<p><b>Complied with.</b> The Board has identified and designated the Key Management Personnel, as defined in the Sri Lanka Accounting Standard (LKAS) 24 "Related Party Disclosures", who significantly influence policies, direct activities and exercise control over business activities of the Company.</p>
g) Authority and key responsibilities for the Board and Key Management Personnel;	<p><b>Complied with.</b> The key responsibilities of the corporate management personnel are defined in their job responsibilities, whilst the Directors derive their responsibilities from the regulations and directions, mainly, the Directions issued under the Finance Business Act No. 42 of 2011.</p>
h) Oversight of the affairs of the company by Key Management Personnel ;	<p><b>Complied with.</b> The Board of Directors formulates policies and exercises oversight of the affairs of the Company through the MD/CEO. Affairs of the Company by corporate management personnel are discussed at the monthly Board meetings and reviewed by the Board. Further, Board sub-committees and other committees separately review and monitor the designated areas of business operations and report to the Board as it deems necessary.</p>
<p>i) Periodically assess the effectiveness of its governance practices, including:</p> <p>i) the selection, nomination and election of Directors and appointment of Key Management Personnel;</p> <p>(ii) the management of conflicts of interests; and</p> <p>(iii) the determination of weaknesses and implementation of changes where necessary;</p>	<p><b>Complied with.</b> Evaluation of the Board's own governance practices are assessed by the Directors individually and collectively discussed/reviewed by the Board on a periodic basis.</p>
j) Succession plan for Key Management Personnel;	<p><b>Complied with.</b> A succession plan for Key Management Personnel is in place.</p>

## CORPORATE GOVERNANCE

Directions	Extent of Compliance
k) Regular meeting with the Key Management Personnel;	<b>Complied with.</b> The members of the senior management regularly make presentation and take part in discussions on their areas of responsibility at Board meetings, Board subcommittee meetings and other management committee meetings. The Directors have free and open contact with the Corporate and Senior Management of the Company.
l) Understand the regulatory environment;	<b>Complied with.</b> The Board is updated of the changes in the regulatory environment and new directions, circulars etc. issued are made available to the Directors.
m) Hire and oversight of External Auditors;	<b>Complied with.</b> The Audit Committee carries out the due diligence in hiring of the External Auditors and makes recommendations to the Board. The Committee reviews the work carried out by External Auditors including the audited accounts, management letter and any other documents referred to the Audit Committee. External Auditors attend Audit Committee meetings by invitation.
2 (2) Appointment of the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities	<b>Complied with.</b> The Chairman and the Chief Executive Officer have been appointed by the Board. The Chairman provides leadership to the Board and the Chief Executive Officer/Managing Director is responsible for effective management of the Company's operations. Functions and responsibilities of the Chairman and the MD/CEO have been defined and approved by the Board.
2 (3) Availability of a procedure determined by the Board to enable Directors to seek independent professional advice at the company's expenses	<b>Complied with.</b> The Directors are permitted to seek independent professional advice on any matters when deemed necessary at the Company's expense. A Board approved procedure is in place for this purpose.
2 (4) Deal with conflicts of interest	<b>Complied with.</b> Directors abstain from voting on any resolution in which the Directors have related party interests and he is not counted in the quorum for the relevant agenda item at the Board Meeting.
2 (5) Formal schedule of matters specially reserved for Board Decision	<b>Complied with.</b> The Board has a formal schedule of matters specifically reserved for the Board for decision to ensure that the direction and control is firmly under its authority.
2 (6) Disclosure of insolvency to the Director of the Department of Supervision of Non-Bank Financial Institutions	No such situations have arisen.
2 (7) Inclusion of an annual Corporate Governance Report on compliance with the corporate governance directions in the Annual Report	<b>Complied with.</b> This report serves the said requirement.
2 (8) Annual self-assessment by the directors and maintenance of such records	<b>Complied with.</b> The Company has adopted a scheme of self-assessment to be undertaken by each Director annually and filed with the Company Secretaries.





Directions	Extent of Compliance
<b>3. Meetings of the Board</b>	
3 (1) Regular Board meetings and circulation of written or electronic resolutions	<p><b>Not Complied.</b></p> <p>Board meetings are held at monthly intervals, mainly to review the performance of the Company and other relevant matters referred to the Board. Circulation of resolutions/papers to obtain Board's consent is minimised and resorted only when absolutely necessary.</p> <p>However there were only eleven Board meetings for the year 2019/2020 as the Board Meeting which scheduled for March 2020 was not held due to curfew imposed by the Government in controlling the spread of the COVID-19.</p>
3 (2) Inclusion of proposals by all Directors in the agenda	<p><b>Complied with.</b></p> <p>Annual calendar of Board meetings is issued at the beginning of the each calendar year enabling them to include matters and proposals in this regard.</p> <p>Agenda, draft minutes and Board papers are sent in advance, enabling Directors to submit their views, proposals and observations at the respective Board Meeting.</p>
3 (3) Adequate notice of Board meetings	<p><b>Complied with.</b></p> <p>Notice of Meeting is circulated to the Directors 7 days prior to the meeting for regular Board meetings which are held at monthly intervals. Reasonable notice is given before any special meeting.</p>
3 (4) Attendance of Directors at Board meetings	<p><b>Complied with.</b></p> <p>All Directors have attended at least two-thirds of the meetings held during the year and no Director has been absent from three consecutive regular Board meetings during the year 2019/2020. Refer page 115 for details of individual Directors' attendance at Board meetings.</p>
3 (5) Appoint and set responsibilities for Board Secretary	<p><b>Complied with.</b></p> <p>Secretary to the Board is P W Corporate Secretarial (Pvt) Ltd, a Company registered with the Registrar General of Companies as a qualified secretary under Registration No SEC/(2)2008/216.</p> <p>Secretary's primary responsibilities involve handling of secretarial services to the Board and shareholders meetings and carryout other functions specified in related laws and regulations.</p>
3 (6) Delegate responsibility to the Company Secretary to preparation of agenda for a Board meeting	<p><b>Complied with.</b></p> <p>The Company Secretary has been delegated with the responsibility of preparing the agenda for the Board meeting.</p>
3 (7) Directors' access to advice and services of the Company Secretary	<p><b>Complied with.</b></p> <p>All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed.</p>

## CORPORATE GOVERNANCE

Directions	Extent of Compliance
3 (8) Maintenance of Board Minutes	<p><b>Complied with.</b></p> <p>Minutes of Board Meetings are maintained by the Company Secretary. The minutes are approved at the subsequent Board meeting. Minutes are open for inspection by any Director.</p>
3 (9) Recording of Minutes of Board meetings in sufficient detail	<p><b>Complied with.</b></p> <p>Detailed minutes are maintained by the Company Secretary covering all requirements of this direction.</p>
<b>4. Composition of the Board</b>	
4 (1) The number of Directors	<p><b>Complied with.</b></p> <p>The Board comprised Eight Directors as 31st March 2020.</p>
4 (2) The total period of service of a Director	<p><b>Complied with.</b></p> <p>The total period of service of all Non-Executive Directors is less than 9 years as at date.</p>
4 (3) Appointment, election or nomination of an employee as a Director	<p><b>Complied with.</b></p> <p>The Board consists of eight members of whom three are Executive Directors. Accordingly, the number of Executive Directors does not exceed one-half of Directors of the Board.</p>
4 (4) Independent Non-Executive Directors and the criteria for independence	<p><b>Complied with.</b></p> <p>The Board comprises of three Independent Non-Executive Directors. Accordingly, the number of Independent Non-Executive Directors exceeds one-fourth of the total number of Directors on the Board.</p> <p>Based on declarations submitted by the Non-Executive Directors, the Board has determined that three Non-Executive Directors, namely Mr. R M Karunaratne, Mr. A Dadigama and Mr. J Kumarasinghe are 'Independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange and the Finance Companies (Corporate Governance) Direction No. 3 of 2008.</p>
4 (5) Appointment of Alternate Directors	<p>Not applicable as no Alternate Directors have been appointed to represent Independent Non-Executive Directors.</p>
4 (6) Skills and experience of Non-Executive Directors to bring an objective judgment	<p><b>Complied with.</b></p> <p>The Non-Executive Directors of the Board are eminent personnel and they possess extensive knowledge, expertise and experience in different business fields. Their detailed profiles are given on page 20 and 22.</p>
4 (7) Meetings of the Board with at least one half of Non-Executive Directors in the quorum	<p><b>Complied with.</b></p> <p>At all Board meetings held during the year 2019/2020, more than one half of the numbers of Directors that constitute the quorum were Non-Executive Directors.</p>
4 (8) Express identification of the Independent Non-Executive Directors in corporate communications and disclosing the details of Directors	<p><b>Complied with.</b></p> <p>Please refer page 114 of the Corporate Governance Report.</p>
4 (9) Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board	<p><b>Complied with.</b></p> <p>All new appointments to the Board are subject to regulatory provisions.</p>



Directions	Extent of Compliance
4 (10) Directors appointed to fill a casual vacancy to be re-elected at the first general meeting after their appointment	<b>Complied with.</b> All Directors appointed to the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment.
4 (11) Communication of reasons for removal or resignation of Directors	<b>Complied with.</b> Resignation of Directors and their reasons are duly communicated to the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and to shareholders, with immediate notification to the Colombo Stock Exchange (CSE).

### 5. Criteria to assess the fitness and propriety of Directors

5 (1) The age of a Director shall not exceed 70 years	<b>Complied with.</b> All Directors are below the age of 70 years as at 31st March 2020.
5 (2) Directors shall not hold office as a Director of more than 20 Companies/Societies/Corporate bodies including Associate and Subsidiary Companies	<b>Complied with.</b> No Director holds directorships of more than 20 companies/societies/bodies/institutions.

### 6. Delegation of Functions

6 (1) Delegation of work to the Management	<b>Complied with.</b> The Board is empowered by the Articles of Association to delegate any of their powers other than those exercisable exclusively by the Directors. The Board has delegated matters pertaining to the affairs of the Company to the Board Sub-committees within the scope of the respective terms of reference as approved by the Board and also to the CEO and other Key Management Personnel.  All delegations are made in a manner that would not hinder the Board's ability to discharge its functions.
6 (2) Review delegation of Board functions on a periodic basis	<b>Complied with.</b> The delegation process to the Board Sub-committees and to the CEO and Key Management Personnel is reviewed by the Board based on business requirements.

### 7. The Chairman and the Chief Executive Officer

7 (1) Division of Responsibilities of the Chairman and CEO	<b>Complied with.</b> The positions of the Chairman and the Chief Executive Officer are separate and performed by two different individuals.
7 (2) Designation of an Independent Non-Executive Director as the Senior Director when the Chairman is not an Independent Non-Executive Director	<b>Complied with.</b> The Chairman is an Independent Non-Executive Director.
7 (3) Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board Members	<b>Complied with.</b> The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO.  Directors Messrs K D D Perera and K D A Perera are of the same family. No relationships prevail among the other members of the Board, other than for Directors who are common Directors of certain Companies.

## CORPORATE GOVERNANCE

Directions	Extent of Compliance
7 (4) Role of the Chairman	<b>Complied with.</b> The Chairman provides leadership to the Board and ensures that the Board effectively discharges its responsibilities and that all key issues are discussed and resolved in a timely manner.
7 (5) Role of Chairman in the preparation of the agenda for Board meetings	<b>Complied with.</b> The Secretary to the Board draws up the agenda under the authority delegated by the Chairman. This agenda is approved by the Chairman of the Board. The Company Secretary circulates formal agenda prior to the Board Meeting.
7 (6) Ensure that all Directors are informed adequately and timely of the issues arising at Board meetings	<b>Complied with.</b> Board papers covering adequate information of matters to be taken up for discussions are circulated in advance prior to the meeting.
7 (7) Encourage all Directors to make an active contribution to Boards affairs	<b>Complied with.</b> All Directors are encouraged to actively participate in Board's affairs.
7 (8) Encourage participation of Non-Executive Directors and relationship between Executive and Non-Executive Directors	<b>Complied with</b> There is a constructive relationship among all Directors and they work together in the best interest of the Company.
7 (9) Avoidance of engaging in activities involving direct supervision of Key Management Personnel or executive duties by the Chairman	<b>Complied with</b> The Chairman is an Independent Non-Executive Director and does not engage in direct supervision of the Key Management Personnel or any other executive duties.
7 (10) Maintain effective communication with shareholders	<b>Complied with.</b> Effective communication with shareholders is maintained at the Annual General Meeting providing opportunity for them to express their views and recommendations.
7 (11) Role of the Chief Executive Officer	<b>Complied with.</b> The Chief Executive Officer/Managing Director functions as the apex Executive-In-Charge of the day-to-day management of the Company's operations and business.

### 8. Board appointed Committees

8 (1) Establishing Board committees, their functions and reporting	<p><b>Complied with.</b></p> <p>The following Board Sub-Committees have been appointed by the Board;</p> <ol style="list-style-type: none"> <li>1. Remuneration Committee</li> <li>2. Audit Committee</li> <li>3. Integrated Risk Management Committee</li> <li>4. Related Party Transactions Review Committee</li> </ol> <p>Each committee reports directly to the board. The Company Secretary functions as the Secretary to these Committees.</p> <p>The Reports of the Audit Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee are given on pages 160 to 163 of this Annual Report.</p>
--	---



Directions	Extent of Compliance
<b>8 (2) Audit Committee</b>	
a) The Chairman to be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit	<b>Complied with.</b> The Chairman of Audit Committee is an Independent Non-Executive Director and possesses qualifications and related experience. Qualifications and experience are disclosed in page 21 of the Annual Report.
b) All members of the Committee to be Non-Executive Directors	<b>Complied with.</b> All the members of the Audit Committee are Non-Executive Directors.
c) Functions of Audit Committee;	<b>Complied with.</b> In accordance with the Terms of Reference, the Committee has made the following recommendations:
(i) the appointment of the External Auditor;	1. The appointment of Messrs KPMG, Chartered Accountants as the External Auditor for audit services to be provided in compliance with the relevant statutes.
(ii) the implementation of the Central Bank guidelines;	2. The implementation of CBSL Guidelines applicable to the Auditors.
(iii) the application of the relevant accounting standards; and	3. Application of relevant Accounting Standards
(iv) the service period, audit fee and any resignation or dismissal of the Auditor	4. The service period, audit fee and any resignation or dismissal of the auditor  Complied with the requirement that the engagement of the audit partner does not exceed five years.
d) Review and monitor External Auditors' independence and objectivity and the effectiveness of audit processes	<b>Complied with.</b> The Committee reviews and monitors the External Auditors' independence, objectivity and the effectiveness of the audit processes.  The Audit Committee also reviews the nature and scope of the external audit taking to account of the regulations and guidelines.
e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services	<b>Complied with.</b> In the instances where non-audit services are obtained from the External Auditor, prior approval is obtained from the Audit Committee. The Audit Committee evaluates the Company's requirement, nature of the non-audit service required by the Company, fee structure, skills and the experience required to perform the said service of such Auditors. If the Audit Committee is of the view that the independence is likely to be impaired with the assignment of any non-audit service to External Auditors, no assignment will be made to obtain such services.
f) Determine the nature and the scope of the External Audit	<b>Complied with.</b> The Committee has discussed and finalised the nature and the scope of audit, with the External Auditors before the audit commences.
g) Review the financial information of the Company	<b>Complied with.</b> Meetings of the Audit Committee are convened for this purpose.  The Annual and Quarterly Financial Statements are reviewed by the Audit Committee in order to ascertain the quality and integrity of the financial information prepared by the Finance Department and their reviews/comments and recommendations submitted to the Board for the final review and approval.

## CORPORATE GOVERNANCE

Directions	Extent of Compliance
h) Discussion of issues, problems and reservations arising from the interim and final audits with the External Auditor	<b>Complied with.</b> During the year under review the Committee met the External Auditors to discuss issues, problems and reservations relating to audit.
i) Review of the External Auditors' management letter and the management's response	<b>Complied with.</b> The Committee has reviewed the External Auditors' Management Letter and the management response thereto. Follow up action was taken accordingly.
j) Review of the Internal Audit Function; (i) Review scope, function and resources; (ii) Review of Internal Audit Programme; (iii) Review of Internal Audit Department; (iv) Recommendations on Internal Audit functions; (v) Appraise the resignation of senior staff of Internal Audit and any outsourced service providers; (vi) Independence of Internal Audit functions	<b>Complied with.</b> The Company's Internal Audit function is carried out by an in-house internal audit department and also the outsourced service provider - Ernst & Young Advisory Service (Pvt) Limited. The Company established an own in-house Internal Audit Department during the year. Moreover, Messers Ernst and Young, Chartered Accountants provided assistance in carrying out branch and specialised audit assignments.  The Internal Audit plan is reviewed and approved by the Audit Committee at the beginning of each financial year.  Audit reports are tabled at the Audit Committee meeting by the Internal Auditors and the relevant items are discussed in detail with suitable action agreed upon. Where required, the Management is invited to attend the meeting to provide clarifications.  Performance of Internal Auditors is reviewed by the Audit Committee.  The Internal Audit function is an independent function which directly reports to the Board Audit Committee and the audits are performed with impartiality and due professional care.
k) Consider the major findings of internal investigations and management's response	<b>Complied with.</b> Significant findings of investigations carried out by the Internal Auditors along with the responses of the Management are tabled and discussed at Audit Committee meetings.
l) Participants of Audit Committee meetings	<b>Complied with.</b> The Chief Executive Officer, Senior Deputy General Manager - Finance & Administration, representatives of the Internal Auditors (outsourced) and in-house Internal Audit Manager generally attend meetings. Where it is deemed necessary, other members of the corporate management are invited to attend the meeting.  During the year under review the Committee met two times with the External Auditors.
m) Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary	<b>Complied with.</b> The terms of reference of the Board Audit Committee include scope and responsibilities of the Committee.  The Audit Committee is authorised to obtain external professional advice and to invite outsiders with relevant experience to attend meetings if necessary. The Committee also has full access to information in order to investigate into matters relating to any affair within its terms of reference.





Directions	Extent of Compliance
n) Meetings of Audit Committee	<b>Complied with.</b> The Audit Committee meets regularly and members of the Committee are provided with due notice of issues to be discussed. Minutes of the meetings are maintained by the Company Secretary.
o) Disclosures in the Annual Report	<b>Complied with.</b> The Report of the Board Audit Committee is on pages 160 to 161 and includes the detailed activities, meetings held during the year and the Directors attendance at the Audit Committee Meetings.
p) Recording and maintenance of minutes of meetings	<b>Complied with.</b> The Company Secretary functions as the Secretary to the Committee and records and maintains detailed minutes of the Committee meeting.
q) Whistle-blowing policy and relationship with External Auditors	<b>Complied with.</b> A Whistle Blower Policy is in place which covers these aspects and significant findings are reported to the Audit Committee for appropriate follow-up action.  The Audit Committee is the key representative body for overseeing the Company's relations with the External Auditor and meets the Auditor on periodic basis to discharge this function.
<b>8 (3) Integrated Risk Management Committee</b>	
The following shall apply in relation to the Integrated Risk Management Committee (IRMC):	
a) Composition of Integrated Risk Management Committee	<b>Complied with.</b> Committee consists of two Independent Non-Executive Directors, one Executive Director including Managing Director/CEO, Senior Deputy General Manager - Credit, Senior Deputy General Manager - Finance & Administration and Deputy General Manager - Asset Management who supervises broad risk categories as detailed in this Direction.  Any other Key Management Personnel and staff are invited as and when the Committee needs their presence.
b) Periodical risk assessment	<b>Complied with.</b> Key risks are assessed on a regularly basis through appropriate risk indicators and management information and reported to the respective Management Committees and summary reports are submitted to the Board Integrated Risk Management Committee at quarterly intervals for necessary guidance.  Please refer Risk Management Report on page 144 to 155 for further details.
c) Review the adequacy and effectiveness of Management level committees	<b>Complied with.</b> Minutes of management level committees are submitted to the Committee to review the adequacy and effectiveness of the Committee.
d) Corrective action to mitigate the effect of risks exceeding the prudent levels decided by the Committee	<b>Complied with.</b> All risk indicators which exceeds the specified quantitative and qualitative risk limits are reviewed and discussed for action. The progress of rectification of the position and implementation of the recommendations are also being monitored closely by the Committee.
e) Frequency of meetings	<b>Complied with</b> The Board Integrated Risk Management Committee meetings are held at quarterly intervals.

## CORPORATE GOVERNANCE

Directions	Extent of Compliance
f) Action against officers for failure to identify specific risks and take prompt corrective action.	<b>Complied with</b> The Internal Audit identifies lapses of this nature and makes recommendations to the Board Audit Committee to initiate actions against officers where material failures to meet risk management responsibilities are observed.
g) Submission of risk assessment report to the Board	<b>Complied with</b> The minutes of the meetings are submitted to the next immediate Board meeting together with the recommendation and risk reports.
h) Establishment of a compliance function	<b>Complied with</b> The Committee has established a separate compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations.  The Company has appointed a Compliance Officer and the Compliance Officer submits a Compliance Report to the Board at its meetings held monthly and quarterly to the Integrated Risk Management Committee.

### 9. Related party transactions

9 (2) Avoid conflicts of the interest that arise from transactions of the Company with related parties	<b>Complied with.</b> The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties.  The Related Party Transaction Review Committee was established in August 2015 in line with Listing Rules of the Colombo Stock Exchange.  The Report of the Related Party Transactions Review Committee is given on page 162.
9 (3) Related party transactions covered in the direction	<b>Complied with.</b> Information in this regard, is disclosed in Note 49 on "Related Party Disclosures" in the Financial Statements.
9 (4) Monitoring of related party transactions defined as more favourable treatment	<b>Complied with.</b> The Board approved Related Party Transaction Policy provides for the procedure to ensure that the Company does not engage in transactions with related parties in a manner that would grant such parties "more favourable treatment" as defined in this Direction.

### 10. Disclosure

10 (1) Prepare and publish Interim and Annual Financial Statements based on applicable accounting standards and publish in the newspapers in an abridged form, in Sinhala, Tamil and English	<b>Complied with.</b> The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS) and the formats prescribed by the Supervisory Regulatory Authorities and that such statements are published in the newspapers in all three languages.  Interim (unaudited) Financial Statements as well as Audited Financial Statements are submitted to the Colombo Stock Exchange (CSE) and the financials are made available on the website of CSE.
--	--



Directions	Extent of Compliance						
<b>10 (2) Responsibility of the Board to ensure the following disclosures are made in the Annual Report:</b>							
a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures	<b>Complied with.</b> Relevant disclosures are included in page 168 of the Annual Report under "Statement of Directors Responsibilities".						
b) A report by the Board on the finance company's internal control mechanism	<b>Complied with.</b> "Directors' Statement on Internal Control System Over Financial Reporting" is given on page 167.						
c) External Auditors' certification on the effectiveness of the internal control mechanism	<b>Complied with.</b> The Company has obtained a certification from the External Auditors on the effectiveness of the internal control mechanism over financial reporting.						
d) Details of Directors, including names, transactions with the finance company	<b>Complied with.</b> Profiles of Directors are given on pages 20 to 22. Aggregate fees and expenses paid to the Board of Directors during the year amounted to Rs. 6.46 Mn and deposits held as at 31st March 2020 amounted to Rs. 443.30 Mn.						
e) Fees/remuneration paid by the finance company to the Directors in aggregate	<b>Complied with.</b> This has been disclosed in Note 49 to the Financial Statements.						
f) Net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds	<b>Complied with.</b> There were no accommodations outstanding in respect of related parties.						
g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel	<b>Complied with.</b> The aggregate amount of remuneration paid during the year to Key Management Personnel (Board and selected members of Corporate Management) and the transactions with Key Management Personnel are given below. <table border="1"> <thead> <tr> <th></th><th>Rs. Mn</th></tr> </thead> <tbody> <tr> <td>Compensation to KMP</td><td>136.91</td></tr> <tr> <td>Deposits Held</td><td>461.74</td></tr> </tbody> </table>		Rs. Mn	Compensation to KMP	136.91	Deposits Held	461.74
	Rs. Mn						
Compensation to KMP	136.91						
Deposits Held	461.74						
h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls	<b>Complied with.</b> This has been disclosed under the "Corporate Governance Report" and "Annual Report of the Board of Directors on the affairs of the Company".						
i) Non-compliance reporting	<b>Not applicable</b> There were no significant supervisory concerns on lapses in the Company's risk management system or non-compliance with these Directions that have been pointed out by the Director of the Non-Bank Supervision Department of the CBSL and requiring disclosure to the public.						
j) External Auditors' certification of compliance	<b>Complied with.</b> The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these regulations.  The findings presented in their report addressed to the Board did not identify any inconsistencies to those reported above.						

# CORPORATE GOVERNANCE

## Section Two

Code of Best Practice on Corporate Governance issued jointly by the Securities And Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in 2013;

The disclosures below reflect the Company's compliance and the extent of the above Code of Best Practice which comprises of seven subsections, namely:

1. Directors
2. Directors' Remuneration
3. Relations with Shareholders
4. Accountability and Audit
5. Institutional Investors
6. Other Investors
7. Sustainable Reporting

Code Ref.	Principle	Extent of Compliance
<b>A. Directors</b>		
<b>A.1 The Board</b>		
A.1	Effective Board, which should direct, lead and control the Company	<p><b>Complied with.</b></p> <p>As at the end of the year under review, the Board comprised of three Executive and five Non-Executive Directors who are eminent professionals with extensive experience in the different business sectors, including leaderships in quoted companies.</p> <p>Mr. S B Rangamuwa is the Managing Director/ Chief Executive Officer to whom the day-to-day management of the Company's operations and business has been delegated. The Board has appointed Sub-Committees to assist in discharging its responsibilities and also approve policies, governance structures and the delegation of authority to provide a conducive business environment for effective performance of the Company.</p>
A.1.1	Board meetings	<p><b>Complied with.</b></p> <p>Regular Board meetings are held at monthly intervals and the Board met 11 times during the year under review. See 'Board Meetings' on page 115.</p>



Code Ref.	Principle	Extent of Compliance
A.1.2	<p><b>Board responsibilities</b></p> <p>Formulation and implementation of a sound business strategy;</p> <p>Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy;</p> <p>The adoption of an effective CEO and Key Management Personnel succession strategy;</p> <p>An effective system to secure integrity of information, internal controls, business continuity and risk management;</p> <p>Compliance with laws, regulations and ethical standards;</p> <p>All stakeholder interests are considered in corporate decisions;</p> <p>Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations; and</p> <p>Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned.</p>	<p><b>Complied with.</b></p> <p>The Board provides strategic direction to the development of short, medium and long term strategy and monitors the performance against agreed goals and key performance indicators through regular Board meetings.</p> <p>Please refer response to requirement 2 (1) a) and b) of Section One, the Finance Companies (Corporate Governance) Direction No. 3 of 2008 on page 118 for details.</p> <p>The Board has put in place a Corporate Management team led by the MD/CEO who possess required skills, experience and knowledge necessary to implement the strategy.</p> <p>Refer 2 (1) j) on page 119 of Section One.</p> <p>The Board reviews effectiveness of internal control and risk management system on a continuous basis through the Audit Committee and Integrated Risk Management Committee. Please refer 'Director's Statement on Internal Control Over Financial Reporting', 'Audit Committee Report' and 'Integrated Risk Management Committee Report' on pages 167,160,161 and 163 for details.</p> <p>Compliance function is in place to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business.</p> <p>The views/impact on all stakeholders is considered when corporate decisions are made at Board meetings.</p> <p>Refer 8 (2) g) and 10 (1) on page 125 and 128 of Section One.</p> <p>The Board is committed to fulfilling such other functions that are required according to the business environment.</p>
A.1.3	Compliance with laws and seeking independent professional advice	<p><b>Complied with.</b></p> <p>The Board collectively, and Directors individually are conscious of their responsibility to comply with laws applicable to the Company.</p> <p>The Directors are permitted to seek independent professional advice at the Company's expense as and when such advice is required.</p>
A.1.4	Access to the advice and services of the Company Secretary	<p><b>Complied with.</b></p> <p>Please refer response to requirement 3 (7) to (8) of the Section One on page 121 and 122 for details on advice and services of Company Secretary.</p> <p>The removal of the Company Secretary is a matter to be considered by the Board as a whole.</p>

## CORPORATE GOVERNANCE

Code Ref.	Principle	Extent of Compliance
A.1.5	Independent judgment of Directors	<b>Complied with.</b> Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.
A.1.6	Dedication of adequate time and effort by the Board	<b>Complied with.</b> Directors devote adequate time for Board meetings as well as Board Sub-committee meetings to ensure that the duties and responsibilities are satisfactorily discharged. Agenda, draft minutes and Board papers are sent in advance to the Board to dedicate sufficient time before a meeting to review Board papers and call for additional information and clarification.
A.1.7	Training for Directors	<b>Complied with.</b> A newly appointed Director is given appropriate induction with regard to the affairs of the Company and laws and regulations applicable to the Company.
<b>A.2 Chairman &amp; Chief Executive Officer (CEO)</b>		
A.2	Separation of the roles and responsibilities of the Chairman and CEO to ensure a balance power and authority, such that no one individual has unfettered powers of decision.	<b>Complied with.</b> The positions of the Chairman and the CEO have been separated. The Chairman is responsible for leading the Board and for its effectiveness. The Managing Director (MD) is the Chief Executive Officer who is responsible for managing the Company's business.
A.2.1	Justification to combine the posts of Chairman and Chief Executive Officer	Not applicable.
<b>A.3 Chairman's Role</b>		
A.3.1	Role of the Chairman	<b>Complied with.</b> The Chairman provides leadership to the Board and encourages an active contribution of both Executive and Non-Executive Directors to the Board's affairs and maintains balance of power between Executive and Non-Executive Directors.  Please refer 7 (4) to (10) on page 124 of Section One for further details.
<b>A.4 Financial Acumen</b>		
A.4	Financial acumen and knowledge	<b>Complied with.</b> The Board has adequate number of Directors who have financial acumen and knowledge to contribute and offer guidance to the Board on matters of finance.  Please refer pages 20 and 22 for the Profiles of the Directors.
<b>A.5 Board Balance</b>		
A.5.1	Have a balance of Executive & Non-Executive Directors	<b>Complied with.</b> Board maintains the required balance of Executive and Non-Executive Directors on the Board. The Board consists of three Executive Directors and five Non-Executive Directors of whom three are independent as well. As the majority of the Board comprises Non Executive Directors, their opinions and views carry significant weight in the Board's decisions.





Code Ref.	Principle	Extent of Compliance
A.5.2 & A. 5.3	Independence of Non Executive Directors	<b>Complied with.</b> Three Independent Non-Executive Directors are independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.
A.5.4 & A.5.5	Board to determine annually as to the Independence or Non-Independence of Non-Executive Directors	<b>Complied with.</b> The Board determines the Independence and Non-Independence of the Non-Executive Directors based on the declarations submitted by them and also based on the extent of independence as defined in the Finance Companies (Corporate Governance) Direction No. 3 of 2008.
A.5.6	Appointment of an Alternate Director	<b>Complied with.</b> All persons who are appointed as Alternate Directors to existing Directors of the Board are subject to the same criteria applicable to Directors.
A.5.7 & A.5.8	Appointment of Senior Independent Non-Executive Director and make himself available for confidential discussion with other Directors.	Appointment of Senior Independent Non-Executive Director is not required as the Chairman is an Independent Non-Executive Director.
A.5.9	Meetings only with Non-Executive Directors	<b>Complied with.</b> Chairman meets with the Non-Executive Directors without the presence of Executive Directors, whenever necessary.
A.5.10	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved	<b>Complied with.</b> The Board Minutes include concerns raised by Directors and also the ultimate decisions made by the Board.
<b>A.6 Supply of Information</b>		
The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.		
A.6.1	Obligation of the Management to provide appropriate and timely information to the Board	<b>Complied with.</b> Timely and adequate information is provided by Management to the Board which is circulated to the Directors in advance for regular meetings. The Management also provides additional information as and when required by the Board members.
A.6.2	Adequate Notice for Board Meetings	<b>Complied with.</b> Please refer response to requirement 3 (3) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 on page 121 for details.
<b>A.7 Appointments to the Board</b>		
A.7.1 & A.7.2	Formal and transparent procedure for appointment of new Directors to the Board and Assessment of Board composition	<b>Complied with.</b> Refer comments under Section 4 (9) of the Finance Companies Corporate Governance Direction.
A.7.3	Disclosure of information to shareholders upon appointment of new Directors.  This shall include brief profile of the Director; the names of companies in which the Director holds directorships or memberships in Board committees; and whether such Director can be considered independent.	<b>Complied with.</b> Details of new Directors are disclosed to the shareholders through a Colombo Stock Exchange (CSE) announcement at the time of their appointment. Prior approval for appointment of new Directors is obtained from the CBSL in accordance with the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No.03 of 2011.

## CORPORATE GOVERNANCE

Code Ref.	Principle	Extent of Compliance
<b>A.8 Re-election</b>		
A.8.1 & A.8.2	All Directors should be subject to reelection by shareholders at first opportunity after appointment and should be submitted for re-election regularly or at least once in every three years.	<p><b>Complied with.</b></p> <p>Re-election of Directors is carried out in accordance with the provisions of the Articles of Association.</p> <p>All Directors appointed to the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment.</p> <p>One Director is required to retire by rotation at each AGM. Article 88 provides that the Directors to retire by rotation at an AGM shall be those who, (being subject to retirement by rotation), have been longest in office, since their last election or appointment.</p>
<b>A.9 Appraisal of Board performance</b>		
A.9.1 – A.9.3	Periodic appraisal of Board's performance to ensure that their responsibilities are effectively discharged.	<p><b>Complied with.</b></p> <p>Refer 2 (8) on page 120 of Section One.</p>
<b>A.10 Disclosure of Information in respect of Directors</b>		
Shareholders should be kept advised of relevant details in respect of Directors.		
A.10.1	Disclosure of information on Directors in the Annual Report	<p><b>Complied with.</b></p> <ol style="list-style-type: none"> <li>1. Information pertaining to Directors is disclosed in the following sections of this Annual Report.</li> <li>2. Name, qualifications, expertise, material business interests and brief profiles on pages 20 to 22.</li> <li>3. Related party transactions are given in Note No 49 to the Financial Statements on pages 231 to 233.</li> </ol> <p>Membership of Sub-Committees and attendance at Board Meetings on pages 115 &amp; 116.</p>
<b>A.11 Appraisal of Chief Executive Officer</b>		
A.11.1 & A.11.2	Requirement for Board to at least annually assess the performance of the CEO	<p><b>Complied with.</b></p> <p>Managing Director/CEO's performance targets are aligned with the short, medium and long term objectives of the Company. Targets are set at the beginning of every financial year by the Board and at the end of each financial year the Board evaluates the set targets and the actual performance.</p>
<b>B Directors' Remuneration</b>		
<b>B.1 Remuneration Procedure</b>		
The Company should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.		
B.1.1	Establishment of a Remuneration Committee	<p><b>Complied with.</b></p> <p>The Board has established a Remuneration Committee to make recommendations to the Board in determining remuneration of the Managing Director. No Director is involved in deciding his own remuneration.</p>



Code Ref.	Principle	Extent of Compliance
B.1.2	Remuneration Committee to comprise exclusively of Non-Executive Directors	<b>Complied with.</b> All members of the Committee are Non-Executive Directors two of whom are independent as well. The committee members are;  1. Mr. J Kumarasinghe - Independent Non-Executive Director 2. Mr. R M Karunaratne - Independent Non-Executive Director 3. Mr. K D A Perera - Non-Executive Director
B.1.3	Membership to be disclosed in the Annual Report	<b>Complied with.</b> Disclosed in the page 158 of the 'Annual Report of the Board of Directors on the Affairs of the Company'.
B.1.4	Remuneration of Non- Executive Directors	<b>Complied with.</b> The Non-Executive Directors receive a fee for being a Director of the Board and additional fee whenever they serve on Board sub-committees.
B.1.5	Consultation with Chairman and/ or CEO for remuneration proposals and access to professional advice	<b>Complied with.</b> Chairman and CEO are consulted for proposals relating to the compensation packages of other Executive Directors and independent advice is also resorted as deemed necessary.

## B.2 Level and make up of Remuneration

Levels of remuneration of both Executive and Non - Executive Directors should be sufficient to attract and retain the Directors. Proportion of Executive Directors' remuneration should be linked to corporate and individual performance.

B.2.1 - B.2.9	Level and make up of remuneration of Executive Directors including performance element in pay structure	<b>Complied with.</b> The Remuneration Committee recommends the remuneration payable to the Managing Director and Executive Directors. The Board makes the final determination after considering such recommendations.
	Remuneration packages in line with industry practices	The remuneration packages offered by the Company are linked to the corporate and individual performances and are aligned with the market/industry rates.
	Executive share option	No share options schemes have been offered to the Executive Directors.
	Non-Executive Directors remuneration	Non-Executive Directors of the Company are paid a fee in line with the market practices.

## B.3 Disclosure of Remuneration

Requirement for Annual Report to contain a Statement of Remuneration Policy and details of Board's remuneration as a whole.

B.3.1	Composition of Remuneration Committee, Remuneration Policy and disclosure of aggregate remuneration paid to Executive and Non-Executive Directors	<b>Complied with.</b> Refer 'Annual Report of the Board of Directors on the Affairs of the Company' on page 158 for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Company.  The remuneration paid to the Board of Directors is disclosed in aggregate in Note No 49 to the Financial Statements on page 231.
-------	---	---

## C. Relations with Shareholders

### C.1 Constructive use of Annual General Meeting (AGM) and Conduct of General Meetings

The Board should use the Annual General Meetings to communicate with shareholders and encourage their active participation.

## CORPORATE GOVERNANCE

Code Ref.	Principle	Extent of Compliance
C.1.1	Counting of proxy votes	<b>Complied with.</b> All proxy votes lodged, together with the votes of shareholders present at the AGM are considered for each resolution.
C.1.2	Separate resolutions for each substantially separate issue	<b>Complied with.</b> A separate resolution is proposed at the AGM for each substantially separate issue.
C.1.3	Heads of Board Sub-committees to be available to answer queries	<b>Complied with.</b> In the absence of the Chairman of the respective Committee, a co-member will attend to queries raised.
C.1.4	Notice of Annual General Meeting to be sent to shareholders with other related papers as determined by statute, before the meeting.	<b>Complied with.</b> Notice of the AGM, Form of Proxy and a copy of the Annual Report are sent to all shareholders at least 15 working days prior to the meeting in accordance with the provisions of the Companies Act of 2007, CSE Rules and the Articles of Association of the Company.
C.1.5	Summary of procedures governing voting at general meetings to be circulated.	<b>Complied with.</b> Notice of Annual General Meeting and proxy form provides instructions for shareholders about voting procedures.
<b>C.2 Communication with Shareholders</b>		
C.2.1 – C. 2.7	The Board should implement effective communication with shareholders.	<b>Complied with.</b> The main communication method with the shareholders is the Annual Report and AGM. Information is provided to the shareholders prior to the AGM, enabling them to raise/submit their views, suggestions and observations relating to the Company.  A person to contact in relation to shareholders is the Company Secretary. The Company Secretary shall maintain a record of all correspondence received and will convey such correspondence to the Board.
<b>C.3 Major and Material transactions</b>		
Directors should disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company, if entered into.		
C.3.1	Disclosure to shareholders of all material facts concerning any proposed transaction involving acquisition, sale or disposition of greater than one third of the value of the Company's assets.	There were no major transactions necessitating disclosure of this nature.
<b>D. Accountability And Audit</b>		
<b>D.1 Financial Reporting</b>		
D.1	Requirement for Board to present a balanced and understandable assessment of the Company's financial position, performance and prospects	<b>Complied with.</b> The Company's position and prospects have been discussed in detail in the following sections of this Annual Report. 1. Chairman's Statement on pages 14 to 15 2. Managing Director's Message on pages 16 to 18 3. Management Discussion and Analysis on pages 27 to 111 4. Financial Performance Review on pages 62 to 71



Code Ref.	Principle	Extent of Compliance
D.1.1	Present interim and other price sensitive public reports and mandated reports to regulators by statute	<p><b>Complied with.</b></p> <p>The Board's responsibility over financial reporting is stated in the 'Statement of Directors' Responsibilities' on page 167 and 168.</p> <p>In the preparation of quarterly and annual financial statements, the Company complies with the requirements of the Companies Act No 07 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto, and financial statements are prepared and presented in conformity with Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS).</p> <p>The Company complies with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka.</p>
D.1.2	Declarations by Directors in the Directors' Report	<p><b>Complied with.</b></p> <p>Declarations/confirmations pertaining to this Principle are disclosed in the 'Annual Report of the Board of Directors on the affairs of the Company' on pages 156 to 159.</p>
D.1.3	Statements by Directors and Auditors on Responsibility for Financial Reporting	<p><b>Complied with.</b></p> <p>The 'Statement of Directors' Responsibilities' is given on page 168 and 'Directors' Statement on internal control system over financial reporting' is given on page 167.</p> <p>See 'Independent Auditor's Report' on pages 170 to 173 for the reporting responsibility of Auditors.</p>
D.1.4	Include a Management Discussion and Analysis	<p><b>Complied with.</b></p> <p>Please refer 'Management Discussion and Analysis' on page 27 to 111 and 'Financial performance Review' on pages 62 to 71.</p>
D.1.5	Board should report that the business is a going concern with all the supporting assumptions and qualifications as necessary.	<p><b>Complied with.</b></p> <p>Reported in the 'Annual Report of the Board of Directors on the affairs of the Company' and in the 'Statement of Directors' Responsibilities' published in this Annual Report.</p>
D.1.6	Remedial action at an Extra ordinary General Meeting if net assets fall below 50% of value of shareholders' funds	<p>This situation has not arisen.</p>
D.1.7	Disclosure of Related Party Transactions adequately and accurately	<p><b>Complied with</b></p> <p>Related Party Transactions as defined in Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Disclosures' is disclosed in Note No 49 to the Financial Statements on page 231 to 233 .</p> <p>Please refer responses to requirements of section 9 of the Finance Companies Corporate Governance Direction on page 128 for further details.</p>
<b>D.2 Internal Control</b>		
D.2	Maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets	<p><b>Complied with.</b></p> <p>The Board is responsible for establishing and overseeing the adequacy and integrity of the Company's internal control systems and the Audit Committee assists the Board in discharging this responsibility. Internal Audit reviews of the adequacy and effectiveness of the internal control systems are reported on a regular basis to the Board Audit Committee.</p> <p>The overall risk management has been assigned to the Integrated Risk Management Committee of the Board.</p>

## CORPORATE GOVERNANCE

Code Ref.	Principle	Extent of Compliance
D.2.1	Annual evaluation of the risks facing the Company and the effectiveness of the system of internal controls	<p><b>Complied with.</b> Adequacy and integrity of the Company's internal control systems is reviewed by the Board Audit Committee and the Integrated Risk Management Committee assesses all aspects of risk management on a quarterly basis or more frequently as it deems necessary.</p> <p>The minutes of the Board Committee meetings are tabled at the meetings of the Board of Directors for their information and action.</p> <p>The Board's Statement on the effectiveness of the Company's internal control mechanism is presented in the 'Directors' Statement on internal control system over financial reporting' in this Annual Report.</p> <p>The Company obtained the External Auditors' Certification on the effectiveness of the internal control mechanism over financial reporting.</p>
D.2.2	Internal audit function	<p><b>Complied with.</b> The Company's internal audit function has been outsourced and carried out by Ernst &amp; Young Advisory Service (Pvt) Limited. Internal Audit reports are discussed at the Audit Committee meeting and appropriate recommendations/actions are agreed upon based on those findings.</p> <p>The development of an in-house internal audit department is also in progress.</p>
D.2.3	Audit Committee to carryout reviews of the process and effectiveness of risk management and internal controls and documents to the Board	<p><b>Complied with.</b> Described in response to D.2.1 above.</p>
<b>D.3 Audit Committee</b> Formal and transparent arrangements to be in place for selection and application of accounting policies, financial reporting & internal control principles and maintaining appropriate relationship with the Company's Auditors.		
D.3.1	Composition of the Audit Committee	<p><b>Complied with.</b> All members of the Board Audit Committee, including the Chairman are Non-Executive Directors and all members are Independent Non-Executive Directors as well.</p>
D.3.2	Duties of the Audit Committee	<p><b>Complied with.</b> The Audit Committee monitors and reviews the scope, results and effectiveness of the audit and the independence and objectivity of the External Auditors.</p> <p>Please refer responses to requirements of section 8 (2) of the Finance Companies Corporate Governance Direction on page 125 to 127 for further details.</p>
D.3.3	Terms of Reference of the Audit Committee	<p><b>Complied with.</b> The Audit Committee is guided by the Board approved Terms of Reference which specifies the authority and responsibility of the Committee.</p>
D.3.4	Disclosures of the Audit Committee	<p><b>Complied with.</b> Please refer 'Audit Committee Report' on pages 160 and 161 of this Annual Report.</p>





Code Ref.	Principle	Extent of Compliance
<b>D.4 Code of Business Conduct and Ethics</b>		
Requirement to adopt a Code of Business Conduct and Ethics for Directors and members of senior management with due disclosures of waivers.		
D.4.1 & D.4.2	Disclosure whether the Company has a Code of Business Conduct and Ethics for directors and key management personnel with an affirmative statement of Chairman	<b>Moving towards compliance.</b> The Company is in the process of developing a Code of Business Conduct and Ethics.
<b>D.5 Corporate Governance Disclosures</b>		
Requirement to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.		
D.5.1	Disclosure of Corporate Governance	<b>Complied with.</b> This requirement is met through the presentation of this report.
<b>E. Institutional Investors</b>		
<b>E.1 Shareholder Voting</b>		
Institutional shareholders to make use of their votes to encourage their voting intentions are translated into practice.		
E.1.1	Regular dialogue to be maintained with shareholders and Chairman to communicate shareholders' views to the Board.	<b>Complied with.</b> The Annual General Meeting is the forum utilised by the Board to have an effective dialogue with shareholders. All shareholders are encouraged to participate and vote at the Annual General Meeting (AGM).
<b>E.2 Evaluation of Governance Disclosures</b>		
E.2	Encourage institutional investors to give due weight to relevant governance arrangements	<b>Complied with.</b> Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition when evaluating governance arrangements.
<b>F. Other Investors</b>		
<b>F.1 Investing/Divesting Decision</b>		
F.1	Adequate analysis or seek independent advice	<b>Complied with.</b> Individual shareholders investing directly in the company are encouraged to carry out adequate analysis in investing or divesting decisions.
<b>F.2 Shareholder Voting</b>		
F.2	Individual shareholder voting	<b>Complied with.</b> Individual shareholders are encouraged to participate at Annual General Meeting and exercise their voting rights.
<b>G. Sustainability Reporting</b>		
G.1	The Code requires the Company to adopt principles in Sustainability Reporting to ensure the maintenance of policies and procedures to develop a sustainable business environment and to make disclosures on sustainability.	<b>Moving towards compliance.</b> 'Social and Relationship Capital and Natural Capital' is given on pages 95 to 103 and it describes community-based development initiatives carried out by the Company to support and build the Community.

## CORPORATE GOVERNANCE

### Section Three

Requirements on the Content of the Annual Report in Rule 7.6 and Requirements on Corporate Governance in Rule 7.10 of the Listing Rules of the Colombo Stock Exchange:

The disclosures below reflect the Company's compliance with the Requirements on the Content of the Annual Report in Rule 7.6 of the Listing Rules of the Colombo Stock Exchange.

Rule Ref	Requirement	Extent of Compliance
7.6 (i)	Names of persons who held the positions of Directors during the financial year	<b>Complied with.</b> Please refer 'Annual Report of the Board of Directors on the Affairs of the Company' on page 156.
7.6 (ii)	Principal activities of the Entity during the year and any changes therein	<b>Complied with.</b> Please refer 'Annual Report of the Board of Directors on the Affairs of the Company' on page 156 and Section 1.2 of the Notes to the Financial Statements on page 182.
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	<b>Complied with.</b> Please refer 'Information on Ordinary Shares' on page 262 and 263. The Company has not issued any non-voting shares.
7.6 (iv)	The Public Holding percentage	<b>Complied with.</b> Please refer 'Information on Ordinary Shares' on page 262.
7.6 (v)	The statement of each Directors' holding and Chief Executive Officer's holding in shares of the Entity at the end of the financial year	<b>Complied with.</b> Please refer page 157 of 'Annual Report of the Board of Directors on the Affairs of the Company'.
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	<b>Complied with.</b> Please refer 'Risk Management' report on pages 144 to 155.
7.6 (vii)	Details of material issues relating to employees and industrial relations of the Company.	During the year under review, there were no material issues pertaining to employees and industrial relations of the Company.
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	<b>Complied with.</b> Information in this regard, is disclosed in Note 33 on 'Property, Plant and Equipment' in the Financial Statements and page 158 of the 'Annual Report of the Board of Directors on the Affairs of the Company'.
7.6 (ix)	Number of shares representing the Entity's stated capital	<b>Complied with.</b> Please refer Note 45 on 'Stated Capital' in the Financial Statements on page 230.
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	<b>Complied with.</b> Please refer 'Information on Ordinary Shares' on page 262.
7.6 (xi)	Ratios and market price information on Equity and Debt	<b>Complied with.</b> Please refer 'Financial Highlights' on page 8, 'Information on Ordinary Shares' and 'Information on Listed Debentures' on page 262 to 265.
7.6 (xii)	Significant changes in the Entity's fixed assets and the market value of land, if the value differs sustainability from the book value	<b>Complied with.</b> Please refer Note 33 on 'Property, Plant and Equipment' in the Financial Statements and page 158 of the 'Annual Report of the Board of Directors on the Affairs of the Company'.



Rule Ref	Requirement	Extent of Compliance
7.6 (xiii)	Details of funds raised through Public issues, Rights issues and Private Placements during the year	There were no any share issues, rights issues or private placement during the year under review.
7.6 (xiv)	Information in respect of Employee Share Option /Purchase Schemes	No share options schemes have been offered by the Company.
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of section 7 of the Rules	<b>Complied with.</b> Please refer 'Corporate Governance' report on page 141 to 143.
7.6 (xvi)	Disclosure on Related Party Transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower	<b>Complied with.</b> Please refer Note 49 on 'Related Party Disclosures' in the Financial Statements.

The disclosures below reflect the Company's compliance with the Requirements on Corporate Governance in Rule 7.10 of the Listing Rules of the Colombo Stock Exchange which comprises of five subsections, namely:

1. Non-Executive Directors
2. Independent Directors
3. Disclosures Relating To Directors
4. Remuneration Committee
5. Audit Committee

Rule Ref	Requirement	Extent of Compliance
<b>7.10.1 Non-Executive Directors</b>		
7.10.1(a)	The Board of Directors of a Listed Entity shall include at least, two Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of the total number of Directors, whichever is higher.	<b>Complied with.</b> The Board consists of eight members of whom five are Non-Executive Directors. Accordingly, the number of Non-Executive Directors exceeds one-third of the total number of Directors on the Board.
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	<b>Complied with.</b> The Board comprised of eight Directors as at the conclusion of the immediately preceding Annual General Meeting.
7.10.1 (c)	Changes to this ratio shall be rectified within ninety days from the date of change.	No such situation has arisen.
<b>7.10.2 Independent Directors</b>		
7.10.2 (a)	Two or one third of Non-Executive Directors appointed to the Board, whichever is higher, should be independent.	<b>Complied with.</b> Based on declarations submitted by the Non-Executive Directors, the Board has determined that three Non-Executive Directors are independent.
7.10.2 (b)	Each Non-Executive Director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria in Rule 7.10.4.	<b>Complied with.</b> All Non-Executive Directors have submitted their independence declaration as per the requirements for the Financial Year under review.

## CORPORATE GOVERNANCE

Rule Ref	Requirement	Extent of Compliance
<b>7.10.3 Disclosure Relating to Directors</b>		
7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report.	<b>Complied with.</b> Disclosed in the page 156 of the 'Annual Report of the Board of Directors on the Affairs of the Company'.
7.10.3 (b)	In the event a director does not qualify as independent as per the rules on corporate governance but if the board, taking account all the circumstances, is of the opinion that the director is nevertheless independent, the board shall specify the criteria not met and the basis for its determination in the annual report.	No such circumstance has occurred during the financial year 2019/2020.
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report which includes information on the nature of his/her expertise in relevant functional areas.	<b>Complied with.</b> Please refer pages 20 and 22 for the Profiles of the Directors.
7.10.3 (d)	Upon appointment of a new director to its board, the Entity shall forthwith provide to the Exchange a brief resume of such director for dissemination to the public.	<b>Complied with.</b> All new appointments to the Board are announced to the CSE together with the profiles of the Directors, when appointments are made to the Board.
<b>7.10.5 Remuneration Committee</b>		
A listed Entity shall have a Remuneration Committee.		
7.10.5 (a)	The Remuneration Committee shall comprise of a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher.  One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.	<b>Complied with.</b> The Remuneration Committee comprises of three Non-Executive Directors two of whom are independent as well.  The Chairman of the Committee is an Independent Non-Executive Director.
7.10.5 (b)	The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer, to the Board.	<b>Complied with.</b> The Remuneration Committee recommends the remuneration payable to the Managing Director / Chief Executive Officer and other management personnel. The Board makes the final determination after considering such recommendations.
7.10.5 (c)	The Annual Report shall set out: 1. The names of the Directors that comprise the Remuneration Committee  2. A Statement of remuneration policy  3. Aggregate remuneration paid to Executive and Non-Executive Directors	<b>Complied with.</b> The names of the Directors that comprise the Remuneration Committee and the Statement of Remuneration Policy are given on page 158 of the 'Annual Report of the Board of Directors on the Affairs of the Company'.  Aggregate fees and expenses paid to the Board of Directors have been disclosed in Note 49 to the Financial Statements.



Rule Ref	Requirement	Extent of Compliance
<b>7.10.6. Audit Committee</b>		
A listed Company shall have an Audit Committee.		
7.10.6(a)	<p>The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher.</p> <p>One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board. The Chairman or one member of the Committee should be a member of a recognised professional accounting body.</p> <p>The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.</p>	<p><b>Complied with.</b></p> <p>All the members of the Audit Committee are Independent Non-Executive Directors.</p> <p>The Chairman of the Audit Committee is an Independent Non-Executive Director and possesses required qualifications and this is disclosed in page 21 of the Annual Report.</p> <p>The Chief Executive Officer and Senior Deputy General Manager - Finance &amp; Administration attend the Audit Committee meetings by invitation.</p>
7.10.6 (b)	The functions of the Audit Committee shall be as set out in Section 7.10.6 of the Listing Rules.	<p><b>Complied with.</b></p> <p>Please refer 'Audit Committee Report' on pages 160 to 161 and responses to requirements of section 8 (2) of the Finance Companies Corporate Governance Direction on pages 125 to 127 for further details.</p>
7.10.6 (c)	<p>The Annual Report shall set out:</p> <ol style="list-style-type: none"> <li>1. The names of the Directors comprising the Audit Committee.</li> <li>2. The Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.</li> <li>3. A report by the Audit Committee setting-out the manner of compliance of the functions set out in 7.10 of the Listing Rules, during the period to which the annual report relates.</li> </ol>	<p><b>Complied with.</b></p> <p>Please refer 'Audit Committee Report' on pages 160 and 161.</p>

# RISK MANAGEMENT REPORT

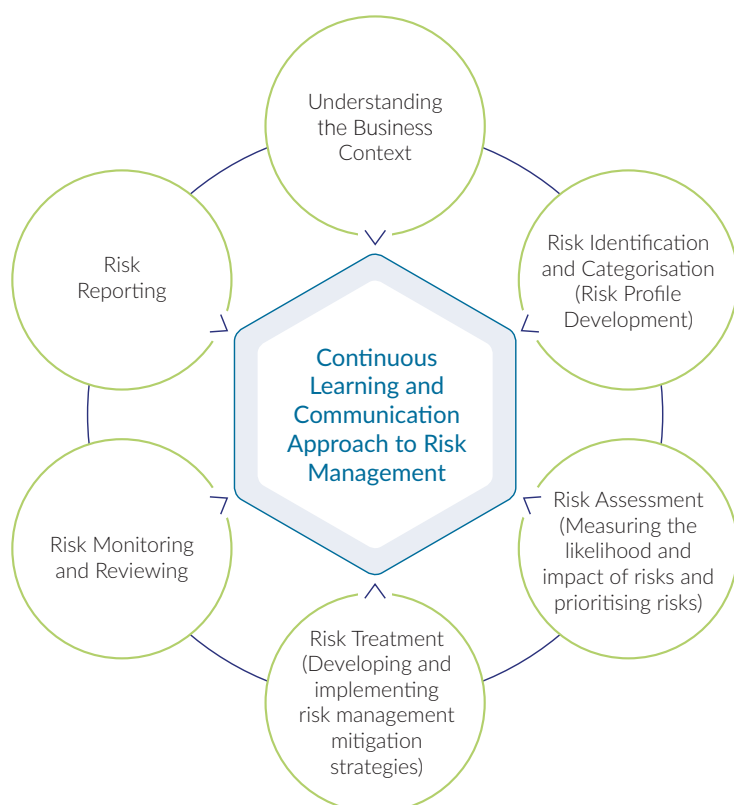
Organisational risk is an integral part of any business enterprise, and for Vallibel Finance PLC, a leading player of the Licensced Finance Companies Sector, risk management is a critical aspects of sustainable business strategies directing sustainable business growth. In taking an integrated approach to transforming resources to create value for all stakeholders, risk management plays an integral role in the organisational strategy formulation and implementation process. To ensure a successful and sustainable business enterprise, the Company must consider risks from several perspectives – risks which arise from both internal and external sources, risks which can have short, medium, and long-term impacts on business activities and on stakeholders, risks which can be resolved simply, risks which are more complex involving myriad stakeholders and elements, risks due changing consumer trends and market developments, risks driven by technological innovations, and risks arising due to new opportunities and new ways in doing business. In considering these myriad risks and to streamline the risk management process, the Company

has developed an integrated risk management framework which ensures different risk profiles and events are considered fully and embedded within the strategy formulation process.

The objectives of the Company's risk management process is to develop a cohesive and flexible risk management framework which enables the Company to consistently and comprehensively identify and manage the oversight of risks, define and review the risk profiles and risk appetites, establish suitable risk categories, report in a timely manner changes to risks to incorporate appropriate changes to the Company's strategic direction and materiality analysis, and build an internal culture which integrates risk management principles in day-to-day business activities.

## Risk Management Process

The Vallibel Finance risk management process uses a 'continuous learning and communication' approach as shown below.



The risk management process adopted enables the Company to take a holistic approach in identifying, measuring, monitoring, managing, reviewing, and reporting on the myriad risks using an established methodology which is consistently applied across all business activities and operations. The process ensures all risk types and all decisions are aligned to the risk appetite as established by the Company. The process is also designed to ensure risk profiles, policies, risk appetites, and controls are adaptable to reflect emerging developments and changing market conditions, as well as changing risk attitudes of stakeholders. The risk management process also allows changes to be reflected in the Company's strategy formulation process. This structured approach to risk management enables the Company to proactively manage all categories of risks and minimise or mitigate their effects on business sustainability and the stakeholder value creation process.

The Company's risk management process is enabled by the commitment of the Company's Board of Directors and senior management. The step-by-step approach used ensures comprehensive identification and review of risk profiles and appetites. To ensure focused attention to integrated risk management, responsibility and authority is delegated to dedicated Board level committees and to operational teams. Thus, while guiding the development of an integrated risk management process and the incorporation of risk factors in medium and long term business plans rests with the highest levels of leadership, the identification, categorisation, management, monitoring, review, and reporting on the different categories of risks faced by the Company in day-to-day business operations rests with the middle and lower level management. These teams are regularly expected to provide updates to the Integrated Risk Management Committee comprising of members from the Board of Directors and the senior management team. This ensures that the top-most level of the Company's decision-makers are aware





of, and able to provide their experienced guidance on improving the approach to good risk governance and management practices thereby driving the Company to build a viable and sustainable business over time.

Thus, risk management is an integral part of the way in which business is conducted at Vallibel Finance. The Company's approach to continually monitoring risk profiles related to economic, financial, operational, legal, compliance, market, and reputation ensures adherence to and compliance with acceptable risk appetites as per Company guidelines.

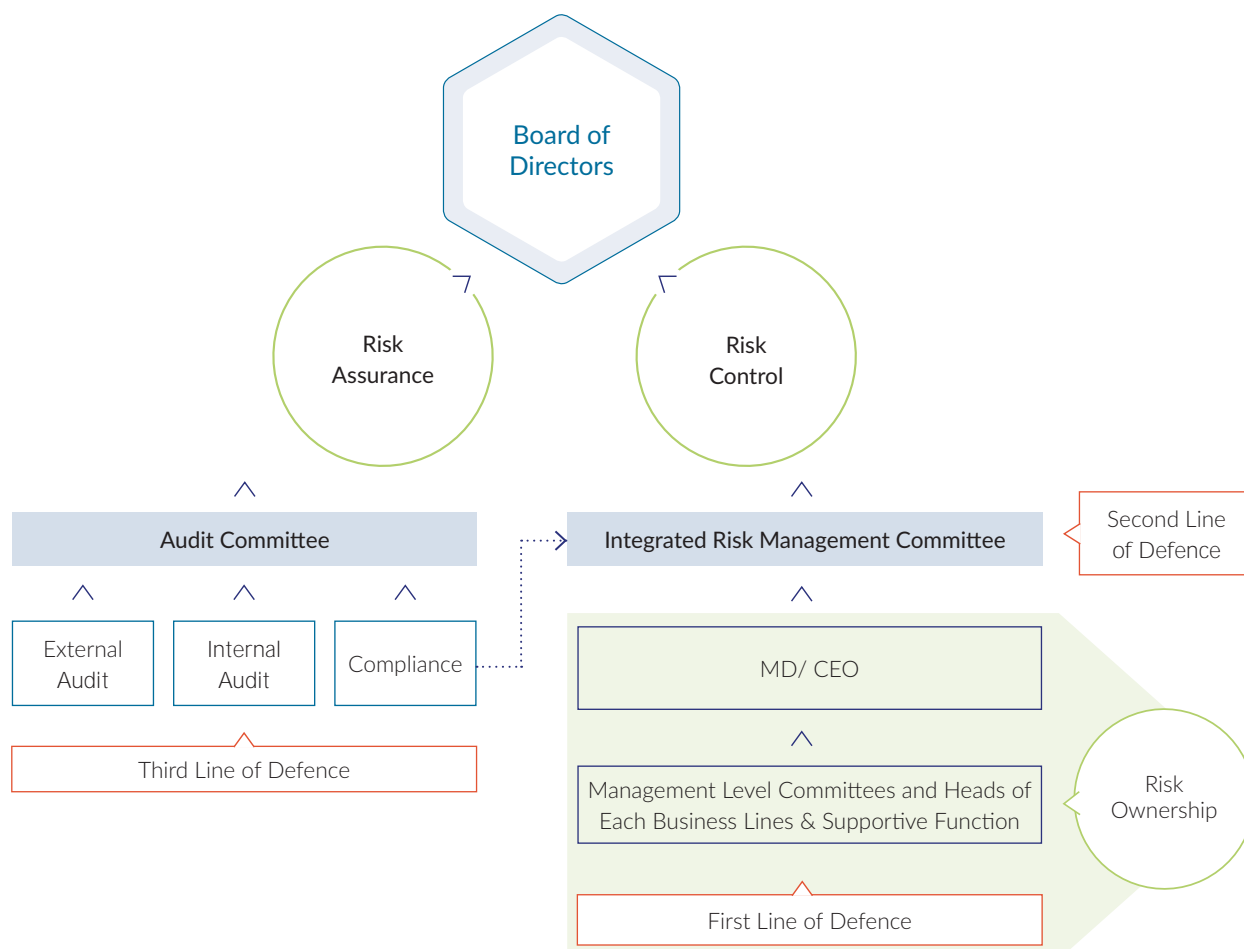
This report presents risk governance structure and risk management framework of the Company, key risks associated with each of our strategic priorities, how they could impact our value creation process and performance, while explaining how these risks are managed across our business operations.

### Risk Governance

A robust governance framework is the cornerstone for the delivery of effective risk management and remains a priority for Vallibel Finance. Risk governance is maintained through delegation of authority from the Board, to the Audit Committee and the Integrated Risk Management Committee and down the management hierarchy. The Board of Directors retain the overall responsibility for effective risk management, while the Board sub-committees are responsible for the ongoing management and monitoring of risk exposure faced by the Company in the short, medium, and long terms.

The Board of Directors also has oversight for determining the risk appetite of the Company and setting appropriate boundaries. The Integrated Risk Management Committee has been delegated the responsibility of setting the risk appetite and risk tolerance limits on behalf of the Board of Directors. The Integrated Risk Management Committee is also responsible for ensuring its implementation across the organisation and putting in place monitoring mechanisms to regularly review and ensure the risk profile of the Company matches with changing business needs and business operating conditions. The Board received regular risk reports which ensure they are aware of key developments and/or changes to the Company's risk profile and risk appetite.

To ensure a robust risk management system, the Company has adopted an approach which considers three lines of defence for risks. The governance framework also promotes clear accountability for risk taking, oversight and independent assurance within the Company. This approach also enables the Company to implement and enforce its risk appetite at different levels thereby ensuring integration with day-to-day business activities.



# RISK MANAGEMENT REPORT

Board and Management Committees	Responsibilities
<b>Board of Directors</b>	<p>The Board of Directors (BOD) has the ultimate responsibility for the establishment of, and oversight for the risk management process of the Company. Accordingly, the Board has established sub-committees namely, the Audit Committee and the Integrated Risk Management Committee to assist the Board in discharging its responsibilities related to risk management.</p> <p>The Statement of Director's Responsibilities report for the financial year ended 31st March 2020 is available on page 168 of this Annual Report.</p>
<b>Audit Committee</b>	<p>The Audit Committee assists the BOD in fulfilling its oversight responsibilities for the integrity of financial statements, the Company's compliance with legal and regulatory requirements, the external auditor's independence, the performance of the Company's internal audit function, and soundness of the internal controls and practices. The Audit Committee is responsible for monitoring and reviewing risk management policies and procedures and reviewing the suitability of the risk management process in relation to the risks faced by the Company. The Audit Committee is assisted in these functions by the Internal Audit team.</p> <p>The Committee comprises three Independent Non-Executive Directors.</p> <p>The Committee meets quarterly to discuss internal audit findings and additionally if there is a requirement to discuss other matters, as and when they arise.</p> <p>The detailed Audit Committee Report for the financial year ended 31st March 2020 is available on pages 160 and 161 of this Annual Report.</p>
<b>Integrated Risk Management Committee</b>	<p>The Integrated Risk Management Committee (IRMC) is responsible for developing and monitoring the risk management policies and procedures, as well as the risk profiles and risk appetite of the Company's specified risk categories.</p> <p>The IMRC comprises of two Independent Non-Executive Directors, two Executive Directors including the Managing Director, the Senior Deputy General Manager - Credit, the Senior Deputy General Manager - Finance &amp; Administration, and the Deputy General Manager - Asset Management.</p> <p>The IMRC meets on a quarterly basis to assess all aspects of risk management or more frequently as it deems necessary or appropriate to carry out its duties and responsibilities in a timely and accountable manner.</p> <p>The Integrated Risk Management Committee Report for the financial year ended 31st March 2020 is available on page 163 of this Annual Report.</p>
<b>Assets and Liability Management Committee</b>	<p>The Assets and Liability Management Committee (ALCO) assists the BOD in supervising and monitoring the Company's assets and liabilities, and related management policies and procedures to ensure effective management of on- and off-Balance Sheet risk of the Company. The ALCO is primarily responsible for the management of interest rate risk, market risk, liquidity risk, capital risk and other risks which may be specified by the IMRC.</p> <p>The ALCO is comprised of representatives from the senior management team who supervise major risk categories and chaired by the Managing Director/CEO. All action taken by the ALCO is reported to the IMRC.</p> <p>The ALCO meet monthly to review progress and developments and guide the Company as required.</p>
<b>Credit Committee</b>	<p>The Credit Committee is responsible for formulating credit policies of the Company in consultation with business lines. In considering credit policy formulation, the Credit Committee must review customer collateral requirements and credit assessments, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. In addition, the Credit Committee must establish the authorisation structure for the approval and renewal of credit facilities. The Credit Committee also sets limits for concentrations of exposure to counterparties, geographies, and industries (for loans and advances) by issuer, credit rating and market liquidity.</p> <p>The Credit Committee is comprised of the Managing Director/CEO, Senior DGM – Credit, DGM – Credit, DGM – Asset Management, AGM – Business Development, and the Chief Manager – Credit Administration.</p> <p>The Credit Committee meet regularly depending on business requirements.</p>

## Review of Principle Risk Categories and Mitigation Strategies

Vallibel Finance is primarily exposed to credit risk, liquidity risk, interest rate risk and capital risk as well as operational risk, legal risk, compliance risk and reputational risk. The approach used to effectively manage these risks is detailed in the tables below.

**Table 1: In-depth evaluation of credit, liquidity, capital and interest rate risks for the year ended 31st March 2020**

### 1. Credit Risk

Credit risk is defined as the risk of financial loss if a borrower/counterparty fails to meet their contractual obligations.

Credit risk arises principally from the Company's lease and hire purchase facilities and other loans and advances to customers. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligations, default risk, and sector risk).

#### Default Risk

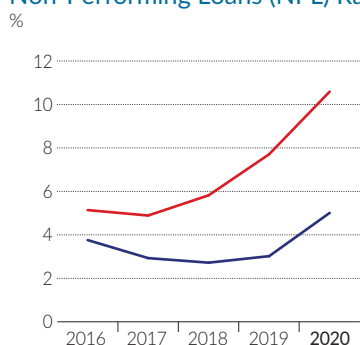
Default risk is the exposure to loss due to non-payment by a borrower of a financial obligation when it becomes payable. The Company is exposed to default risk in terms of hire purchase, leasing and other loans and advances which account for over 80% of the total assets of the Company.

#### Concentration Risk

Concentration risk is the risk of uneven distribution of the Company's loans and advances to individual counterparties, products, or geographical regions. This is a result of insufficient diversification.

### Key Risk Indicators

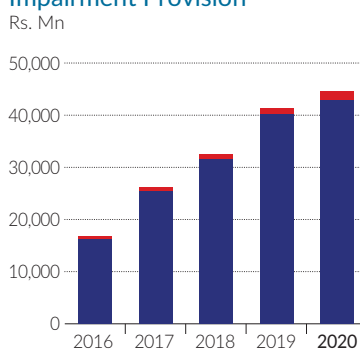
#### Non-Performing Loans (NPL) Ratio



— VFIN Gross NPL  
— Industry - Gross NPL

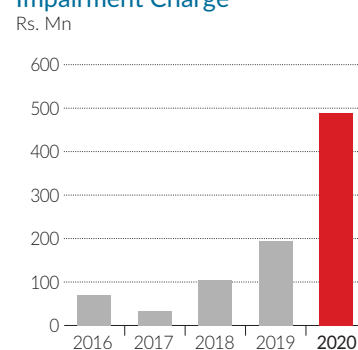
\*Industry comprises LFCs & SLCs and 2020 data is as at 31st December 2019 (Source: CBSL).

#### Gross Loans & Advances and Impairment Provision

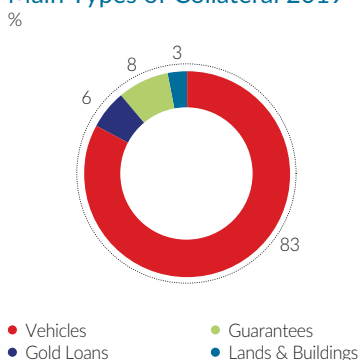


■ Gross Loans and Advances  
■ Impairment Provision

#### Impairment Charge

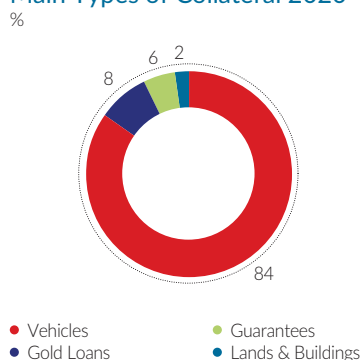


#### Main Types of Collateral 2019



● Vehicles ● Guarantees  
● Gold Loans ● Lands & Buildings

#### Main Types of Collateral 2020

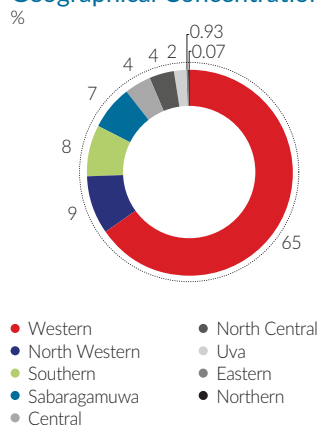


● Vehicles ● Guarantees  
● Gold Loans ● Lands & Buildings

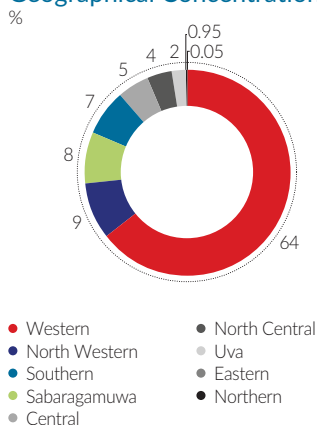
# RISK MANAGEMENT REPORT

## Key Risk Indicators

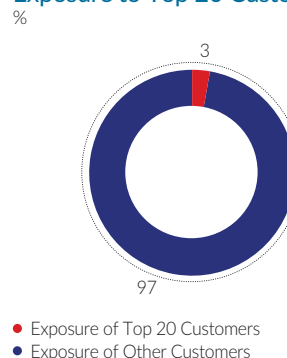
### Geographical Concentration -2019



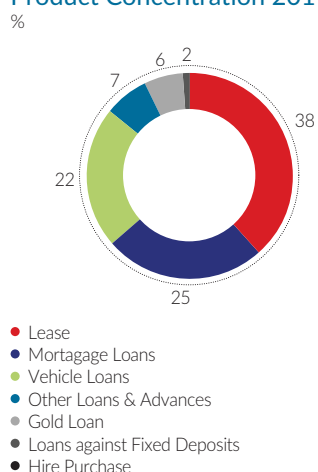
### Geographical Concentration -2020



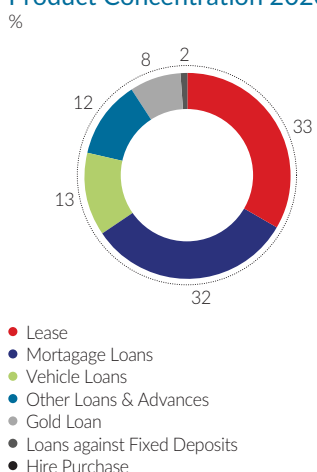
### Exposure to Top 20 Customers - 2019



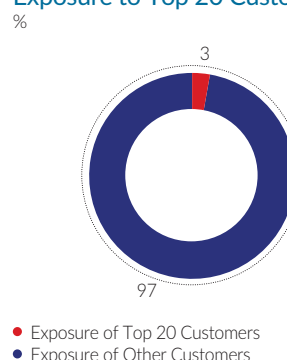
### Product Concentration 2019



### Product Concentration 2020



### Exposure to Top 20 Customers - 2020



## Risk Mitigating Strategies

Credit risk is managed within the risk appetite of the Company. Acceptable credit risk identified in a credit application is mitigated through sufficient underlying security. The risk tolerance of the Company is low, and therefore all credit is mitigated through sound credit principles, and all lending done against appropriate security, except where other factors deem that it is not necessary to obtain specific security.

The Credit Committee of the Company is responsible for overseeing of credit risk, and the Credit and Recovery Departments which reports to the Credit Committee is responsible for monitoring and managing the Company's credit risk.

Strategies used to mitigate credit risk by the Company is summarised below.

- ▶ Formulation of strong credit policies in consultation with business lines, taking into consideration collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- ▶ The implementation of a structured and standardised credit evaluation process to assess credit exposures prior to facilities being granted to customers.
- ▶ Setting a clear authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to

head of each business line. Large facilities require approval by the Board of Directors as appropriate. The delegated authority levels are reviewed periodically.

- ▶ Limiting concentrations of exposure to counterparties, geographies, and industries (for loans and advances) by issuer, credit rating and market liquidity to ensure that lending is diversified across a wide range of products, industries, and customers.
- ▶ Undertaking period reviews to monitor the compliance of business lines with agreed exposure limits, including those for selected industries and product types.
- ▶ Providing regular reports on the credit quality of the risk portfolio

to the BOD, and undertaking appropriate corrective actions as required.

- ▶ The Credit Committee provides advice, guidance and specialist skills to business lines to promote best practice throughout the Company for the effective management of credit risk.
- ▶ Each business line is required to implement credit policies and

procedures, with credit approval authorities delegated by the Credit Committee. Each business line has an officer who reports all credit related matters to the management and the Credit Committee. Each business line is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those risk portfolios subject to central review.

- ▶ Regular audits of business lines and credit and recovery processes are undertaken by the Internal Audit team.
- ▶ Adequacy of these risk management strategies are assessed regularly by the Credit Committee, and quarterly by the IRMC.

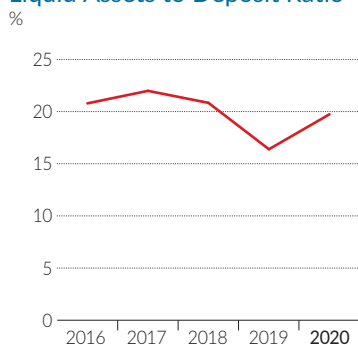
## 2. Liquidity Risk

Liquidity risk is the risk of loss because of insufficient liquidity to cover current payment obligations. The Company may not be able to meet its obligations due to a lack of funds or having to meet these obligations at an excessive cost. This results from maturity mismatches between assets and liabilities. The day-to-day operations of the Company are affected by liquidity flows, including the risk that the Company is unable to meet expected and unexpected payment obligations as they fall due.

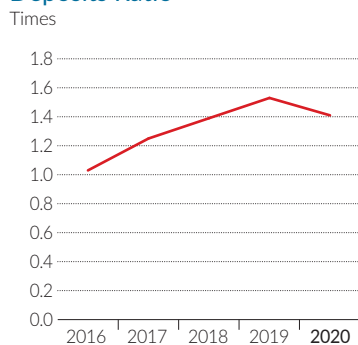
Furthermore, a risk of losses may arise as a result of the Company's difficulty in disposing of or realising certain assets within a limited time horizon and without any significant impairment of the market value due to inadequate market liquidity or other market interruptions.

### Key Risk Indicators

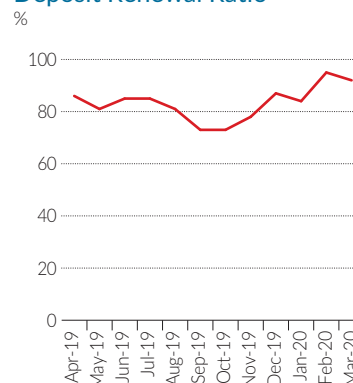
#### Liquid Assets to Deposit Ratio



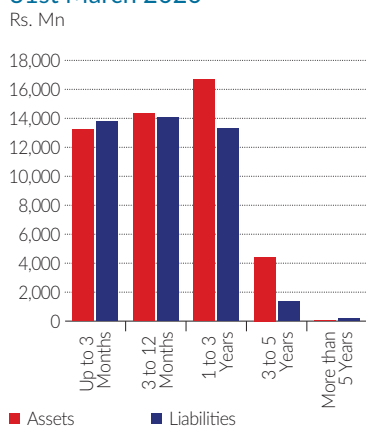
#### Movement in Advances to Deposits Ratio



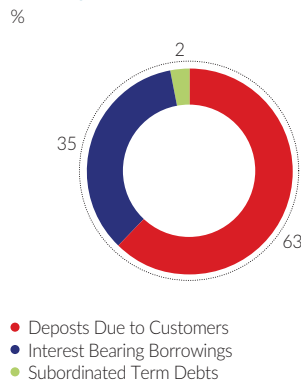
#### Deposit Renewal Ratio



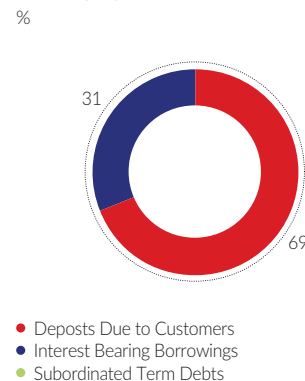
#### Maturity Analysis of Interest Bearing Assets and Liabilities as at 31st March 2020



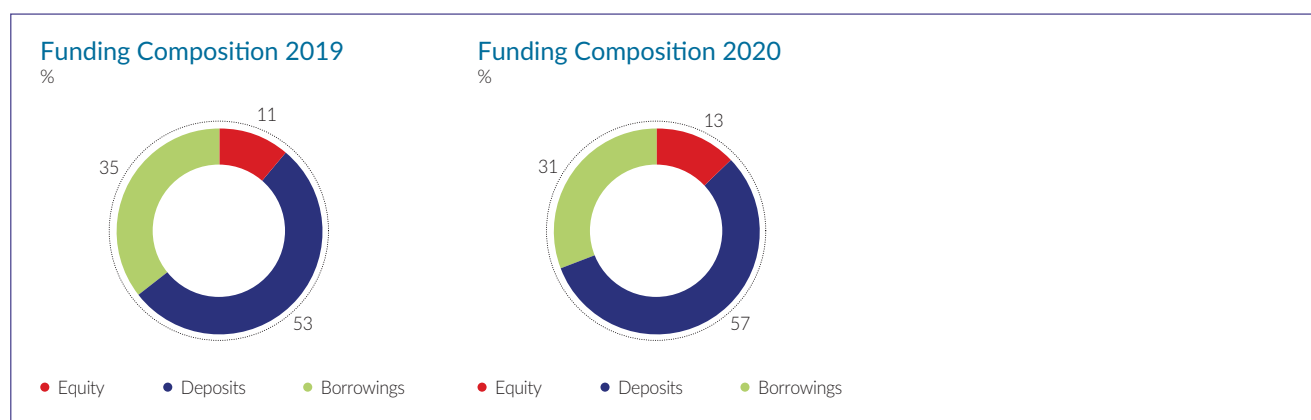
#### Interest Bearing Liabilities Mix 2019



#### Interest Bearing Liabilities Mix 2020



# RISK MANAGEMENT REPORT



## Risk Mitigating Strategies

The Company's approach to managing liquidity is to ensure, as far as possible, that sufficient liquidity is available to meet the Company's liabilities when due, whether under normal or stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The main liquidity risk mitigation strategies are as follows.

- ▶ The Company maintains a portfolio of short-term liquid assets, largely made up of cash and cash equivalents, fixed deposits and short-term government securities, to ensure that sufficient liquidity is maintained within the Company. Liquidity profile of financial assets and liabilities of each business line and details of projected cash flows arising from future business are considered in managing liquidity.
- ▶ The Company relies on deposits from customers and undertakes

borrowing as a primary source of funding. While the Company's borrowings have maturities over time, deposits from customers generally have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends, thus increasing the deposit renewal ratio.

- ▶ The Company maintains adequate unutilised funding lines to meet urgent cash outflow requirements, if any.
- ▶ The statutory liquidity ratio is maintained well above the regulatory limit.
- ▶ Daily liquidity is monitored and stress scenarios for various market conditions are reviewed and considered.

- ▶ Regular ALCO meetings are held, with the ALCO monitoring the liquidity position of the Company and liquidity management activities undertaken by the Company. ALCO reviews the overall liquidity position as shown by the weekly liquidity report and considers the impact of other inflows and outflows as they affect overall liquidity of the Company.
- ▶ A summary report, including any exceptions and remedial action taken, is submitted to the IRMC, which then approves liquidity risk tolerances by reviewing the Company's inability to meet its obligations when they become due as this may affect the Company's earnings, capital, and operations.
- ▶ The Company focuses on retaining and growing deposit base and tapping low cost funding sources, to act as a buffer in addition to sound maintenance of a liquid asset portfolio to support contingencies.





### 3. Capital Risk

Capital risk is the risk of the Company having insufficient capital resources to meet minimum regulatory requirements, and to support credit rating, growth and strategic direction of the Company.

#### Capital Adequacy Ratio

Capital Adequacy Ratio (CAR) is the key indicator which measures the financial strength of a finance company, expressed as a ratio of its capital to its risk weighted assets. A higher capital adequacy ratio indicates that the Company can handle losses and fulfil its obligations to account holders without ceasing operations. This ratio is used as an indicator to protect depositors and promote the stability and efficiency of a financial system.

The Company's Capital adequacy ratio as at 31st March 2020 was 11.93% for Tier I and 13.04% for Tier II, maintained at above the minimum requirements of 6.5% for tier I and 10.5% for Tier II as per the new capital adequacy directions given by the Central Bank of Sri Lanka.

As at 31 March	Rs. Mn	
	2020	2019
<b>Tier I Capital</b>	6,324	5,314
Tier II Capital	589	707
<b>Total Capital</b>	6,913	6,021
Risk Weighted Amount for Credit Risk	47,172	42,758
Risk Weighted Amount for Operational Risk	5,856	4,989
<b>Total Risk Weighted Amount</b>	53,028	47,747
Regulatory Minimum Tier I Capital Ratio %	6.50%	6.00%
<b>Tier I Capital Ratio %</b>	11.93%	11.13%
Regulatory Minimum Total Capital Ratio %	10.50%	10.00%
<b>Total Capital Ratio %</b>	13.04%	12.61%

A complete detail of the breakdown of capital adequacy ratio computation is available in the notes to the Financial Statements from pages 248 to 251 of this Annual Report.

#### Risk Mitigating Strategies

Capital risk management is integral into the Company's approach to maintain financial stability and embedded in the way the business operates. The IRMC monitors the capital position and the capital management activities undertaken by the Company to ensure that capital levels are maintained in accordance with regulatory requirements and directives. Capital adequacy ratios are measured monthly and maintained above the minimum requirements specified by the regulator, the Central Bank of Sri Lanka.

# RISK MANAGEMENT REPORT

## 4. Market Risk

Market risk is the possibility of losses to the Company from changes in market variables such as interest rates, exchange rates, equity prices and commodity prices which will affect the value of assets and liabilities or income adversely. Of these market risks, the Company has a higher exposure to interest rate risk which is monitored as a critical risk factor according to the business risk profile and exposure to equity risk is minimal.

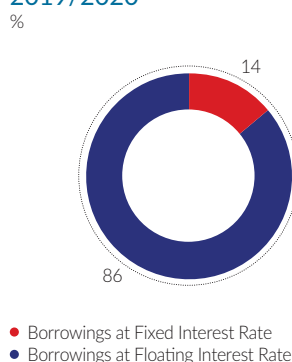
### Interest Rate Risk

Interest rate risk is the potential for changes in rates to reduce the Company's earnings or value.

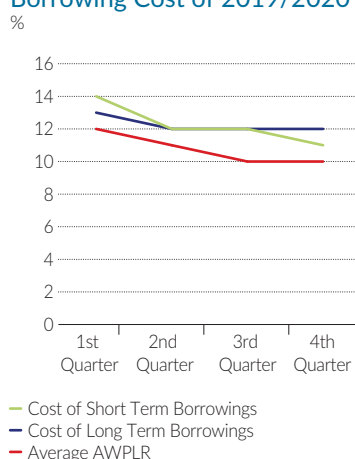
The Company is largely exposed to the interest rate risk mainly on the interest income and interest cost. Continuous volatility in market interest rate affects the Company's net interest income and net interest margin. The Company's exposure to market risk arises as a result of dealing in financial products including loans, deposits, securities, short term borrowings, long term debt, etc.

### Key Risk Indicators

#### Floating and Fixed Interest Rates 2019/2020



#### Borrowing Cost of 2019/2020



### Risk Mitigating Strategies

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk is vested with the IRMC of the Company. The Treasury Department is entrusted with managing the market risk including interest rate risk and liquidity risk of the Company.

The main interest rate risk mitigation strategies are as follows.

- Evaluation of net interest position and analysis of various interest rate scenarios are carried out in order to

assess the interest rate risk faced by the Company. Regular monitoring of trends in the economy in general and interest rates in particular are carried out with a view toward limiting any potential adverse impact on the Company's earning.

- The ALCO approves interest rate risk tolerances by reviewing how movements in interest rates may adversely affect the Company's earnings and capital using the Company's projected earnings and capital as benchmark.
- The ALCO reviews interest margin trends including forecast position and the variances from the planned

net interest rate margin and changes the interest rate offers according to the changes in interest rates.

- To ensure adequate controls are in place, the Company closely monitors interest rate fluctuations in the economy while maintaining an adequate Net Interest Margin, thereby ensuring that increases in interest expenses can be absorbed without causing adverse financial impacted to the Company.



Table 2: Overview of operational, legal, compliance, and reputation risks for the year ended 31st March 2020

Risk Category/ Type	Risk Description	Risk Mitigating Strategies
<b>Operational Risk</b>	<p>Operational risk is the prospect of loss resulting from inadequate or failed internal processes, people and systems or from external events.</p> <p>This can be direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the operations of the Company.</p>	<p>Severity of these operational risks is assessed regularly through identified key risk indicators such as staff turnover, insurance coverage, fraud attempts, branch/department audit ratings, etc. The information derived acts as early warning signals to identify a potential event that may harm daily business activities and the operations of the Company.</p> <p>The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business line.</p>
<b>Legal Risk</b>	<p>Legal risk is the potential for losses due to regulatory or legal action. Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Company.</p>	<p>Legal risk management commences from prior analysis, and a thorough understanding of and adherence to related legislation by the staff.</p> <p>Necessary precautions are taken at the designing stage of transactions to minimise legal risk exposure. In the event of a legal risk factor, the Legal Department of the Company takes immediate action to address and mitigate these risks.</p> <p>The Company's legal division ensures that all business activities are carried out in a manner which complies with the laws and regulations applicable in the Country. Among others, the division is responsible for advising senior management on any legal issues, reviewing all contracts and agreements, examining documentation related to collateral, and representing the Company in courts of law when necessary.</p>
<b>Compliance Risk</b>	<p>Compliance risks are the potential threats to the company that resulting from non-conformance with laws, regulations, rules, directions, prescribed practices, and ethical standards.</p> <p>Financial institutions in Sri Lanka are governed by the Central Bank of Sri Lanka which is the main regulatory body in the country.</p> <p>Every financial institution must obtain license from the Central Bank prior to commence finance business and continue to carry out business in compliance with the laws, directions, rules, determinations, notices, and guidelines issued by the Central Bank. Furthermore, the Company should comply with other regulatory and statutory requirements governing Finance Companies, Public Listed Companies and business activities undertaken in general.</p> <p>Thus, the Company operates in highly regulated environment and the Company could be adversely affected by failure to comply with existing laws and regulations or by failing to adopt changes in laws, regulations, and regulatory policy.</p>	<p>The Integrated Risk Management Committee has established a compliance function to assess the Company's compliance with laws, regulations, rules, directions, regulatory guidelines, internal controls and other prescribed practices. A separate Compliance Officer has been appointed to carry out the compliance function independently. Regular reviews are carried out to assess the Company's compliance with the regulatory and statutory requirements.</p>

## RISK MANAGEMENT REPORT

Risk Category/ Type	Risk Description	Risk Mitigating Strategies
<b>Reputational Risk</b>	<p>Reputational risk is that of losing public trust or the tarnishing of the Company's image in the public eye. This risk could arise from environmental, social, regulatory, or operational risk factors.</p> <p>We consider reputational risk as a consequence of a failure to manage other key risks arising from the business activities.</p>	<p>Events that could lead to reputation risk are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports, and internal and external market survey results.</p> <p>Reputation risk management and mitigation aspects are embedded in the Company's policies and procedures, training programmes. Policies and standards relating to the conduct of the Company's business have been promulgated through internal communication and training and ensure compliance with laws, regulations, rules, directions, prescribed practices, and ethical standards. A whistle blower policy has been established to entertain employees' complaints regarding accounting, internal controls or auditing matters or if any, breaches of any law, statutory, regulatory or other ethical concerns. We are continuously committed towards maintaining and improving the standards in all the activities we undertake.</p>

### Emerging Risks

In addition to the primary conventional risks faced, the Company is also faced with myriad risks which arise from the external operating environment including changes in consumer trends and technology developments, as well as social and environmental changes due to the increasing sophistication of stakeholders. The ever-increasing dynamism of changing global and local economic and industry landscape has made it imperative for the Company to consider these newly emerging risks while pursuing business growth and success. The Company adopts a precautionary approach to manage these risks proactively and in a business savvy manner. Some of the emerging key risk factors which the Company closely monitors as part of the integrated risk management process are listed below.

Table 3: Emerging Risks

Risk Category	Risk Factor	Nature of the Impact	Impact to the Company	Precautionary Approach Adopted
<b>Macroeconomic Environmental Risks</b>	Falling/low economic growth	Weakens of economic sectors Low disposable income	Limited growth opportunities Slowdown in year-on-year business growth Depreciation in asset quality and increased impairment charges	Restructured existing products and re-introduce them to consumers Strengthened recovery processes and teams Promoting long-term deposits to improve asset and liability matching
<b>Industry-related Risks</b>	Collapse of finance companies	Reduces customer confidence in LFCs	Lower deposit growth Higher operating costs and declining profits	Advertising and other promotional activities to build brand image and credibility while highlighting the strength of the Company's credit ratings



Risk Category	Risk Factor	Nature of the Impact	Impact to the Company	Precautionary Approach Adopted
<b>Technological Risks</b>	Increasing concerns on cyber security	Due to the increasing use of digital technology there has been increasing risks from cyber-attacks, or systems breaches, which leads to loss of customer data and privacy	Disruption to daily operations Adverse impact on reputational risk if unable to put in place counter measures in a timely manner Increasing costs of recruitment and training of new employees	Ongoing investments in upgrading hardware and software Deploy regular IT vulnerability assessments Strong IT governance including robust IT security policy
<b>Operational Risks</b>	Employee retention	Difficulties in acquiring and retaining the right talent	Increasing costs of recruitment and training of new employees	Invest strategically in developing skills and competencies of existing employees
	Changing customer expectations	Increasing Gen Y and Millennial customer base together with the rapid advances in technology usage constantly requiring evolving products and services to satisfy customers expectations	Inability to effectively respond to changes in the marketplace and to changing customer expectations will lead to a decline in the Company's competitive position amongst competitors who do well and lead to falling competitive advantage Availability of internal competencies Established business processes and systems becoming obsolete at a rapid pace	Deploying a communication strategy focused on digitalisation and social media as platforms to reach customers effectively Increased investment in market research to keep abreast of changes and identify appropriate development to be incorporated in strategic plans
<b>Environmental &amp; Social Risks</b>	Increasing vulnerability to natural disasters and unexpected social developments	Business interruptions resulting in slowdown in business operations	Changing work patterns impacting employee productivity and resultantly having a negative impact on revenue and profitability growth of the Company	Deploy measures to increase employee morale in times of crisis and ensure employees are an integral part of the Company's teams
<b>Risks arising from political and policy uncertainty</b>	Frequent changes to local fiscal and monetary policy Significant changes and updates to regulatory requirements The lack of structural reforms to increase productivity Growing environmental, social and corporate governance concerns in lending	Can impact on business governance, day-to-day business operations, and future plans	Could require changes to products and service terms and conditions, and impact business processes	Benchmark current practices with internationally accepted ones Continuously review and keep updated on changes and how best to implement them in business plans

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors of Vallibel Finance PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2020.

## General

Vallibel Finance PLC is a limited liability company which was incorporated on 5th September 1974 as a private limited liability company under the Companies Ordinance (Chapter 145) as "THE RUPEE FINANCE COMPANY LIMITED" and was converted to a public company on 7th August 1989 under the Companies Act, No.17 of 1982.

On 21st November 2005 the name of the Company was changed to "VALLIBEL FINANCE LIMITED". The Company was re-registered as "VALLIBEL FINANCE PLC" under the Companies Act, No.7 of 2007 (Companies Act) on 20th August 2008 under Registration No. PB526PQ.

Vallibel Finance PLC is a Licensed Finance Company in terms of the Finance Business Act, No.42 of 2011 and a Registered Finance Leasing Establishment in terms of the Finance Leasing Act No.56 of 2000.

The Ordinary Shares of the Company are listed on the Main Board of the Colombo Stock Exchange.

The Company has been affirmed a rating of [SL] BBB (stable) by ICRA Lanka Limited.

## Principal activities of the Company and review of performance during the year

The Company's principal activities are accepting deposits, granting of finance leases, hire purchase, granting of mortgage loans, granting of vehicle loans, granting of personal loans, gold loans, micro finance and other credit facilities.

A company under the name "Vallibel Properties Ltd", was incorporated on 5th March 2020 as a fully owned subsidiary of the Company, to engage

in the administration of construction, development and maintenance of the proposed head office building complex for the Company.

The said subsidiary was incorporated following the receipt of the approval of the Central Bank of Sri Lanka and the relevant approval under Section 17 of the Board of Investment of Sri Lanka Act No. 4 of 1978.

This Report and the Financial Statements reflect the state of affairs of the Company.

Further to the requirements of the Colombo Stock Exchange an announcement on the impact of COVID 19 on the business of the Company was made on 11th May 2020. A further disclosure in this regard is given in Note 55 to the Financial Statements.

## Financial Statements

The financial statements of the Company are prepared in accordance with the revised Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the directions issued under the said Finance Business Act.

Consolidated Financial Statements for the Group were not prepared as there were no transactions during the period with the fully owned subsidiary of the Company - "Vallibel Properties Ltd".

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 2nd June 2020.

The Financial Statements of the Company duly signed by the Senior Deputy General Manager – Finance and Administration, and two Directors on behalf of the

Board are given on pages 174 to 253, which form an integral part of the Annual Report of the Board of Directors.

## Auditors' Report

The Report of the Auditors on the Financial Statements of the Company appear on pages 170 to 173.

## Accounting Policies

The accounting policies adopted in the preparation of the Financial Statements are given on pages 182 to 203.

Changes in accounting policies are described in Note 04 to the Financial Statements.

## Directors

The names of the Directors who held office as at the end of the accounting period are given below:

### Executive Directors

Mr. S B Rangamuwa - Managing Director  
Mr. Dhammika Perera  
Mr. S S Weerabahu

### Non-Executive Directors

Mr. R M Karunaratne\* - Acting Chairman  
Mr. T Murakami\*\* - Director  
Mr. K D A Perera - Director  
Mr. A Dadigama\* - Director  
Mr. J Kumarasinghe\* - Director

\* Independent Non-Executive Directors as per the Listing Rules of the Colombo Stock Exchange and the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended)

\*\* Alternate Director – Mr. H Ota

Mr. S S Weerabahu was redesignated as an Executive Director of the Company with effect from 19th December 2019.

The relevant regulatory approval in terms of the Finance Companies (Structural Changes) Direction No. 01 of 2013 was





obtained for the aforesaid structural change.

Mr. K D A Perera retires by rotation in terms of Articles 87 and 88 of the Articles of Association and being eligible is recommended by the Directors for re-election.

Based on the declarations made by the Independent Non-Executive Directors under the Listing Rules, the Board determined that Messrs R M Karunaratne, A Dadigama and J Kumarasinghe were independent as against the criteria for defining "independence" set out in the Listing Rules and the Finance Companies (Corporate Governance) Direction No. 3 of 2008 (as amended).

### The Directors of the Subsidiary

The Directors of the Subsidiary, Vallibel Properties Limited, as at 31st March 2020 consisted of the following.

Mr. S B Rangamuwa  
Mr. S S Weerabahu  
Mr. R M Karunaratne  
Mr. A Dadigama  
Mr. J Kumarasinghe

### Interests Register

The Company maintains an interests register in terms of the Companies Act, which is deemed to form part and parcel of this annual report and available for inspection upon request.

The relevant interests of Directors in the shares of the Company as at 31st March 2020 as recorded in the interests register are given in this report under Directors' shareholding.

### Related Parties' Transactions with the Company

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the interests register in due compliance with the provisions of the Companies

Act, LKAS 24, Listing Rules and Finance Companies (Corporate Governance) Direction No. 3 of 2008.

Transactions of related parties (as defined in LKAS 24 - Related Parties Disclosure) with the Company are set out in Note 49 to the Financial Statements.

The Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2020.

### Directors' Remuneration

The Directors' remuneration is disclosed under Note 18 of the Financial Statements.

### Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of the state of its affairs.

### Stated Capital

The Stated Capital of the Company as at 31st March 2020 was Rs. 1,325,918,000/- represented by 58,863,350 Ordinary Shares. There were no changes in the stated capital of the Company during the year.

### Directors' Shareholding

The relevant interests of Directors in the shares of the Company as at 31st March 2020 are as follows:

	Shareholding as at 31/03/2020	Shareholding as at 31/03/2019
Mr. R M Karunaratne	Nil	Nil
Mr. Dhammika Perera*	12,616,266	12,616,266
Mr. S B Rangamuwa	1,312,500	1,312,500
Mr. T Murakami	Nil	Nil
Mr. K D A Perera**	2,133,240	1,926,396
Mr. A Dadigama	Nil	Nil
Mr. S S Weerabahu	Nil	Nil
Mr. J Kumarasinghe	Nil	Nil

\* Mr. Dhammika Perera is the Chairman and major shareholder of Vallibel Investments (Pvt) Limited which holds 30,277,000 shares constituting 51.43% of the issued shares of the Company.

\*\* Mr. K D A Perera also serves as a Director of Vallibel Investments (Pvt) Limited.

### Major Shareholders, Distribution Schedule and Other Information

Information on the distribution of shareholding, analysis of shareholders, the 20 largest shareholders of the Company, public holding as per the Listing Rules of the Colombo Stock Exchange are given on pages 262 and 263, Earnings, Dividends, Net Assets per Share, appear on page 268.

### Auditors

Messrs KPMG, Chartered Accountants served as the Auditors during the year under review.

Based on the declaration provided by Messrs KPMG, Chartered Accountants and to the extent that the Directors are aware, the Auditors do not have any relationship with (other than that of the Auditor), or interest in, the Company, which in the opinion of the Board, may reasonably be considered to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by The Institute of Chartered Accountants of Sri Lanka as at the reporting date.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

A total amount of Rs 2,885,000/- is payable by the Company to the Auditors for the year under review which comprise of Rs. 1,910,000/- as Audit fees and Rs. 975,000/- for Non Audit Services.

The Auditors have expressed their willingness to continue in office. A resolution to reappoint the Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

## Donations

The total amount of donations made during the year under review is Rs.121,913/-.

## Material Foreseeable Risk Factors

The section on Risk Management on pages 144 to 155 sets out the processes currently practiced by the Company to identify and manage the risks.

## Property, Plant and Equipment and Significant Changes in the Company's Fixed Assets/Market Value of Land

The details of property plant and equipment are given in Note 33 of the Financial Statements. The land and buildings owned by the Company are recorded at revalued amount and details of those properties and their market values as at 31st March 2019 as per valuations conducted by Mr. J.M Senanayaka Bandara an incorporated valuer are set out in Note 33.9 to the financial statements on pages 220 and 221.

## Statutory Payments

The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Company and contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the Reporting date, have been paid or, where relevant, provided for.

## Corporate Governance

The Board of Directors confirm that the Company has complied with Section

7.10 of the Listing Rules of the CSE on Corporate Governance and the Finance Companies (Corporate Governance) Direction No.3 of 2008 (as amended by Directions No. 4 of 2008 and No. 6 of 2013) and the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No.3 of 2011.

The Board was unable to meet in the month of March 2020 due to curfew being imposed by the Government and as such is not compliance with the requirements of paragraph 3(1) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 with regard to Board Meetings.

The Corporate Governance Statement on pages 112 to 143 explains the practices within the Company in this respect.

An Audit Committee, Remuneration Committee and Related Party Transactions Review Committee function as Board Sub Committees, with Directors who possess the requisite qualifications and experience.

Additionally the Board has formed an Integrated Risk Management Committee in terms of the Finance Companies (Corporate Governance) Direction No. 3 of 2008.

The composition of the said Committees during the year is as follows:

### Audit Committee

Mr. Aravinda Dadigama - Chairman  
Mr. R M Karunaratne - Member  
Mr. T Murakami\* - Member  
Mr. J Kumarasinghe\*\* - Member  
Mr. S S Weerabahu\*\*\* - Member

\* Ceased to be a member w.e.f 27.06.2019

\*\* Appointed w.e.f. 27.06.2019

\*\*\* Ceased to be a member w.e.f 19.12.2019

The Report of the Audit Committee appears on pages 160 and 161.

### Remuneration Committee

Mr. J Kumarasinghe - Chairman  
Mr. R M Karunaratne - Member  
Mr. K D A Perera - Member

The Remuneration Committee recommends the remuneration payable to the Managing Director, Executive Directors and other key management personnel, Executive Directors. The Board makes the final determination after considering such recommendations. The remuneration packages offered by the Company are linked to the individual performances and are aligned with the Company's business.

### Related Party Transactions Review Committee

Mr. Aravinda Dadigama - Chairman  
Mr. R M Karunaratne - Member  
Mr. T Murakami\* - Member  
Mr. J Kumarasinghe\*\* - Member  
Mr. S S Weerabahu\*\*\* - Member

\* Ceased to be a member w.e.f 27.06.2019

\*\* Appointed w.e.f 27.06.2019

\*\*\* Ceased to be a member w.e.f 19.12.2019

The Report of the Related Party Transactions Review Committee appears on page 162.

### Integrated Risk Management Committee

Mr. J Kumarasinghe\* - Independent Non-Executive Director - (Chairman)

Mr. R M Karunaratne\*\* - Independent Non-Executive Director

Mr. A Dadigama - Independent Non-Executive Director

Mr. S B Rangamuwa - Managing Director/ CEO

Mr. S S Weerabahu\*\*\* -Executive Director

Mr. Niroshan Perera - Senior Deputy General Manager - Credit



Mr. K D Menaka Sameera - Senior  
Deputy General Manager - Finance &  
Administration

Mr. T U Amaraweera - Deputy General  
Manager - Asset Management

\* Appointed as the Chairman  
w.e.f.27.06.2019

\*\* Ceased to be a member w.e.f  
27.06.2019

\*\*\* Ceased to be a member w.e.f  
19.12.2019

The report of the Integrated Risk  
Management Committee appears on  
page 163.

### Annual General Meeting

The Annual General Meeting will be  
held on 16th July 2020 at 10.00 a.m  
at the "Eagle on the Edge", Waters  
Edge, No. 316, Pannipitiya Road, Sri  
Jayawardenepura Kotte.

The notice of the Annual General  
Meeting appears on page 278.

This Annual Report is signed for and on  
behalf of the Board of Directors by

**R M Karunaratne**  
Acting Chairman

**S B Rangamuwa**  
Managing Director

**Anusha Wijesekara**  
P W Corporate Secretarial (Pvt) Ltd  
Secretaries

2nd June 2020  
Colombo

# AUDIT COMMITTEE REPORT

## Composition of the Audit Committee

The Board Audit Committee comprises three Independent Non-Executive Directors.

The following Directors serve/served on the Board Audit Committee during the year under review:

### Mr. A Dadigama

Independent Non-Executive Director (Chairman)

### Mr. R M Karunaratne

Independent Non-Executive Director

### Mr. T Murakami

Non-Executive Director  
(Ceased w.e.f. 27.06.2019)

### Mr. J Kumarasinghe

Independent Non-Executive Director  
(Appointed w.e.f. 27.06.2019)

### Mr. S S Weerabahu

Executive Director\*  
(Ceased w.e.f. 19.12.2019)

\*Mr. S S Weerabahu, who was an Independent Non Executive Director ceased to be a Member of the Audit Committee with effect from 19th December 2019 consequent to being re-designated as an Executive Director.

The Chairman, Mr. A Dadigama, is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holds an MBA in Finance from University of Southern Queensland, Australia. He is specialized in Finance, Treasury, Compliance and Risk Management and counts over 23 years of experience in different entities.

## Role of the Committee

The Audit Committee charter defines the role and responsibility of the Audit Committee. The key purpose of the Audit Committee of Vallibel Finance PLC is to assist the Board of Directors by fulfilling its overseeing responsibilities for;

- ▶ The integrity of the financial reporting of the Company
- ▶ The Company's compliance with legal and regulatory requirements
- ▶ Independence and performance of the Company's External Auditors
- ▶ Performance of the Company's internal audit function
- ▶ The soundness of the internal control and practices

The Audit Committee has authority to authorize investigations into any matter within its scope and responsibility as defined in the Audit Committee charter. The Committee provides a communication link between Internal Audit, External Audit and the Board of Directors of the Company.

## Meetings

The Committee met five times during the year. The attendance at the meetings was as follows:

Name of Director	Executive/Non-Executive Independent/Non-Independent	Attendance
Mr. A Dadigama	Independent Non-Executive	5/5
Mr. R M Karunaratne	Independent Non-Executive	4/5
Mr. T Murakami	Non-Executive	0/5 (upto 27.06.2019)
Mr. J Kumarasinghe	Independent Non-Executive	2/5 (from 27.06.2019)
Mr. S S Weerabahu	Executive	5/5 (upto 19.12.2019)

The Company Secretaries function as the Secretaries to the Committee. The Managing Director and the Senior Deputy General Manager Finance & Administration attended the meetings on invitation. The minutes of the Audit Committee were tabled at the monthly Board meetings.

The Committee carried out the following activities:

## Financial Statements

The Committee reviewed the Financial Information of Vallibel Finance PLC in

order to monitor the integrity of the Financial Statements, its Annual Report and Accounts Reports prepared for publication.

Audit Committee reviewed the assessment carried out by the Management on the potential implications of Covid – 19 outbreak on the Company's operations and concluded that there will be no significant impact on the ability to continue as a going concern.

## Internal Audit

The Company established an own in-house Internal Audit Department during the year. Messers Ernst and Young, Chartered Accountants also provides assistant in carrying out branch and specialized audit assignments. During the year under review, the Committee reviewed the Internal Audit Reports together with the management responses. A risk-based audit approach was adopted with a view to rationalize the usage of audit resources.

## External Audit

The Audit Committee met with Messrs KPMG prior to the commencement of the audit to discuss and approve the audit approach and the audit plan. Further, at the conclusion of the audit the Committee met with the Auditors to discuss the audit findings. The meetings were held without the presence of the Management. The Management's letter from the External Auditors and the response of the Management thereto were discussed by the Audit Committee.



The Audit Committee has recommended to the Board of Directors that Messrs KPMG, Chartered Accountants, be re-appointed as the Auditors of the Company for the financial year ending 31st March 2021, subject to the approval of the Shareholders at the next Annual General Meeting.

### Conclusion

The Audit Committee is of the view that adequate controls are in place to safeguard the Company's assets and to ensure that the financial position and the results disclosed in the Audited Accounts are free from any material misstatements.

**A Dadigama**

Chairman

*Audit Committee*

2nd June 2020

# RELATED PARTY TRANSACTION REVIEW COMMITTEE REPORT

## Composition of the Related Party Transaction Review Committee

The Related Party Transactions Review Committee, appointed by the Board of Directors of Vallibel Finance PLC, comprises of a combination of Executive Directors, Non-Executive Directors and Independent Non-Executive Directors. The composition of the committee is as follows.

### Mr. A Dadigama

Independent Non-Executive Director (Chairman)

### Mr. R M Karunaratne

Independent Non-Executive Director

### Mr. T Murakami

Non-Executive Director  
(Ceased w.e.f. 27.06.2019)

### Mr. J Kumarasinghe

Independent Non-Executive Director  
(Appointed w.e.f. 27.06.2019)

### Mr. S S Weerabahu

Executive Director\*  
(Ceased w.e.f. 19.12.2019)

\*Mr. S S Weerabahu, who was an Independent Non Executive Director ceased to be a Member of the Related Party Transaction Review Committee with effect from 19th December 2019 consequent to being re-designated as an Executive Director.

Brief profile of each member of the Committee is given on pages 20 to 22.

## Role of the Committee

The Related Party Transactions Review Committee was established in August 2015 in line with the Code of Best Practices on Related Party Transactions, issued by The Securities and Exchange Commission of Sri Lanka (SEC).

The purpose of the Committee is to provide independent review, approval and

oversight of Related Party Transactions of the Company.

The main responsibilities of the Committee include the following.

- ▶ Develop and recommend policies and procedures to review Related Party Transactions of the Company
- ▶ Review proposed Related Party Transactions of the Company except those explicitly exempted by the Committee Charter
- ▶ Update the Board of Directors on the Related Party Transactions of the Company
- ▶ Make disclosures on applicable Related Party Transactions, as required by the applicable regulations

## Policies and Procedures

The Company has adopted a Related Party Transactions (RPTs) Policy in view of structuring the Company's policies and procedures to uphold good governance and in the best interests of the Company. The Policy has been prepared in accordance with the rules pertaining to RPTs under the Listing Rules of Colombo Stock Exchange.

The Committee ensures that all transactions with related parties are in the best interests of all stakeholders, adequate transparency is maintained and are in compliance with the Listing Rules. The Committee reviewed related party transactions during the year and communicated its observations to the Board.

## Meetings

The Committee held four meetings during the year, in quarterly intervals, to review the Related Party Transactions of the Company. The minutes of the meetings are tabled at next immediate Board meetings for Board's information and/or action.

## Related Party Transactions during the year

During the financial year under review, there were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds & criteria as stipulated by Listing Rules of the Colombo Stock Exchange.

Details of other Related Party Transactions are given in Note No. 49 to the Financial Statements on pages 231 to 233.



### A Dadigama

Chairman  
Related Party Transaction Review Committee

2nd June 2020



# INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

## Composition of the Integrated Risk Management Committee (IRMC)

The IRMC is comprised of three Non Executive Directors, CEO and three representatives from the senior management.

The following Directors/Officers serve/served on the Board Integrated Risk Management Committee during the year under review:

### Mr. J Kumarasinghe

Independent Non-Executive Director (Chairman)  
(Appointed w.e.f. 27.06.2019)

### Mr. R M Karunaratne

Independent Non-Executive Director  
(Ceased w.e.f. 27.06.2019)

### Mr. A Dadigama

Independent Non-Executive Director

### Mr. S B Rangamuwa

Managing Director/CEO

### Mr. S S Weerabahu

Executive Director  
(Ceased w.e.f. 19.12.2019)

### Mr. Nirosan Perera

Senior Deputy General Manager – Credit

### Mr. K D Menaka Sameera

Senior Deputy General Manager - Finance & Administration

### Mr. T U Amaraweera

Deputy General Manager - Asset Management

## Main Role and Responsibilities of the Committee

In line with sections 8.1 and 8.3 of the Finance Companies (Corporate Governance) Direction No.3 of 2008, an Integrated Risk Management Committee was established in December 2008.

The Integrated Risk Management Committee functions within the Terms of Reference which sets out the objectives and responsibilities of the Integrated Risk Management Committee. The scope and functions of the Committee conform with

the provisions of the Finance Companies (Corporate Governance) Direction No.3 of 2008. The main objectives of the Committee are:

- ▶ To ensure that the Company has a comprehensive risk management framework relative to its business activities and risk profile
- ▶ To assess the effectiveness of the Company's risk management system
- ▶ To ensure that a compliance function is in place to assess the Company's compliance with laws, regulations, rules, directions, regulatory guidelines, internal controls and other prescribed practices
- ▶ To ensure that the Board of Directors is kept updated of the Company's risk exposure

During the year, the Committee assessed and reviewed material risks associated with the conduct of the business, and also ensured strategies are in place to manage those risks to prudent levels. The Risk Management process which is used by the IRMC to discharge its functions is detailed in the Risk Management section of the annual report.

## Meetings

The Committee held four meetings, in quarterly intervals, during the year under review. The minutes of the IRMC Meetings were tabled at the Board meetings.

The Integrated Risk Management Committee reviewed risk policy frameworks and risk management strategies and key risk indicators were discussed at the meetings. The IRMC is satisfied that the risk exposures of the Company are being appropriately managed.



**J Kumarasinghe**

Chairman

*Integrated Risk Management Committee*

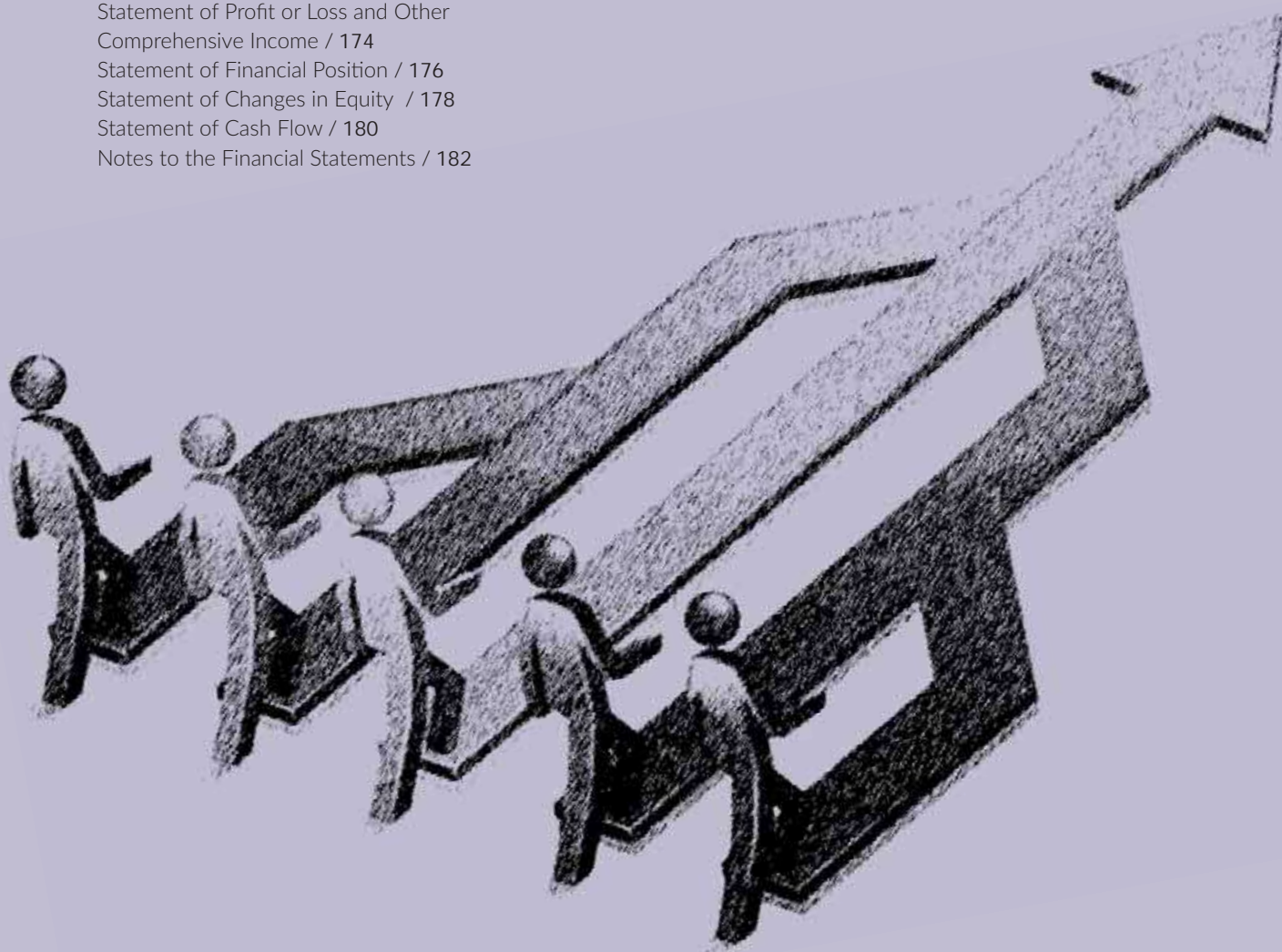
2nd June 2020



# FINANCIAL STATEMENTS

A detailed account of the Company's financial performance and position for the year under review with previous year comparisons showcasing financial stability, maintenance of liquidity, increasing shareholder funds, and the financial harmony of Vallibel Finance PLC.

Financial Calendar / 166  
Director's Statement on Internal Control over Financial Reporting / 167  
Statement of Director's Responsibilities / 168  
Key Highlights / 169  
Independent Auditor's Report / 170  
Statement of Profit or Loss and Other Comprehensive Income / 174  
Statement of Financial Position / 176  
Statement of Changes in Equity / 178  
Statement of Cash Flow / 180  
Notes to the Financial Statements / 182



# FINANCIAL CALENDAR

## ANNUAL GENERAL MEETING (AGM) CALENDAR

	2019/20	2020/21
Annual Report and Accounts for the year signed/to be signed	2nd June 2020	In May 2021
Annual General Meeting to be held	16th July 2020	In June 2021

## INTERIM FINANCIAL STATEMENTS CALENDAR - SUBMISSION TO THE COLOMBO STOCK EXCHANGE (CSE)

	2019/20 Submitted on	2020/21 To be Submitted on or before
For the three months ended / ending 30th June	06th August 2019	15th August 2020
For the six months ended / ending 30th September	17th October 2019	15th November 2020
For the nine months ended / ending 31st December	30th January 2020	15th February 2021
For the year ended / ending 31st March	11th May 2020	31st May 2021

## SIX MONTHS FINANCIAL STATEMENTS

Six months ended /ending 30th September	2019/20 Published on	2020/21 To be published on or before
English	05th November 2019	30th November 2020
Sinhala	07th November 2019	30th November 2020
Tamil	10th November 2019	30th November 2020

## ANNUAL FINANCIAL STATEMENTS

Year ended 31st March	2018/19 Published on	2019/20 To be published on or before
English	16th June 2019	30th June 2020
Sinhala	18th June 2019	30th June 2020
Tamil	23rd June 2019	30th June 2020



# DIRECTOR'S STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

## Responsibility

In line with the section 10 (2) (b) of the Finance Company direction, No 03 of 2008 as amended by the Direction No 06 of 2013, the Board of Directors presents this report on Internal Control Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Vallibel Finance PLC ("the Company").

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over Financial Reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the policies and procedures on risk and control, by identifying and assessing the risks faced, and in design, operation and monitoring of suitable internal controls over financial reporting to mitigate and control these risks. Internal controls over financial reporting are checked by the Internal Auditors of the Company for suitability of design and effectiveness on an ongoing basis.

## Confirmation

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

## External Auditors Certification

The External Auditors have submitted a certification on the process adapted by the Directors on the system of internal controls over financial reporting.

By order of the Board

**R M Karunaratne**  
Acting Chairman

**S B Rangamuwa**  
Managing Director

**A Dadigama**  
Chairman  
*Audit Committee*

2nd June 2020

# STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Directors are required by the Companies Act, No. 7 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statement of affairs of the Company as at the end of the financial year and the income and expenditure of the Company for the financial year.

The Directors are also responsible to ensure that the financial statements are prepared in compliance with the required standards and any other requirements which apply to the Company's financial statements under any other law.

The Directors consider that the financial statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the revised Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS), Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Finance Business Act, No. 42 of 2011 and the relevant Directions issued in respect of Licensed Finance Companies.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the

financial position of the Company with reasonable accuracy and enable them to ensure that the financial statements have been prepared and presented as aforesaid. They are also responsible for taking measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the financial statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2020/21, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board  
**VALLIBEL FINANCE PLC**



**P W Corporate Secretarial (Pvt) Ltd**  
Secretaries

2nd June 2020



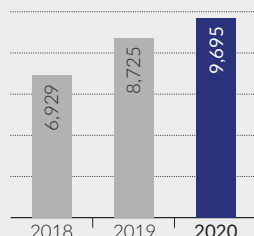


# KEY HIGHLIGHTS

## Gross Income

Rs. Mn

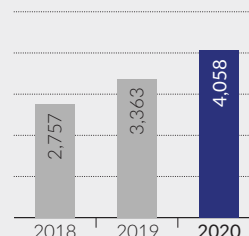
A 11.13% year-on-year increase amounting to Rs. 9,695 Mn during the financial year under review.



## Net Interest Income

Rs. Mn

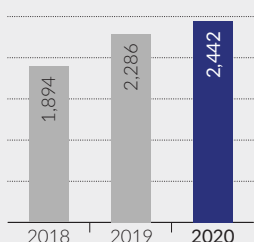
A double-digit growth of 20.64% amounting to Rs. 4,058 Mn during the financial year under review.



## Operating Profit Before Taxes on Financial Services

Rs. Mn

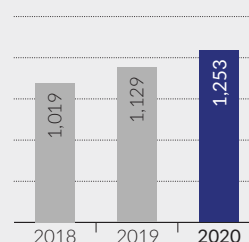
Rs. 2,442 Mn earned for the financial year under review.



## Profit after Tax

Rs. Mn

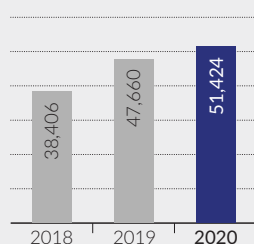
Profit after tax grown by Rs. 124 Mn during the financial year under review.



## Total Assets

Rs. Mn

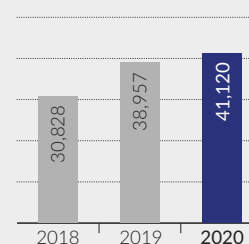
A Rs. 3,764 Mn increase in total assets with a 7.90% year-on-year growth for the year under review recording Rs. 51,424 as at 31st March 2020.



## Loan Portfolio

Rs. Mn

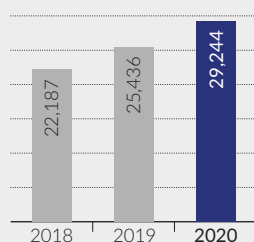
A 5.55% year-on-year growth of the total loan portfolio amounting to Rs.41,120 Mn by the end of the financial year under review.



## Deposits due to Customers

Rs. Mn

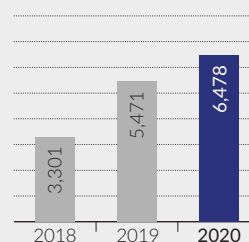
A double-digit growth of 14.97% recording Rs. 29,244 Mn as at 31st March 2020.



## Total Equity

Rs. Mn

A double-digit year-on-year growth of 18.40% recording Rs. 6,478 Mn as at 31st March 2020.



# INDEPENDENT AUDITOR'S REPORT



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
Internet : www.kpmg.com/lk

## 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 31st March 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 182 to 253 of this Annual Report.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31st March 2020, 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 Impairment allowance for loans and receivables, lease and hire purchase receivables

Refer notes 16, 28 and 29 to the financial statements and the accounting policies notes 2.12.3, 5.1.3.3.1 and 5.1.9.

Risk Description	Our Response:
<p>As at 31st March 2020 79.96% of its total assets of the Company consisted of loan and receivables, lease and hire purchase receivables totaling to Rs 41.1 Bn, net of impairment allowance of Rs. 1.7 Bn.</p> <p>The determination of impairment allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, macroeconomic forecasts, exposures at default and discount rate, adjustments for forward looking information and other adjustment factors. In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Companies internal credit risk management strategy. Management judgement is involved in the selection of those parameters and the application of assumptions.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>Assessment of the methodology inherent within the impairment models against the requirements of SLFRS 9;</li> <li>Assessing how management had assessed the impact of COVID-19 within the ECL model to assess whether that it was appropriately considered in the measurement of ECLs at reporting date. In particular, we challenged Management's assessment of the likelihood of a severe economic downturn caused by COVID-19 at the reporting date with reference to the reasonable and supportable information available to management at that date;</li> <li>Challenging the key assumptions in the ECL models, including staging PD and LGD and evaluating the reasonableness of Management's key judgments and estimates with the assistance of financial risk management specialist;</li> </ul>

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. Rajakaner FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan FCA  
A.M.R.P. Alahakoon ACA

P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel ACA

C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Surmanasekara FCA



<p>Loan and receivable, lease and hire purchase impairment remains one of the most significant judgements made by management particularly in light of the uncertain economic outlook in Sri Lanka as at the reporting date due to the potential impact of the COVID-19 outbreak.</p> <p>We have identified the impairment of loans and receivables, lease and hire purchase receivables as a key audit matter because of its significance to the financial statements with the application of significant judgments and estimates which are subject to estimation uncertainty and management bias.</p>	<ul style="list-style-type: none"> <li>▶ Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and ECL models and assessment of economic information used within, and weightings applied to, forward looking scenarios;</li> <li>▶ Recalculation of ECL for sample using the key assumptions used in the models, such as PD and LGD;</li> <li>▶ Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development;</li> <li>▶ Assessing the completeness, accuracy and relevance of disclosures in the financial statements in relation to impairment of loans and advance to customers</li> </ul>
--	--

## 2 Management assessment of Material uncertainty relating impact of COVID-19

Refer Note 55 to the financial statements.

<p><b>Risk Description</b></p> <p>The financial statements have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the directors have reviewed the Company's cash flow projections for the next 12 months, prepared by the management. The cash flow projections were based on management's assumptions and estimation of future cash inflows and outflows, taking into consideration the potential impact of COVID-19 global pandemic.</p> <p>Note 55 to the financial statements, described the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Company's future prospects, performance and cash flows. Further, the management considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.</p> <p>We identified the management assessment of the potential impact of COVID 19 event and related disclosures as a key audit matter because the cash flow projections referred to above involves consideration of future events and circumstances which are inherently uncertain, and effect of those uncertainties may significantly impact the resulting accounting estimates.</p>	<p><b>Our Response:</b></p> <p>Our audit procedures included,</p> <ul style="list-style-type: none"> <li>▶ Assessing the directors' assessment of the Company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the plans for future actions in relation to the going concern assessment</li> <li>▶ Obtaining the Company's cash flow projections covering the period of not less than twelve months from the reporting date and challenging these key assumptions used in preparing the projections.</li> <li>▶ Evaluating the sensitivity of the projected liquidity positions by considering downside scenarios together with reasonably plausible changes to the key assumptions and whether there were any indicators of management bias in the selection of the assumptions.</li> <li>▶ Reviewing the facility agreements for the Company's long-term borrowings to identify any financial covenants or similar terms and assessing the implication of these on the Company's liquidity.</li> <li>▶ Assessing the adequacy of disclosures in the financial statements in relation to the going concern basis of accounting with reference to the requirements of the prevailing accounting standards and potential impact of the COVID-19 outbreak.</li> </ul>
--	---

# INDEPENDENT AUDITOR'S REPORT



## 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. We have nothing to report in this regard.

## 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  
2nd June 2020

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31st March	Page No.	Note	2020 Rs.	2019 Rs.	Change %
Gross Income	203	10	9,695,306,097	8,724,530,342	11.1
Interest Income	203	11.1	8,912,195,796	7,888,022,365	13.0
Interest Expense	204	11.2	(4,854,515,785)	(4,524,628,517)	7.3
Net Interest Income	203	11	4,057,680,011	3,363,393,848	20.6
Fee and Commission Income	204	12	350,337,255	361,072,091	(3.0)
Net Fee and Commission Income			350,337,255	361,072,091	(3.0)
Net Gain / (Loss) from Trading	204	13	(384,462)	(352,486)	9.1
Net Gain / (Loss) from other Financial Instruments at FVTPL	204	14	63,839,013	1,128,745	5,555.8
Other Operating Income	204	15	369,318,495	474,659,627	(22.2)
Total Operating Income			4,840,790,312	4,199,901,825	15.3
Impairment (Charges) / Reversals and Other Credit Losses on Financial Assets	205	16	(487,815,203)	(195,100,737)	150.0
Net Operating Income			4,352,975,109	4,004,801,088	8.7
Expenses					
Personnel Expenses	205	17	(1,053,241,776)	(906,841,898)	16.1
Premises Equipment and Establishment Expenses			(155,159,652)	(154,026,186)	0.7
Other Operating Expenses			(702,676,973)	(658,314,890)	6.7
Operating Profit Before Taxes on Financial Services	205	18	2,441,896,708	2,285,618,114	6.8
Taxes on Financial Services	206	19	(579,795,359)	(536,979,738)	8.0
Profit Before Income Tax			1,862,101,349	1,748,638,376	6.5
Income Tax Expense	206	20	(608,691,237)	(619,909,904)	(1.8)
Profit for the Year			1,253,410,112	1,128,728,472	11.0
Earnings Per Share	207	21			
Basic Earnings Per Share			21.29	20.37	4.6
Diluted Earnings Per Share			21.29	20.37	4.6

The notes appearing on pages 182 to 253 are an integral part of these Financial Statements.  
Figures in brackets indicate deductions.





For the Year Ended 31st March	Page No.	Note	2020 Rs.	2019 Rs.	Change %
<b>Profit for the Year</b>			<b>1,253,410,112</b>	<b>1,128,728,472</b>	<b>11.0</b>
<b>Other Comprehensive Income, Net of Tax</b>					
<b>Items that will never be reclassified to Profit or Loss</b>					
Gains / (Losses) on remeasurement of Defined Benefit Liability	228	44.3	(15,747,404)	2,581,001	(710.1)
Deferred Tax ( Charge ) / Reversal on Actuarial Gains / (Losses)			4,409,273	(722,681)	710.1
<b>Net Actuarial Gains / (Losses) on Defined Benefit Liability</b>			<b>(11,338,131)</b>	<b>1,858,320</b>	<b>(710.1)</b>
Revaluation of Land & Buildings	230	47.1	-	176,592,194	(100.0)
Deferred Tax ( Charge ) / Reversal on Revaluation of Land & Buildings	230	47.1	-	(49,445,814)	100.0
<b>Net Change in Revaluation of Land &amp; Buildings</b>			<b>-</b>	<b>127,146,380</b>	<b>(100.0)</b>
<b>Items that are or may be reclassified to Profit or Loss</b>					
Fair Value Gains / (Losses) that arose during the Year, Net of Tax			-	-	-
Fair Value Gain Realised to the Income Statement on disposal, Net of Tax			-	-	-
<b>Net Gains / (Losses) on Investment in Financial Assets at Fair Value through Other Comprehensive Income</b>			<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Comprehensive Income for the Year, Net of Tax</b>			<b>(11,338,131)</b>	<b>129,004,700</b>	<b>(108.8)</b>
<b>Total Comprehensive Income for the Year</b>			<b>1,242,071,981</b>	<b>1,257,733,172</b>	<b>(1.2)</b>

The notes appearing on pages 182 to 253 are an integral part of these Financial Statements.  
Figures in brackets indicate deductions.

# STATEMENT OF FINANCIAL POSITION

As at 31st March	Page No.	Note	2020 Rs.	2019 Rs.	Change %
<b>Assets</b>	208	23			
Cash and Cash Equivalents	212	25.1	2,046,506,255	1,507,932,892	35.7
Placements with Banks and Other Finance Companies	213	26	2,568,898,162	2,356,358,852	9.0
Reverse Repurchase Agreements			2,079,841,356	230,130,165	803.8
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	213	27	1,084,454,685	812,320,782	33.5
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	214	28	27,625,556,987	24,332,295,963	13.5
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	215	29	13,493,996,467	14,624,916,906	(7.7)
Financial Investments Measured at Fair Value Through Other Comprehensive Income	217	30	203,800	203,800	-
Financial Assets at Amortised Cost - Debt and other Financial Instruments	218	31	97,954,958	1,785,716,058	(94.5)
Financial Assets at Amortised Cost - Other Financial Assets	218	32	16,617,983	15,963,213	4.1
Property, Plant and Equipment	219	33	1,762,546,954	1,719,587,171	2.5
Right-of-use Lease Assets	222	34	369,692,861	-	100.0
Intangible Assets	223	35	17,663,649	19,647,533	(10.1)
Deferred Tax Assets	227	42.4	73,779,797	73,028,603	1.0
Other Assets	223	36	186,135,314	181,423,647	2.6
<b>Total Assets</b>			<b>51,423,849,228</b>	<b>47,659,525,585</b>	<b>7.9</b>
<b>Liabilities</b>	208	23			
Bank Overdrafts	212	25.2	964,529,904	1,566,068,720	(38.4)
Rental Received in Advance			266,875,302	324,196,627	(17.7)
Financial Liabilities at Amortised Cost - Deposits due to Customers	223	37	29,243,912,898	25,436,257,664	15.0
Financial Liabilities at Amortised Cost - Interest bearing Borrowings	224	38	12,037,795,536	12,497,221,353	(3.7)
Subordinated Term Debts	225	39	-	1,031,100,274	(100.0)
Lease Creditors	226	40	402,518,972	-	100.0
Current Tax Liabilities	226	41	223,998,022	509,696,461	(56.1)
Deferred Tax Liabilities	227	42.3	260,945,390	343,733,661	(24.1)
Other Liabilities	228	43	1,442,619,116	411,165,825	250.9
Retirement Benefit Obligations	228	44	102,642,242	69,131,811	48.5
<b>Total Liabilities</b>			<b>44,945,837,382</b>	<b>42,188,572,396</b>	<b>6.5</b>



As at 31st March	Page No.	Note	2020 Rs.	2019 Rs.	Change %
<b>Equity</b>					
Stated Capital	230	45	1,325,918,000	1,325,918,000	-
Statutory Reserve Fund	230	46	1,208,563,889	957,881,867	26.2
Other Reserves	230	47	134,646,380	134,646,380	-
Retained Earnings	231	48	3,808,883,577	3,052,506,942	24.8
<b>Total Equity</b>			<b>6,478,011,846</b>	<b>5,470,953,189</b>	<b>18.4</b>
<b>Total Liabilities and Equity</b>			<b>51,423,849,228</b>	<b>47,659,525,585</b>	<b>7.9</b>
<b>Net Assets Value Per Share (Rs.)</b>			<b>110.05</b>	<b>92.94</b>	<b>18.4</b>

The notes appearing on pages 182 to 253 are an integral part of these Financial Statements.

#### Certification

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

K.D. Menaka Sameera  
Senior 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;

Dhammika Perera  
Executive Director

S.B. Rangamuwa  
Managing Director

2nd June 2020  
Colombo.

# STATEMENT OF CHANGES IN EQUITY

	Stated Capital Rs.	Statutory Reserve Fund Rs.	
Balance as at 01st April 2018	287,153,000	732,136,173	
Adjustment on initial application of SLFRS 9, net of tax	-	-	
Restated balance as at 01st April 2018	287,153,000	732,136,173	
<b>Total Comprehensive Income for the Year</b>			
Profit for the Year	-	-	
<b>Other Comprehensive Income, net of Tax</b>			
Net Gains / (Losses) on Investment in Financial Assets at Fair Value through Other Comprehensive Income	-	-	
Net Actuarial Gains / (Losses) on Defined Benefit Liability	-	-	
Net Change in Revaluation of Land & Buildings	-	-	
<b>Total Comprehensive Income for the Year</b>	-	-	
<b>Transactions with owners of the Company</b>			
<b>Contributions and distributions</b>			
Proceeds from the Right Issue of Ordinary Shares	1,038,765,000	-	
Transaction Cost of Right Issue of Ordinary Shares	-	-	
Dividends to equity holders			
Unclaimed Dividend Adjustments	-	-	
Statutory Reserve Transfer	-	225,745,694	
<b>Total Transactions with Equity Holders</b>	1,038,765,000	225,745,694	
Balance as at 31st March 2019	1,325,918,000	957,881,867	
<b>Total Comprehensive Income for the Year</b>			
Profit for the Year	-	-	
<b>Other Comprehensive Income, net of Tax</b>			
Net Gains / (Losses) on Investment in Financial Assets at Fair Value through Other Comprehensive Income	-	-	
Net Actuarial Gains / (Losses) on Defined Benefit Liability	-	-	
<b>Total Comprehensive Income for the Year</b>	-	-	
<b>Transactions with owners of the Company</b>			
<b>Contributions and distributions</b>			
Dividends to equity holders			
First and final Dividend for 2018/19	-	-	
Unclaimed Dividend Adjustments	-	-	
Statutory Reserve Transfer	-	250,682,022	
<b>Total Transactions with Equity Holders</b>	-	250,682,022	
Balance as at 31st March 2020	1,325,918,000	1,208,563,889	

The notes appearing on pages 182 to 253 are an integral part of these Financial Statements.  
Figures in brackets indicate deductions.



	Revaluation Reserve Rs.	General Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
	-	7,500,000	2,274,320,715	3,301,109,888
	-	-	(124,873,602)	(124,873,602)
	-	7,500,000	2,149,447,113	3,176,236,286
	-	-	1,128,728,472	1,128,728,472
	-	-	-	-
	-	-	1,858,320	1,858,320
	127,146,380	-	-	127,146,380
	127,146,380	-	1,130,586,792	1,257,733,172
	-	-	-	1,038,765,000
	-	-	(1,876,867)	(1,876,867)
	-	-	95,598	95,598
	-	-	(225,745,694)	-
	-	-	(227,526,963)	1,036,983,731
	127,146,380	7,500,000	3,052,506,942	5,470,953,189
	-	-	1,253,410,112	1,253,410,112
	-	-	-	-
	-	-	(11,338,131)	(11,338,131)
	-	-	1,242,071,981	1,242,071,981
	-	-	(235,453,400)	(235,453,400)
	-	-	440,076	440,076
	-	-	(250,682,022)	-
	-	-	(485,695,346)	(235,013,324)
	127,146,380	7,500,000	3,808,883,577	6,478,011,846

# STATEMENT OF CASH FLOW

As at 31st March	2020 Rs.	2019 Rs.
<b>Cash Flow from Operating Activities</b>		
Interest and Commission Receipts	9,274,074,108	8,311,703,438
Interest Payments	(4,465,166,232)	(4,230,522,245)
Cash Receipts from Customers	261,377,709	394,591,224
Cash Payments to Employees and Suppliers	(2,431,884,789)	(2,125,306,917)
<b>Operating Profit Before Changes in Operating Assets and Liabilities ( Note A )</b>	<b>2,638,400,796</b>	<b>2,350,465,500</b>
<b>( Increase ) / Decrease in Operating Assets</b>		
Short Term Funds	36,355,131	33,915,400
Deposits held for Regulatory or Monetary Control Purposes	(13,969,356)	702,628,000
Financial assets at amortised cost – Loans and advances / Lease rental & Hire purchase receivables	(2,771,551,993)	(8,479,151,182)
Other Short Term Negotiable Securities	(410,380,335)	(1,052,437,665)
<b>Increase / ( Decrease ) in Operating Liabilities</b>		
Financial liabilities at amortised cost – Due to depositors	3,695,859,938	3,222,089,837
Financial liabilities at amortised cost – Certificate of Deposits	(48,581,330)	(82,539,102)
<b>Net Cash Generated from/ (Used in) Operating Activities before Income Tax</b>	<b>3,126,132,851</b>	<b>(3,305,029,212)</b>
Current Taxes Paid	(973,519,870)	(575,520,858)
Gratuity Paid	(6,354,360)	(2,990,043)
<b>Net Cash Generated from/ (Used in) Operating Activities</b>	<b>2,146,258,621</b>	<b>(3,883,540,113)</b>
<b>Cash Flows from Investing Activities</b>		
Dividends Received	210,594	78,432
Proceed from Sale of Property , Plant and Equipment	1,166,035	37,972,313
Purchase of Property, Plant and Equipment	(148,862,268)	(205,046,405)
Purchase of Intangible Assets	(5,559,099)	(10,773,457)
<b>Net Cash Used in from Investing Activities</b>	<b>(153,044,738)</b>	<b>(177,769,117)</b>
<b>Cash Flows from Financing Activities</b>		
Net Increase / (decrease) in Financial liabilities at amortised cost – Interest bearing Borrowings	(618,088,380)	3,783,682,823
Proceeds from the Right Issue of Ordinary Shares - Net of Transaction cost	-	1,036,888,133
Dividend Paid	(235,453,400)	-
Unclaimed Dividend Adjustments	440,076	95,598
<b>Net Cash (Used in) / Generated from Financing Activities</b>	<b>(853,101,704)</b>	<b>4,820,666,554</b>
<b>Net Increase in Cash &amp; Cash Equivalents</b>	<b>1,140,112,179</b>	<b>759,357,324</b>
Cash & Cash Equivalents at the Beginning of the Year	(58,135,828)	(817,493,152)
<b>Cash &amp; Cash Equivalents at end of the Year ( Note B )</b>	<b>1,081,976,351</b>	<b>(58,135,828)</b>





As at 31st March	2020 Rs.	2019 Rs.
<b>Note A</b>		
<b>Reconciliation of Operating Profit Before Changes in Operating Assets and Liabilities</b>		
Profit Before Income Tax	1,862,101,349	1,748,638,376
Amortisation of Intangible Assets	7,542,983	5,694,737
Accrual for Interest Expense	337,231,016	294,106,272
Accrual for Interest Income	(94,871,862)	1,687,268
Accrual for Other Payable	(26,725,675)	19,234,439
Retirement Benefit Cost	24,117,387	17,489,545
Depreciation of Property, Plant and Equipment	105,171,430	87,556,961
Impairment Charges and Other Credit Losses on Financial Assets	487,815,203	195,100,737
Dividend Income	(210,594)	(78,432)
Unrealised Fair Value gains / (losses) on Financial Instruments measured at Fair Value Through Profit / Loss	503,552	352,486
Unrealised Fair Value gains / (losses) on Other Financial Instruments measured at Fair Value Through Profit / Loss	(63,839,013)	(1,128,745)
Gain / (Loss) on Disposal of Property, Plant & Equipment	(434,980)	(18,188,144)
	<u>2,638,400,796</u>	<u>2,350,465,500</u>
<b>Note B</b>		
<b>Cash &amp; Cash Equivalents at the end of the Year</b>		
Cash in Hand and at Banks	2,046,506,255	1,507,932,892
Bank Overdrafts	(964,529,904)	(1,566,068,720)
	<u>1,081,976,351</u>	<u>(58,135,828)</u>

The notes appearing on pages 182 to 253 are an integral part of these Financial Statements.  
Figures in brackets indicate deductions.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Reporting Entity

### 1.1. Corporate Information

Vallibel Finance PLC (the 'Company'), regulated under the Finance Business Act No. 42 of 2011, was incorporated on 5th September 1974 as a Public Limited Liability Company domiciled in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007 under the Company Registration No. PB 526/PQ.

The registered office of the Company is situated at No. 310, Galle Road, Colombo 03 and the principal place of business is situated at the same place.

The Company was listed on the Main Board of the Colombo Stock Exchange on 4th May 2010.

A company under the name "Vallibel Properties Ltd" was incorporated on 5th March 2020, as a fully owned subsidiary of Vallibel Finance PLC, to engage in administration of construction, development and maintenance of the proposed head office building complex for Vallibel Finance PLC. Since there were no transactions occurred during the period in Vallibel Properties Ltd, Consolidation Financial Statements have not been prepared.

The Staff strength of the Company as at 31st March 2020 was 979 (923 as at 31st March 2019).

Corporate information is presented in the page 277 of this Annual Report.

### 1.2. Principal Activities and Nature of Operations

The principal activities of the Company are accepting deposits, granting finance leases, hire purchase, granting of mortgage loans, granting of vehicle loans, granting of personal loans, gold loans, micro finance and other credit facilities.

There were no significant changes in the nature of the principal business activities of the Company during the financial year under review.

### 1.3. Parent Entity and Ultimate Parent Entity

In the opinion of Directors, the Company's immediate and ultimate parent undertaking and controlling party is Vallibel Investments (Private) Limited, which is incorporated in Sri Lanka.

## 2. Basis of Accounting

### 2.1. Statement of Compliance

The Financial Statements of the Company have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs)

laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting. This is the first set of Financial Statements in which SLFRS 16 - Leases has been applied. The related changes to significant accounting policies are described in Note 4.1.

### 2.2. Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the "Annual Report of the Board of Directors on the Affairs of the Company", "Statement of Director's Responsibilities" and the Certification on the Statement of Financial Position.

These Financial Statements include the following components:

- ▶ a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the year under review.
- ▶ a Statement of Financial Position providing the information on the financial position.
- ▶ a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Company.
- ▶ a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and utilisation of those cash flows.
- ▶ Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information.

### 2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended 31st March 2020 (including comparatives for 2019) were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on 02nd June 2020.



## 2.4. Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for the following material items stated in the Statement of Financial Position.

- ▶ Financial instruments measured at fair value through profit or loss are measured at fair value.
- ▶ Financial assets measured at fair value through other comprehensive income measured at fair value.
- ▶ Land and buildings measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation.
- ▶ Assets held for sale measured at lower of its carrying amount and fair value less costs to sell.
- ▶ Defined Benefit Obligation is recognized as the present value of the defined benefit obligation.

## 2.5. Functional and Presentation Currency

Items included in these Financial Statements of the Company are measured using the currency of the primary Economic environment in which the Company operates (the Functional Currency).

There was no change in the Company's Presentation and Functional Currency during the year under review.

These Financial Statements are presented in Sri Lanka Rupees, the Company's Functional and Presentation Currency.

## 2.6. Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustments have been made for inflationary factors affecting the Financial Statements.

## 2.7. Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard - LKAS 01 on "Presentation of Financial Statements" and amendments to the LKAS 01 on "Disclosure initiative", which was effective from 01st January 2016.

Notes to the financial statements are presented in a systematic manner which ensures the understandability and comparability of financial statements of the Company.

## 2.8. Going Concern Basis for Accounting

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, the Management has assessed the existing and anticipated effects of Covid - 19 on the Company, and is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Therefore, the Financial Statements of the Company continue to be prepared on a going concern basis.

## 2.9. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the International Financial Reporting Interpretations Committee and Standard Interpretation Committee) and as specifically disclosed in the Significant Accounting Policies of the Company.

## 2.10. Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard - LKAS 01 on "Presentation of Financial Statements".

## 2.11. Comparative Information

Comparative information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

The Company has not restated the comparative information for contracts within the scope of Sri Lanka Accounting Standard - SLFRS 16 on "Leases" (SLFRS 16). Therefore, the comparative information is reported under Sri Lanka Accounting Standard - LKAS 17 on "Leases" (LKAS 17) and is not comparable to the information presented for 2018/19.

## NOTES TO THE FINANCIAL STATEMENTS

### 2.12 Use of Judgments and Estimates

In preparing the Financial Statements of the Company in conformity with SLFRSs and LKASs, the Management has made judgments, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Significant areas of estimation uncertainty, assumptions and critical judgments in applying Accounting Policies that have most significant effects on amounts recognised in the Financial Statements of the Company are as follows:

#### A. Significant Accounting Judgments

Information about judgments made in applying Accounting Policies for that have the most significant effects on the amounts recognised in these Financial Statements is included in the following notes.

#### 2.12.1 Classification of Financial Assets and Liabilities

The Significant Accounting Policies of the Company provides scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria;

- ▶ The entity's business model for managing the financial assets as set out in Note 5.1.3.1
- ▶ The contractual cash flow characteristics of the financial assets as set out in Note 5.1.3.2

#### B. Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting material adjustments are included in the following notes.

#### 2.12.2 Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities recognized on the Statement of Financial Position, for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements.

#### 2.12.3 Impairment Losses on Financial Assets

The measurement of impairment losses across the categories of financial assets under Sri Lanka

Accounting Standard – SLFRS 9 on “Financial Instruments” (SLFRS 9) requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

A collective impairment provision is established for:

- ▶ groups of homogeneous loans and advances that are not considered individually significant; and
- ▶ groups of assets that are individually significant but that were not found to be individually impaired

As per SLFRS 9, the Company's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ The Company's criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss (LTECL) basis;
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis;
- ▶ Development of ECL models, including the various statistical formulas and the choice of inputs;
- ▶ Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates and unemployment and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD);
- ▶ Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The accuracy of the provision depends on the model assumptions and parameters used in determining the ECL calculations.



#### 2.12.4. Impairment of Non Financial Assets

The Company assesses whether there are any indicators of impairment for an asset or a Cash-Generating Unit (CGU) at each Reporting date or more frequently, if events or changes in circumstances necessitate doing so. This requires the estimation of the 'Value in use' of such individual assets or the CGUs. Estimating 'Value in use' requires management to make an estimate of the expected future cash flows from the asset or the CGU and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rate, and hence, they are subject to uncertainty.

#### 2.12.5. Defined Benefit Obligation

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions determining the discount rates, future salary increases, mortality rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

#### 2.12.6. Revaluation of property, plant and equipment

The Company measures land and buildings at revalued amounts with changes in fair value being recognised in Equity through Other Comprehensive Income (OCI). The Company engages independent professional valuers to assess fair value of land and buildings in terms of Sri Lanka Accounting Standard – SLFRS 13 on "Fair Value Measurement".

#### 2.12.7. SLFRS 16 – Leases (Applicable from 01st April 2019)

##### 2.12.7.1 Determination of the lease term for lease contracts with renewal and termination options (Company as a lessee)

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company has several lease contracts that include extension and

termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

##### 2.12.7.2 Estimating the incremental borrowing rate

As the Company cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate ("IBR") to measure the lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available (or when they need to be adjusted to reflect the terms and conditions of the lease). The Company estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

#### 2.12.8. Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilized against such tax losses. Judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax planning strategies.

#### 2.12.9 Useful Life time of the Property, Plant & Equipment

The Company reviews the residual values, useful lives and methods of depreciation of Property, Plant & Equipment at each Reporting date. Judgment of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

#### 2.12.10 Provisions for Liabilities, Commitments and Contingencies

The Company receives legal claims in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

## NOTES TO THE FINANCIAL STATEMENTS

### 2.13. Events after the Reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the Reporting Period have been considered and appropriate disclosures are made in the Financial Statements where necessary.

### 3. Fair Value Measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in the absence, in the most advantageous market to which the Company has the access at that date. The fair value of a liability reflects its non-performance risk.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

#### Level 1

Inputs that are quoted (unadjusted) market prices in active markets for identical assets or liabilities.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

#### Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using;

- ▶ quoted prices in active markets for similar instruments,
- ▶ quoted prices for identical or similar instruments in markets that are considered to be less active, or
- ▶ other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

#### Level 3

Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and Government Securities such as Treasury Bills and Treasury Bonds. Availability of observable prices and model inputs reduces the need for Management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ("Day 1" profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

### 4. Changes in Accounting Policies

The Company has consistently applied the accounting policies to all periods presented in these Financial Statements, except for changes arising out of transition to SLFRS 16 as set out below.

#### 4.1 New and amended standards and interpretations

In these Financial Statements, the Company has applied SLFRS 16, which is effective for the annual reporting periods beginning on or after 1st April 2019 for the first time. A number of other new standards are also effective from 01st April 2019 but they do not have material effect on the Company's Financial Statements.





The Company has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

#### 4.1.1 SLFRS 16 – Leases

SLFRS 16 issued in 2016, supersedes LKAS 17, IFRIC 4 on “Determining whether an arrangement contains a Lease”, SIC-15 on “Operating Leases – Incentives” and SIC-27 on “Evaluating the substance of transactions involving the legal form of a lease”. SLFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognise most leases on the SOFP.

One of the most notable aspects of SLFRS 16 is that the lessee and lessor accounting models are asymmetrical. SLFRS 16 has retained LKAS 17’s finance lease/operating lease distinction for lessors but this distinction is no longer relevant for lessees. Hence, the changes introduced in SLFRS 16 are not significant in respect of contracts in which the Company is the lessor. However, SLFRS 16 has introduced fundamental changes to accounting principles when the Company becomes the lessee of the contract.

The Company adopted SLFRS 16 using the modified retrospective method under which no cumulative effect of initial application is recognised in retained earnings as at 01st April 2019. Accordingly, the comparative information presented for 2018/19 is not restated. I.e. it is presented as previously reported under LKAS 17 and related interpretations. The details of the change in accounting policy are disclosed below. Additionally the disclosure requirements in SLFRS 16 have not been generally applied to comparative information.

As at 01st April 2019	Rs.
Right-of-use Lease Assets	392,794,031
Lease Creditors	392,794,031
Retained Earnings	-

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate as at 01st April 2019. The weighted average borrowing rate applied was 13.63%.

The Company recognises a lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments, discounted using the lessee’s IBR at the date of initial application. The Company recognises as right-of-use asset at the date of initial application for leases previously classified as operating leases applying LKAS 17. The Company

opted to measure the right-of-use asset at an amount equal to the lease liability, on a lease-by-lease basis, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the SOFP immediately before the date of initial application. The key changes of SLFRS 16 are as set out below:

##### 4.1.1.1 Changes to identification of leases

SLFRS 16 has changed the recognition of leases by replacing the ‘risk and reward’ model in LKAS 17 with a ‘right-of-use’ model for lessees. The Company determines whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

SLFRS 16 introduces a single on-balance sheet model for lessees similar to the accounting for finance lease under LKAS 17. Accordingly, leases within the scope of SLFRS 16 are brought on to the balance sheet recognising a ‘right-of-use’ asset and related lease liability. As a result, the portion of off-balance sheet finance kept in the form of operating lease is recognised on balance sheet, except for short-term leases (lease term 12 months or less) and leases of low value.

##### 4.1.1.2 Separating components of a contract

The Company determines, the right to use an underlying asset is a separate lease component if both of the following criteria are met.

- ▶ The lessee can benefit from use of the asset either on its own or together with other resources that are available to the lessee.
- ▶ The underlying asset is neither dependent on, nor highly interrelated with, the other underlying assets in the contract.

For contracts in which the Company becomes the lessee, the consideration in the contract is allocated to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components. On the other hand, when the Company is the lessor, the guidance given in Sri Lanka Accounting Standard – SLFRS 15 on “Revenue from Contracts with Customers” (SLFRS 15) is applied to allocate transaction price to separate components.

##### 4.1.1.3 Determination of lease term

All lease liabilities are to be measured with reference to the estimate of lease term. Accordingly, the Company determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that

## NOTES TO THE FINANCIAL STATEMENTS

option. In this assessment, the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Company reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, only upon the occurrence of a significant event or significant change in circumstances that are within the control of the Company as a lessee. In addition, as per SLFRS 16, the Company revises lease term only if there is a change in the non-cancellable period of lease.

### 5. Significant Accounting Policies – Recognition of Assets and Liabilities

The Significant Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Company, unless otherwise indicated.

#### 5.1. Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

##### 5.1.1. Date of Recognition

The Company initially recognises Lease and Hire Purchase receivables, loans and advances, deposits and debt securities issued on the date on which they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

##### 5.1.2. Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments.

A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined by SLFRS 15.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

Trade receivables that do not have significant financing component are measured at their transaction price at initial recognition as defined in SLFRS 15.

When the fair value of financial instruments (except trade receivables that do not have significant financing

component) at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below.

##### 5.1.2.1 “Day 1” Profit or Loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or Loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

##### 5.1.3. Classification and Subsequent Measurement of Financial Assets

As per SLFRS 9, the Company classifies all of its financial assets based on the business model for managing the assets and the assets contractual terms measured at either;

- ▶ Amortised cost (AC)
- ▶ Fair value through other comprehensive income (FVOCI)
- ▶ Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

##### 5.1.3.1. Business Model Assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by- instrument basis because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- ▶ the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;



- ▶ how the performance of the portfolio is evaluated and reported to the Company's management;
- ▶ the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- ▶ how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- ▶ the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### 5.1.3.2. Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI test)

As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In contrast, contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- ▶ contingent events that would change the amount and timing of cash flows;
- ▶ leverage features;
- ▶ prepayment and extension terms;
- ▶ terms that limit the Company's claim to cash flows from specified assets; and
- ▶ features that modify consideration of the time value of money.

#### 5.1.3.3. Financial assets measured at Amortised Cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- ▶ The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost include Loans and Receivables to other Customers, Lease Rental and Hire Purchase Receivables, Placements with Banks and other Finance Companies, Cash and Cash Equivalents, Reverse Repurchase Agreements and Debt & other financial instruments.

##### 5.1.3.3.1 Loans and Receivables to other Customers, Lease Rental and Hire Purchase Receivables

As per SLFRS 9, "Loans and advances to other customers" are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

When the Company is the lessor in a lease agreement that transfers substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases, net of initial rentals received, unearned lease income and provision for impairment are classified

## NOTES TO THE FINANCIAL STATEMENTS

as "Lease Rental Receivable" in the Statement of Financial Position.

Assets sold to customers under fixed rate hire agreements, which transfer all risk and rewards as well as the legal title at the end of such contractual period are classified as 'Hire Purchase Receivable'. Such assets are accounted for in a similar manner as finance leases.

After initial measurement, financial assets measured at amortised cost are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Company designates at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income" while the losses arising from impairment are recognised in "Impairment charges and other losses" in the Income Statement.

### 5.1.3.3.2 Reverse Repurchase Agreements

When the Company purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date, the arrangement is called "Reverse Repurchase Agreements" and accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Company.

### 5.1.3.3.3 Cash and Cash Equivalents

Cash and cash equivalents include of cash in hand and balance at banks and other highly liquid financial assets which are held for the purpose of meeting short-term commitments with original maturities of less than three months which are subject to an insignificant risk of changes in their fair value. There were no cash and cash equivalents held by the Company that were not available for use by the Company.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

### 5.1.3.4 Financial assets measured at FVOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

As per SLFRS 9, this comprises debt instruments measured at FVOCI and equity instruments designated at FVOCI.

### Debt instruments measured at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- ▶ The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

### Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 "Financial Instruments: Presentation" and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss in "Other Operating Income" when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

### 5.1.3.5 Financial assets measured at FVTPL

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### 5.1.3.5.1 Financial assets Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or they hold as a part of a portfolio that is managed together for short-term Profit or position taking.



Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss. Interest and dividend income are recorded in 'Interest Income' and 'Net Gains/ (Losses) from Trading' respectively in the income statement according to the terms of the contract, or when the right to receive the payment has been established.

#### 5.1.4. Classification and Subsequent Measurement of Financial Liabilities

The Company classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- ▶ Financial Liabilities at fair value through profit or loss, and within this category as :
  - Held for trading; or
  - Designated at fair value through profit or loss.
- ▶ Financial Liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification.

##### 5.1.4.1. Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading, if they are acquired principally for the purpose of repurchasing in the near term or held as a part of a portfolio that is managed together for short-term profit or position taking.

Changes in fair value are recorded in "Net fair value gains/ (losses) from financial instruments at fair value through profit or loss" with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Company's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to profit or loss. Interest paid/payable is accrued in "Interest expense", using the EIR.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

##### 5.1.4.2. Financial Liabilities at Amortised Cost

Financial instruments issued by the Company that are not designated at fair value through profit or loss, are classified as liabilities under 'Deposits Due to Customers', 'Subordinated Term Debts' or 'Interest

Bearing Borrowings' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in 'Interest Expense' in the Income Statement. Gains and losses are recognised in Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

#### 5.1.5. Reclassification of Financial Assets and Liabilities

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Company changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

##### 5.1.5.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Company reclassifies all affected assets prospectively from the first day of the first reporting period following the change in the business model (the reclassification date). Accordingly, prior periods are not restated.

##### 5.1.5.2 Measurement of reclassification of financial assets

###### 5.1.5.2.1 Reclassification of Financial Instruments - Fair value through profit or loss

- ▶ To Fair value through other comprehensive income

The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value are recognised in OCI.

- ▶ To Amortised Cost

The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

## NOTES TO THE FINANCIAL STATEMENTS

### 5.1.5.2.2 Reclassification of Financial Instruments - Fair value through other comprehensive income

- ▶ To Fair value through profit or loss

The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.

- ▶ To Amortised Cost

The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.

EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

### 5.1.5.2.3 Reclassification of Financial Instruments at "Amortised Cost"

- ▶ To Fair value through other comprehensive income

The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.

- ▶ To Fair value through profit or loss

The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

### 5.1.6. De recognition of Financial Assets and Financial Liabilities

#### 5.1.6.1 Financial Assets

The Company derecognises a financial asset (or where applicable a part of thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its Statement of Financial Position, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Company retains all or substantially all risks and rewards of ownership of such assets.

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Company has retained.

#### 5.1.6.2 Financial Liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

#### 5.1.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

#### 5.1.8. Amortised Cost and gross Carrying amount

An 'Amortised Cost' of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount and the maturity amount, and for financial assets, adjusted for any ECL allowance.





The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any ECL allowance.

### 5.1.9. Identification and Measurement of Impairment of Financial Assets

#### 5.1.9.1. Overview of the ECL principles

The Company records an allowance for expected credit losses for lease rental and hire purchase receivables, loans and receivables to other customers, debt and other financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

- ▶ Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).
- ▶ Stage 2: If significant increases in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.
- ▶ Stage 3: If a financial asset is credit-impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL, with probability of default at 100%.

Purchased or originated credit impaired (POCI) financial assets: Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The Company does not have POCI loans as at the reporting date.

#### 5.1.9.2. Measurement of ECL

The Company recognizes loss allowances for Expected Credit Losses (ECL) on financial investments that are not measured at FVTPL.

No impairment loss is recognised on equity investments.

The key inputs into the measurement of ECL are the term structure of the following variables:

- ▶ Probability of default (PD)
- ▶ Loss given default (LGD)
- ▶ Exposure at default (EAD)

#### Probability of default (PD)

PD estimates are estimates at a certain date, which are calculated, based on statistical models, and assessed using various categories based on homogenous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties.

#### Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, product category and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

#### Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract. For some financial assets, EAD is determined by considering contractual cash flows, prepayments and other factors.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The groupings are subject to regular review to ensure that exposures within a particular Company remain appropriately homogeneous.

The key judgments and assumptions adopted by the Company in addressing the requirements of SLFRS 9 are discussed below:

## NOTES TO THE FINANCIAL STATEMENTS

### 5.1.9.3. Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Company's historical experience and expert credit assessment and including forward looking information.

The Company considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with the rebuttable presumption in SLFRS 9.

### 5.1.9.4. Definition of default and credit impaired assets

The Company considers a financial asset to be in default when:

- ▶ the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held) ; or
- ▶ the borrower is past due equal more than 180 days on any material credit obligation to the Company. , In determination of default the Company largely aligns with the regulatory definition of default which is 180 days and above.

### 5.1.9.5. Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment.

### 5.1.9.6. Grouping financial assets measured on collective basis

Those financial assets for which, the Company determines that no provision is required under individual impairment are then collectively assessed for ECL. For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped into homogeneous portfolios, based on product and underlying security characteristics.

### 5.1.9.7. Incorporating Forward Looking Information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial

recognition and its measurement of ECL using variety of external actual and forecasted information, the Company formulates a "base case" view of the future direction of relevant economic variables as well as a representative range (Best Case and worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes. Such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses. The economic variables used by the Company based on the statistical significance include the followings:

Unemployment Rate	Base case scenario along with two other scenarios has been used (Best Case and worst Case)
Interest Rate	
GDP growth Rate	
Inflation Rate	

## 5.2. Property, Plant & Equipment

The Company applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets (including buildings under operating leases where the Company is the lessor) which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

### 5.2.1. Basis of Recognition

Property, Plant & Equipment is recognized if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be reliably measured.

### 5.2.2 Basis of Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly



attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing). The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

#### ► Cost Model

The Company applies the Cost Model to all Property, Plant & Equipment except freehold land and buildings. These are recorded at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

#### ► Revaluation Model

The Company applies the revaluation model for the entire class of freehold land and buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Company are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from carrying amounts, to ensure that the carrying amounts do not differ from the fair values as at the reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income only to the extent of the amounts written down previously. Any decrease in the carrying amount is recognised as an expense in the income statement or charged to Revaluation Reserve in Equity through OCI, only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

The Company revalued all its freehold land and buildings as at 31st March 2019. Methods and significant assumptions including unobservable market

inputs employed in estimating the fair value together with the sensitivity of same are given in notes to Financial Statements.

#### 5.2.3. Subsequent cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

#### 5.2.4. Depreciation

Depreciation is calculated to write-off the cost of items of Property, Plant & Equipment and right-of-use assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Freehold land is not depreciated. As per LKAS 17, up to 31st March 2019 leased assets under finance leases were depreciated over the shorter of the lease term and their useful lives. As per SLFRS 16, effective from 01st April 2019, right-of-use assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the company will obtain the ownership by end of the lease term, the assets are depreciated over the shorter of the estimated useful lives and the lease terms.

The estimated useful lives for the current and comparative years are as follows:

Freehold Buildings	15 years
Buildings on Leasehold Land	15 years
Computer Equipment	4 years
Furniture & Fittings	4 years
Office Equipment	4 years
Freehold Motor Vehicles	4 years
Leasehold Motor Vehicles	4 years

The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and commence to depreciate when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

Depreciation methods, useful lives and residual values are reassessed at each Reporting date and adjusted, if required.

#### 5.2.5. De-recognition

An item of Property, Plant & Equipment is derecognised upon disposal or when no future economic benefits

## NOTES TO THE FINANCIAL STATEMENTS

are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in 'Other Operating Income' in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant & Equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant & Equipment'.

### 5.2.6. Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by management (i.e. available for use).

### 5.2.7 Right-of-use assets

In accordance with SLFRS 16, effective from 01st April 2019, Right-of-use assets are presented in the Statement of Financial Position.

### 5.3 Borrowing Costs

As per the Sri Lanka Accounting Standard – LKAS 23 on "Borrowing Costs", the Company capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

### 5.4. Intangible Assets

The Company's intangible assets include the value of Computer Software.

#### 5.4.1. Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, these assets are stated in the Statement of Financial

Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

#### 5.4.2. Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### 5.4.3. Amortisation of intangible assets

Intangible assets are amortised using the straight line method to write down the cost over its estimated useful economic lives specified below:

Computer Software	4 years
-------------------	---------

#### 5.4.4. Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss.

### 5.5. Impairment of Non-Financial Assets

At each Reporting date, the Company reviews the carrying amounts of its non – financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related Cash-Generating unit (CGU) exceeds its estimated recoverable amount.

The Company's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.



Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

For assets other than goodwill an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### 5.6. Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

#### 5.7. Dividends Payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended and declared by the Board of Directors. Interim dividends are deducted from Equity when they are declared by the Board of Directors.

Dividends for the year, that are approved after the Reporting date and not provided for, are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standard – LKAS 10 on "Events after the reporting period" (LKAS 10).

#### 5.8. Deposits due to Customers

These include term deposits, savings deposits and certificates of deposits. Subsequent to initial recognition, deposits are measured at their amortised

cost using the effective interest method, except where the Company designates liabilities at fair value through profit or loss. Interest paid / payable on these deposits recognised in profit or loss.

#### 5.9. Debt Securities Issued and Subordinated Term Debts

These represent the funds borrowed by the Company for long-term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the effective interest method, except where the Company designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

#### 5.10. Other Liabilities

Other liabilities are recorded at amounts expected to be payable at the Reporting date.

#### 5.11. Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in 'Interest Expense' in profit or loss.

##### 5.11.1 Provisions for Operational Risk Events

Provisions for operational risk events are recognised for losses incurred by the Company which do not relate directly to amounts of principal outstanding for loans and advances.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

#### 5.12. Employee Benefits

##### 5.12.1. Defined Benefit Plan (DBP) - Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan.

The liability recognised in the Statement of Financial Position in respect of a defined benefit plan is the present value of the defined benefit obligation at the reporting date. Benefit falling due more than 12 months after the reporting date are discounted to present value.

## NOTES TO THE FINANCIAL STATEMENTS

The defined benefits obligation is calculated annually by independent actuaries using Projected Unit Credit Method (PUC) as recommended by LKAS-19, "employee benefits".

Actuarial gains and losses in the period in which they occur have been recognised in the other Comprehensive income (OCI).

The assumptions based on which the results of actuarial valuation was determined, are included in notes to the financial statements.

Gratuity liability was computed from the first year of service for all employees in conformity with Sri Lanka Accounting Standards 19- "Employee Benefits".

However, under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continual service.

The Company is liable to pay gratuity in terms of the relevant statute.

The gratuity liability is not externally funded.

### 5.13. Defined Contribution Plans (DCPs)

A Defined contribution plan is a post- employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay further amounts. Obligations for contributions to Defined Contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

#### 5.13.1. Employees' Provident Fund (EPF)

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the Employees Provident Fund managed by the Central Bank of Sri Lanka.

#### 5.13.2. Employees' Trust Fund (ETF)

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund managed by the Central Bank of Sri Lanka.

### 5.14. Earnings per Share (EPS)

The Company computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

### 5.15. Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Company's Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For each of the strategic divisions, the Company's management monitors the operating results separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes are managed on a Company basis and are not allocated to operating segments.

Detailed information on the results of each reportable segment as required by the Sri Lanka Accounting Standard – SLFRS 8 "Operating Segments" is provided in Notes to the Financial Statements.

### 5.16. Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

Pending legal claims against the Company form part of contingencies.

## 6. Significant Accounting Policies – Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

### 6.1. Net Interest Income

Interest income and expense are recognised in profit or loss using the effective interest method (EIR) method.





Interest income and expense presented in the Income Statement include:

- ▶ Interest on financial assets measured at amortised cost calculated using EIR method;
- ▶ Interest on financial assets measured at fair value through other comprehensive income (FVOCI) calculated using EIR method;
- ▶ Interest on financial assets measured at fair value through profit or loss (FVTPL) calculated using EIR method;
- ▶ Interest on financial liabilities measured at amortised cost calculated using EIR method

The 'Effective Interest Rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- ▶ the gross carrying amount of the financial asset; or
- ▶ the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

## 6.2. Fee and Commission Income and Expense

Fees and commission income and expense that are integral to the EIR of a financial asset or liability are capitalized and included in the measurement of the EIR. Other fees and commission income are recognised as the related services are performed.

## 6.3. Net Gain / (Loss) from Trading

'Net gain / (loss) from trading' comprise gains less losses related to trading assets and liabilities, and include all realised and unrealised fair value changes and dividends.

## 6.4. Net Gain / (Loss) from derecognition of Financial Assets

'Net gains/(losses) from derecognition of financial assets' comprised realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost.

## 6.5 Leases

### 6.5.1 Application as per SLFRS 16 (Applicable from 01st April 2019)

With effect from 01st April 2019, the Company applies this standard to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4, without reassessing whether a contract contains a lease at the date of initial application as a practical expedient. For the contracts entered on or after the effective date of transition, the Company assesses at the inception of a contract, whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used.

After the assessment of whether a contract is, or contains, a lease, the Company determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

#### 6.5.1.1 Company as a lessee

As per SLFRS 16, when the Company has determined that a contract contains a lease component and one or more additional lease components or non-lease components, the consideration in the contract is allocated to each lease component on the basis of relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the commencement date, the Company recognises right-of-use of an asset and a lease liability which is

## NOTES TO THE FINANCIAL STATEMENTS

measured at the present value of the lease payments that are payable on that date. Lease payments are discounted using the IBR.

After initial recognition, the Company applies cost model for the right-of-use of an asset and depreciate the asset from commencement date to the end of the useful life of the underlying asset. Where the right does not transfer the ownership of the asset, the Company depreciates it from commencement date to the earlier of the end of the useful life of the right-of-use asset or end of the lease term. In addition, interest expense on the lease liability is recognised in the profit or loss.

### 6.5.1.2 Company as a lessor

Similar to above, at the commencement of the contract, the Company determines whether the contract contains a lease component and one or more additional lease components or non-lease components. When there is one or more additional lease or nonlease component, the Company allocates consideration based on the guidelines given in SLFRS 15.

However, SLFRS 16 largely retains the lessor accounting requirements in LKAS 17 and classification of leases is based on the extent to which risks and rewards incidental to ownership of leased asset lie with the lessor or lessee.

#### 6.5.1.2.1 Finance leases – Company as a lessor

As per SLFRS 16, a lease which transfers substantially all the risks and rewards incidental to ownership of an underlying asset is classified as a finance lease. At the commencement date, the Company recognises assets held under finance lease in the SOFP and present them as a "Lease Rental Receivable" at an amount equal to the net investment in the lease. Net investment in the lease is arrived by discounting lease payments receivable at the interest rate implicit in the lease, i.e. the rate which causes present value of lease payments to equal to the fair value of the underlying asset and initial direct costs. The Company's net investment in lease is included in notes to financial statements. The finance income receivable is recognised in "interest income" over the periods of the leases so as to achieve a constant rate of return on the net investment in the leases.

#### 6.5.1.2.2 Operating leases – Company as a lessor

As per SLFRS 16, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. The Company recognises lease payments from operating leases as income on straight line basis. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis

as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 6.5.2 Application as per LKAS 17 (Applicable up to 31st March 2019)

#### 6.5.2.1 Finance Leases

##### 6.5.2.1.1 Finance Leases – Company as a Lessee

Finance leases that transfer substantially all risks and benefits incidental to ownership of the leased item to the Company, are classified as finance leases and capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

##### 6.5.2.1.2 Finance Leases – Company as a Lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of Unearned charges are included in 'Lease rentals receivables, as appropriate. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

#### 6.5.2.2 Operating Leases

##### 6.5.2.2.1 Operating Leases – Company as a Lessee

Leases that do not transfer to the Company substantially all risks and benefits incidental to ownership of the leased assets are operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

##### 6.5.2.2.2 Operating Leases – Company as a Lessor

Leases where the Company does not transfer substantially all risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

### 6.6. Rental Income and Expenses

Rental income and expense are recognised in profit or loss on an accrual basis.



## 7. Significant Accounting Policies – Income Tax Expense

### 7.1. Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Equity or in OCI.

#### 7.1.1 Current Tax

'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax receivable or payable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted, at the Reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 effective from 01st April 2018. Notes to Financial Statements include the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes'.

#### 7.1.2. Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- ▶ temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- ▶ temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- ▶ taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it

has become probable that future taxable profits will be available, against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the Reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the Reporting date, to recover or settle the carrying amount of its assets and liabilities.

#### 7.1.3 Tax exposures

In determining the amount of current and deferred tax, the Company considers the impact of tax exposures, including whether additional taxes and penalties are due. Finalisation of the tax liability with authorities may change the position already recorded in the Financial Statements and such changes to tax liabilities could impact the tax expense in the period in which such a determination is made either as an over or under provision.

#### 7.1.4 Changes proposed to Income Tax from Government Tax Proposals

As per the Notice to tax payers and withholding agents on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017" dated February 12, 2020 issued by the Department of Inland Revenue, Income Tax rates of Corporates has been revised to 24% from 28% effective from 01st January 2020 pending formal amendments to be made to the Inland Revenue Act.

### 7.2 Value Added Tax on Financial Services (VAT FS)

The value base for the computation of value added tax on financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before Income Tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

### 7.3 Nation Building Tax on Financial Services (NBT FS)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. Up to 30th November 2019, NBT was chargeable on the same base used for calculation of VAT on Financial services as explained in notes to the Financial Statements. As per Notice published by the Department of Inland Revenue dated 29th November 2019, NBT was abolished with effect from 01st December 2019.

### 7.4 Debt Repayment Levy on financial services (DRL FS)

As per the Finance Act No. 35 of 2018, with effect from 01st October 2018, DRL of 7% was introduced

# NOTES TO THE FINANCIAL STATEMENTS

on the value addition attributable to the supply of financial services by each financial institution. DRL was chargeable on the same base used for calculation of VAT on financial services as explained in Note 7.2 above. As per notice published by the Department of Inland Revenue dated 20th January 2020, DRL was abolished with effect from 01st January 2020.

## 7.5 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

## 7.6 Withholding Tax on Dividends Distributed by the company

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised. As per Notice dated 18th February 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective 01st January 2020.

## 7.7 Economic Service Charge (ESC)

As per the provisions of the Finance Act No. 11 of 2004, and amendments thereto, the ESC was introduced with effect from April 01, 2004. ESC was payable at 0.50% on 'Liable Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in three subsequent years (including the year of assessment in which the payment is due).

As per Notice published dated 01st January 2020 by the Department of Inland Revenue, ESC was abolished with effect from 01st January 2020.

## 8. Significant Accounting Policies – Statement of Cash Flows

### 8.1. Statement of Cash Flows

The Statement of Cash Flows has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard LKAS- 07 "Cash Flow Statements". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand and favorable balances with banks.

## 9. Amendments to Accounting Standards issued but not yet effective

Several amendments to Accounting Standards are effective for annual financial periods beginning on or after 01st April 2020, and earlier application is permitted.

However, the Company has not early adopted the following amendments to Accounting Standards in preparing these Consolidated Financial Statements as they are not expected to have a significant impact on the Company's Financial Statements.

### 9.1 Amendments to SLFRS 3: Definition of a Business

In November 2018, the CA Sri Lanka issued amendments to the definition of a business in SLFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, and add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

The Company shall apply these amendments to business combinations prospectively for annual financial periods beginning on or after 01st April 2020, if the asset acquisitions occur on or after the beginning of that period.

### 9.2 Amendments to LKAS 1 and LKAS 8: Definition of Material

In November 2018, the CA Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The Company shall apply those amendments prospectively for annual financial periods beginning on or after 01st April 2020.

### 9.3 Amendments to the conceptual framework for financial reporting

CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard setting decisions with immediate effect. Key changes include:

- ▶ increasing the prominence of stewardship in the objective of financial reporting
- ▶ reinstating prudence as a component of neutrality
- ▶ defining a reporting entity, which may be a legal entity, or a portion of an entity
- ▶ revising the definitions of an asset and a liability
- ▶ removing the probability threshold for recognition and adding guidance on derecognition



- ▶ adding guidance on different measurement basis, and
- ▶ Stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current Accounting Standards. However, if the Company relies on the framework in determining certain accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from 01st April 2020. The Company will need to consider whether those accounting policies are still appropriate under the revised Framework.

For the Year Ended 31st March	2020 Rs.	2019 Rs.
-------------------------------	-------------	-------------

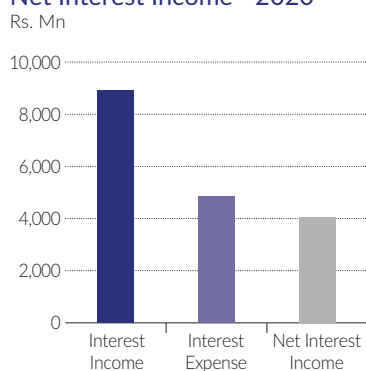
## 10 Gross Income

Interest Income ( Note 11.1 )	8,912,195,796	7,888,022,365
Fee and Commission Income ( Note 12 )	350,337,255	361,072,091
Net Gain / (Loss) from Trading (Note 13)	(384,462)	(352,486)
Net Gain / (Loss) from other Financial Instruments at FVTPL (Note 14)	63,839,013	1,128,745
Other Operating Income ( Note 15)	369,318,495	474,659,627
	9,695,306,097	8,724,530,342

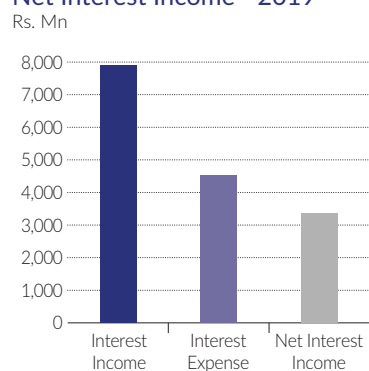
## 11 Net Interest Income

Interest Income ( Note 11.1)	8,912,195,796	7,888,022,365
Interest Expense ( Note 11.2)	4,854,515,785	4,524,628,517
	4,057,680,011	3,363,393,848

Net Interest Income - 2020



Net Interest Income - 2019



For the Year Ended 31st March	2020 Rs.	2019 Rs.
-------------------------------	-------------	-------------

### 11.1 Interest Income

Cash and Cash Equivalents	15,202,963	10,071,408
Placements with Banks and Other Finance Companies	237,226,372	280,062,867
Loans and Receivables to Other Customers ( Note 11.1.1)	5,249,998,272	4,311,894,341
Lease Rental and Hire Purchase Receivables ( Note 11.1.2)	3,196,016,423	3,120,372,883
Sri Lanka Government Securities	209,605,297	161,775,926
Other Financial Assets	4,146,469	3,844,940
	8,912,195,796	7,888,022,365

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st March		2020 Rs.	2019 Rs.
11.1.1	<b>Loans and Receivables to Other Customers</b>		
	Loans and Advances	4,404,566,349	3,784,052,340
	Loans against Fixed Deposits	82,546,584	79,247,785
	Microfinance Loans	116,539	1,445,201
	Gold Loans	762,768,800	447,149,015
		5,249,998,272	4,311,894,341
11.1.2	<b>Lease Rental and Hire Purchase Receivables</b>		
	Hire Purchase	2,999,631	23,947,531
	Lease	3,193,016,792	3,096,425,352
		3,196,016,423	3,120,372,883
11.2	<b>Interest Expense</b>		
	Financial Liabilities at Amortised Cost - Deposits due to Customers	3,252,365,568	2,989,922,222
	Financial Liabilities at Amortised Cost - Interest bearing Borrowings	1,438,299,197	1,342,990,970
	Bank Overdrafts	7,119,235	22,434,046
	Subordinated Term Debts	102,711,000	169,281,279
	Commercial Papers	1,902,247	-
	Interest Expense on Lease Creditors	52,118,538	-
		4,854,515,785	4,524,628,517
12	<b>Fee and Commission Income</b>		
	Loans and Receivables related services	350,167,231	360,836,957
	Other Financial Services	170,024	235,134
		350,337,255	361,072,091
13	<b>Net Gain / (Loss) from Trading</b>		
	<b>Equities</b>		
	Net mark- to- market Gain/ (Loss)	(503,552)	(352,486)
	Dividend Income	119,090	-
		(384,462)	(352,486)
14	<b>Net Gain / (Loss) from other Financial Instruments at FVTPL</b>		
	<b>Unit Trusts</b>		
	Net mark- to- market Gain/ (Loss)	63,839,013	1,128,745
		63,839,013	1,128,745
15	<b>Other Operating Income</b>		
	Dividend Income - Financial Investments Measured at Fair Value Through Other Comprehensive Income	91,504	78,432
	Redemption Income - Unit Trusts	107,414,302	61,801,827
	Early Termination Income	209,545,220	342,376,351
	Gain / (Loss) on Disposal of Property, Plant & Equipment	434,980	18,188,144
	Other Income	51,832,489	52,214,873
		369,318,495	474,659,627





For the Year Ended 31st March		2020 Rs.	2019 Rs.
<b>16</b>	<b>Impairment Charges / (Reversals) and Other Credit Losses on Financial Assets</b>		
	Placements with Banks and Other Finance Companies	6,059,570	(3,843,995)
	Financial Assets at Amortised Cost - Loans and Receivables to Other Customers (Note 16.1)	282,322,295	136,749,554
	Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables (Note 16.2)	199,279,754	62,002,009
	Financial Assets at Amortised Cost - Other Financial Assets	153,584	193,169
		487,815,203	195,100,737
<b>16.1</b>	<b>Financial Assets at Amortised Cost - Loans and Receivables to Other Customers</b>		
	Impairment Charges - Stage 1	20,206,495	34,160,069
	Impairment Charges - Stage 2	85,629,579	8,483,567
	Impairment Charges - Stage 3	176,486,221	94,105,918
		282,322,295	136,749,554
<b>16.2</b>	<b>Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables</b>		
	Impairment Charges - Stage 1	17,932,804	1,063,514
	Impairment Charges - Stage 2	97,927,517	14,809,214
	Impairment Charges - Stage 3	83,419,433	46,129,281
		199,279,754	62,002,009
<b>17</b>	<b>Personnel Expenses</b>		
	Salary & Bonus	875,223,179	745,085,117
	Retirement Benefit Costs (Note 44.2)	24,117,387	17,489,545
	Employer's Contribution to Employee's Provident Fund	65,949,114	57,026,928
	Employer's Contribution to Employee's Trust Fund	16,286,404	14,090,180
	Staff Welfare Expenses	71,665,692	73,150,128
		1,053,241,776	906,841,898
<b>18</b>	<b>Operating Profit Before Taxes on Financial Services</b>		
	Operating Profit Before Taxes on Financial Services is stated after charging all the expenses including the following:		
	Professional Fees	7,421,719	2,732,612
	Auditors Remuneration - Statutory Audit and Audit Related Services	1,910,000	1,750,000
	- Non Audit Services	975,000	455,000
	Directors Fees and Expenses	6,458,360	6,958,637
	Depreciation of Property, Plant and Equipment	105,171,430	87,556,961
	Amortisation of Intangible Assets	7,542,983	5,694,737
	Advertising & Related Expenses	106,751,383	114,225,000
	Business Promotion Expenses	42,088,027	47,667,248
	Donations	121,913	3,162,300
	Deposit Insurance Premium	35,000,590	31,147,696
	CROP Insurance Levy	12,787,286	11,236,371
	Personnel Expenses (Note 17)	1,053,241,776	906,841,898

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st March	2020 Rs.	2019 Rs.
-------------------------------	-------------	-------------

### 19 Taxes on Financial Services

Value Added Tax on Financial Services	382,645,466	379,217,733
Nation Building Tax on Financial Services	32,608,067	50,562,364
Debt Repayment Levy	164,541,826	107,199,641
	579,795,359	536,979,738

### 20 Income Tax Expense

Provision for Taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 24 of 2017, effective from 01st April 2018.

For the Year Ended 31st March	2020 Rs.	2019 Rs.
Current Income Tax Expense on Profits for the Year ( Note 20.1 )	715,202,704	765,170,522
Over provision in respect of previous year	(27,381,273)	(44,841,580)
	687,821,431	720,328,942
Deferred Tax (Reversal ) / Charge for the Year ( Note 42.2 )	(79,130,194)	(100,419,038)
	608,691,237	619,909,904

### 20.1 Reconciliation of Accounting Profit to Income Tax Expense

Profit Before Income Tax	1,862,101,349	1,748,638,376
Non deductible Expenses	4,773,788,538	7,529,244,215
Tax Deductible Expenses	(3,986,990,983)	(6,544,630,728)
Allowable Credits	-	-
Assessable Income	2,648,898,904	2,733,251,863
Qualifying Payments	-	(500,000)
Taxable Income	2,648,898,904	2,732,751,863
Current Income Tax Expense	715,202,704	765,170,522
	715,202,704	765,170,522

For the Year Ended 31st March	%	2020 Rs.	%	2019 Rs.
-------------------------------	---	-------------	---	-------------

### 20.2 Reconciliation of Effective Tax Rate

Profit Before Income Tax		1,862,101,349		1,748,638,376
Taxable Income	28.0 & 24.0	502,767,364	28.0	489,618,745
Non - Deductible Expenses	69.2	1,288,922,905	120.6	2,108,188,380
Tax Deductible Expenses	(57.8)	(1,076,487,565)	(104.8)	(1,832,496,604)
Allowable Credits	-	-	-	-
Effects on Qualifying Payments	-	-	-	(140,000)
Effects on Deferred Taxation	(4.2)	(79,130,194)	(5.7)	(100,419,038)
Effects on (Over) / under provision	(1.5)	(27,381,273)	(2.6)	(44,841,580)
Total Income Tax Expense	32.7	608,691,237	35.5	619,909,904



## 21 Earnings Per Share

### 21.1 Basic Earnings per Share

The calculation of Basic Earnings Per Share was based on the profit attributable to ordinary shareholders by dividing the weighted average number of ordinary shares outstanding during the year as per the LKAS 33 - "Earnings per Share". Calculation is as follows:-

For the Year Ended 31st March	2020 Rs.	2019 Rs.
<b>Amount used as the Numerator</b>		
Profit Attributable to Equity holders (Rs.)	1,253,410,112	1,128,728,472
<b>Number of Ordinary Shares used as the Denominator</b>		
Weighted Average Number of Ordinary Shares (Note 21.1.1)	58,863,350	55,424,769
<b>Basic Earnings Per Share (Rs.)</b>	<b>21.29</b>	<b>20.37</b>

For the Year Ended 31st March	Outstanding Number of Shares		Weighted Average Number of Shares	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.

#### 21.1.1 Weighted Average Number of Ordinary Shares

Number of shares in issue as at beginning of the year	58,863,350	41,550,600	58,863,350	41,550,600
Add : Number of shares issued under rights issue 2018/19	-	17,312,750	-	12,249,945
Add : Bonus element on number of shares issued under rights issue 2018/19	-	-	-	1,624,224
Number of shares in issue as at end of the year	58,863,350	58,863,350	58,863,350	55,424,769

### 21.2 Diluted Earnings per Share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, Diluted Earnings Per Share is same as Basic Earnings Per Share shown above.

For the Year Ended 31st March	2020 Rs.	2019 Rs.
-------------------------------	-------------	-------------

## 22 Dividends Paid

<b>First &amp; Final Dividend</b>		
Net dividend paid to the ordinary shareholders out of normal profits	202,489,924	-
Withholding Tax Deducted at source	32,963,476	-
<b>Gross Dividend paid</b>	<b>235,453,400</b>	<b>-</b>
<b>Interim Dividend</b>		
Net dividend paid to the ordinary shareholders out of normal profits	-	-
Withholding Tax Deducted at source	-	-
<b>Gross Dividend paid</b>	<b>-</b>	<b>-</b>

### 22.1 Dividend Paid Per Share

<b>First &amp; Final Dividend</b>		
Dividend Paid Per Share for the Financial Year 2018/19	4.00	-

## NOTES TO THE FINANCIAL STATEMENTS

### 23 Financial Assets and Financial Liabilities

#### 23.1 Classification of Financial Assets and Financial Liabilities As at 31st March 2020

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

	Financial Assets recognised through Profit or Loss (FVTPL)	Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)	Financial Assets at Amortised Cost (AC)	Total Carrying Amount
	Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>				
Cash and Cash Equivalents	-	-	2,046,506,255	2,046,506,255
Placements with Banks and Other Finance Companies	-	-	2,568,898,162	2,568,898,162
Reverse Repurchase Agreements	-	-	2,079,841,356	2,079,841,356
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	1,084,454,685	-	-	1,084,454,685
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	-	-	27,625,556,987	27,625,556,987
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	-	-	13,493,996,467	13,493,996,467
Financial Investments Measured at Fair Value Through Other Comprehensive Income	-	203,800	-	203,800
Financial Assets at Amortised Cost - Debt and other Financial Instruments	-	-	97,954,958	97,954,958
Financial Assets at Amortised Cost - Other Financial Assets	-	-	16,617,983	16,617,983
<b>Total Financial Assets</b>	<b>1,084,454,685</b>	<b>203,800</b>	<b>47,929,372,168</b>	<b>49,014,030,653</b>

	Financial Assets at Amortised Cost (AC)	Total Carrying Amount
	Rs.	Rs.
<b>Financial Liabilities</b>		
Bank Overdrafts	964,529,904	964,529,904
Rental Received in Advance	266,875,302	266,875,302
Financial Liabilities at Amortised Cost - Deposits due to Customers	29,243,912,898	29,243,912,898
Financial Liabilities at Amortised Cost - Interest bearing Borrowings	12,037,795,536	12,037,795,536
Lease Creditors	402,518,972	402,518,972
<b>Total Financial Liabilities</b>	<b>42,915,632,612</b>	<b>42,915,632,612</b>



### 23.2 Classification of Financial Assets and Financial Liabilities As at 31st March 2019

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

	Financial Assets recognised through Profit or Loss (FVTPL)	Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)	Financial Assets at Amortised Cost (AC)	Total Carrying Amount
	Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>				
Cash and Cash Equivalents	-	-	1,507,932,892	1,507,932,892
Placements with Banks and Other Finance Companies	-	-	2,356,358,852	2,356,358,852
Reverse Repurchase Agreements	-	-	230,130,165	230,130,165
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	812,320,782	-	-	812,320,782
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	-	-	24,332,295,963	24,332,295,963
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	-	-	14,624,916,906	14,624,916,906
Financial Investments Measured at Fair Value Through Other Comprehensive Income	-	203,800	-	203,800
Financial Assets at Amortised Cost - Debt and other Financial Instruments	-	-	1,785,716,058	1,785,716,058
Financial Assets at Amortised Cost - Other Financial Assets	-	-	15,963,213	15,963,213
<b>Total Financial Assets</b>	<b>812,320,782</b>	<b>203,800</b>	<b>44,853,314,049</b>	<b>45,665,838,631</b>

	Financial Assets at Amortised Cost (AC)	Total Carrying Amount
	Rs.	Rs.
<b>Financial Liabilities</b>		
Bank Overdrafts	1,566,068,720	1,566,068,720
Rental Received in Advance	324,196,627	324,196,627
Financial Liabilities at Amortised Cost - Deposits due to Customers	25,436,257,664	25,436,257,664
Financial Liabilities at Amortised Cost - Interest bearing Borrowings	12,497,221,353	12,497,221,353
Subordinated Term Debts	1,031,100,274	1,031,100,274
<b>Total Financial Liabilities</b>	<b>40,854,844,638</b>	<b>40,854,844,638</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 24 Fair Value of Assets and Liabilities

#### 24.1 Assets and Liabilities Measured at Fair Value and Fair Value Hierarchy

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position.

As at 31st March 2020	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Non-Financial Assets</b>				
<b>Property, Plant and Equipment</b>				
Land & Buildings	-	-	1,465,537,280	1,465,537,280
<b>Total Non - Financial Assets at Fair Value</b>	-	-	1,465,537,280	1,465,537,280
<b>Financial Assets</b>				
<b>Financial Assets recognised through profit or loss - Measured at fair value</b>				
Equity Shares - Quoted	1,082,637	-	-	1,082,637
Unit Trusts	-	1,083,372,048	-	1,083,372,048
<b>Total Financial Assets at Fair Value</b>	1,082,637	1,083,372,048	-	1,084,454,685
<b>Total Assets at Fair Value</b>	1,082,637	1,083,372,048	1,465,537,280	2,549,991,965

As at 31st March 2019	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Non-Financial Assets</b>				
<b>Property, Plant and Equipment</b>				
Land & Buildings	-	-	1,470,967,000	1,470,967,000
<b>Total Non - Financial Assets at Fair Value</b>	-	-	1,470,967,000	1,470,967,000
<b>Financial Assets</b>				
<b>Financial Assets recognised through profit or loss - Measured at fair value</b>				
Equity Shares - Quoted	1,586,189	-	-	1,586,189
Unit Trusts	-	810,734,593	-	810,734,593
<b>Total Financial Assets at Fair Value</b>	1,586,189	810,734,593	-	812,320,782
<b>Total Assets at Fair Value</b>	1,586,189	810,734,593	1,470,967,000	2,283,287,782

#### 24.2 Financial Instruments not measured at Fair Value and Fair Value Hierarchy

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

##### 24.2.1 Assets for which fair value approximates carrying value

For financial assets and financial liabilities with short-term maturities, with short-term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to savings deposits which do not have a specific maturity.

##### 24.2.2 Fixed rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate loans and receivables, deposits due to customers and subordinated liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.





### 24.2.3 Sensitivity of Significant Unobservable Inputs used to Measure Fair Value of Fixed Rate Financial Instruments

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received / paid on the settlement or maturity of the financial instrument.

As at 31st March 2020	Carrying Value Rs.	Fair Value			
		Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Financial Assets</b>					
Cash and Cash Equivalents	2,046,506,255	-	-	-	2,046,506,255
Placements with Banks and Other Finance Companies	2,568,898,162	-	2,568,898,162	-	2,568,898,162
Reverse Repurchase Agreements	2,079,841,356	-	2,079,841,356	-	2,079,841,356
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	27,625,556,987	-	-	27,616,991,145	27,616,991,145
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	13,493,996,467	-	-	13,350,918,318	13,350,918,318
Financial Investments Measured at Fair Value Through Other Comprehensive Income	203,800	-	-	-	203,800
Financial Assets at Amortised Cost - Debt and other Financial Instruments	97,954,958	98,179,396	-	-	98,179,396
Financial Assets at Amortised Cost - Other Financial Assets	16,617,983	-	-	16,617,983	16,617,983
	<u>47,929,575,968</u>	<u>98,179,396</u>	<u>4,648,739,518</u>	<u>40,984,527,446</u>	<u>47,778,156,415</u>
<b>Financial Liabilities</b>					
Bank Overdrafts	964,529,904	-	-	-	964,529,904
Rental Received in Advance	266,875,302	-	266,875,302	-	266,875,302
Financial Liabilities at Amortised Cost - Deposits due to Customers	29,243,912,898	-	-	29,997,699,156	29,997,699,156
Financial Liabilities at Amortised Cost - Interest bearing Borrowings	12,037,795,536	-	-	12,061,529,193	12,061,529,193
Lease Creditors	402,518,972	-	-	402,518,972	402,518,972
	<u>42,915,632,612</u>	<u>-</u>	<u>266,875,302</u>	<u>42,461,747,321</u>	<u>43,693,152,527</u>

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March 2019	Carrying Value Rs.	Fair Value			
		Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
<b>Financial Assets</b>					
Cash and Cash Equivalents	1,507,932,892	-	-	-	1,507,932,892
Placements with Banks and Other Finance Companies	2,356,358,852	-	2,356,358,852	-	2,356,358,852
Reverse Repurchase Agreements	230,130,165	-	230,130,165	-	230,130,165
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	24,332,295,963	-	-	24,242,848,690	24,242,848,690
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	14,624,916,906	-	-	14,542,590,187	14,542,590,187
Financial Investments Measured at Fair Value Through Other Comprehensive Income	203,800	-	-	-	203,800
Financial Assets at Amortised Cost - Debt and other Financial Instruments	1,785,716,058	1,777,237,906	-	-	1,777,237,906
Financial Assets at Amortised Cost - Other Financial Assets	15,963,213	-	-	15,963,213	15,963,213
	<u>44,853,517,849</u>	<u>1,777,237,906</u>	<u>2,586,489,017</u>	<u>38,801,402,090</u>	<u>44,673,265,705</u>
<b>Financial Liabilities</b>					
Bank Overdrafts	1,566,068,720	-	-	-	1,566,068,720
Rental Received in Advance	324,196,627	-	324,196,627	-	324,196,627
Financial Liabilities at Amortised Cost - Deposits due to Customers	25,436,257,664	-	-	25,231,144,219	25,231,144,219
Financial Liabilities at Amortised Cost - Interest bearing Borrowings	12,497,221,353	-	-	12,460,542,080	12,460,542,080
Subordinated Term Debts	1,031,100,274	-	-	1,030,358,279	1,030,358,279
	<u>40,854,844,638</u>	<u>-</u>	<u>324,196,627</u>	<u>38,722,044,578</u>	<u>40,612,309,925</u>

As at 31st March		2020 Rs.	2019 Rs.
<b>25</b>	<b>Cash and Cash Equivalents</b>		
	Cash & Cash equivalents ( Note 25.1 )	2,046,506,255	1,507,932,892
	Bank Overdrafts ( Note 25.2 )	(964,529,904)	(1,566,068,720)
	Cash and Cash Equivalents	<u>1,081,976,351</u>	<u>(58,135,828)</u>
<b>25.1</b>	Cash at Bank	1,877,031,683	1,338,670,664
	Cash in Hand	169,474,572	169,262,228
		<u>2,046,506,255</u>	<u>1,507,932,892</u>
<b>25.2</b>	Bank Overdrafts	<u>(964,529,904)</u>	<u>(1,566,068,720)</u>



As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

## 26 Placements with Banks and Other Finance Companies

Placements with Banks and Other Finance Companies	2,576,969,851	2,358,370,971
Allowance for Impairment	(8,071,689)	(2,012,119)
	<u>2,568,898,162</u>	<u>2,356,358,852</u>
<b>Movement in Stage 1 Impairment</b>		
Balance as at the beginning of the year	2,012,119	5,856,114
Net impairment charge / ( reverse) for the year	6,059,570	(3,843,995)
Balance at the End of the year	<u>8,071,689</u>	<u>2,012,119</u>

## 27 Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)

Quoted Equities (Note 27.1)	1,082,637	1,586,189
Unquoted Units in Unit Trusts (Note 27.2)	1,083,372,048	810,734,593
	<u>1,084,454,685</u>	<u>812,320,782</u>

### 27.1 Quoted Equities

Balance at the Beginning of the year	1,586,189	1,938,675
Movement during the year	-	-
Gain / (Loss) from marked to market valuation	(503,552)	(352,486)
Balance at the End of the year	<u>1,082,637</u>	<u>1,586,189</u>

As at 31st March	2020			2019		
	No of Ordinary shares	Cost Rs.	Fair Value Rs.	No of Ordinary shares	Cost Rs.	Fair Value Rs.
<b>Bank, Finance &amp; Insurance</b>						
Singer Finance ( Lanka ) PLC	125,888	2,261,651	1,082,637	125,888	2,261,651	1,586,189
<b>Total Quoted Equities</b>		<u>2,261,651</u>	<u>1,082,637</u>		<u>2,261,651</u>	<u>1,586,189</u>

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

### 27.2 Unquoted Units in Unit Trusts

Balance at the Beginning of the year	810,734,593	-
Movement during the year	208,798,442	809,605,848
Gain / (Loss) from marked to market valuation	63,839,013	1,128,745
Balance at the End of the year	<u>1,083,372,048</u>	<u>810,734,593</u>

As at 31st March	2020			2019		
	No of Units	Cost Rs.	Fair Value Rs.	No of Units	Cost Rs.	Fair Value Rs.
Capital Alliance Medium Risk Debt Fund	-	-	-	25,683,392	304,587,054	304,910,665
Capital Alliance Income Fund	32,848,417	618,404,291	619,064,543	12,359,986	205,018,794	205,231,386
NDB Wealth Money Plus Fund	21,073,946	400,000,000	464,307,505	15,232,447	300,000,000	300,592,542
<b>Total Unquoted Units</b>	<u>53,922,363</u>	<u>1,018,404,291</u>	<u>1,083,372,048</u>	<u>53,275,825</u>	<u>809,605,848</u>	<u>810,734,593</u>

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

### 28 Financial Assets at Amortised Cost - Loans and Receivables to Other Customers

Gross Loans and Receivables to Other Customers	28,434,004,023	24,821,320,851
Allowance for Impairment	(808,447,036)	(489,024,888)
Net Loans and Receivables to Other Customers (Note 28.1)	27,625,556,987	24,332,295,963

As at 31st March	2020			2019		
	Gross Carrying Amount Rs.	ECL Allowance Rs.	Carrying Amount Rs.	Gross Carrying Amount Rs.	ECL Allowance Rs.	Carrying Amount Rs.

### 28.1 Loans and Receivables to Other Customers

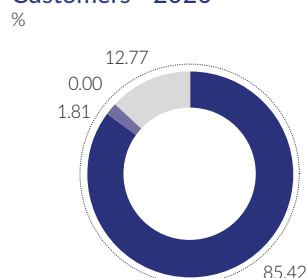
Receivable on Loans and advances	24,394,077,360	(795,411,590)	23,598,665,770	21,759,721,334	(477,157,909)	21,282,563,425
Receivable on Loans against fixed deposits	499,902,655	-	499,902,655	532,328,640	-	532,328,640
Receivable on Micro Finance Loans	5,871,007	(5,871,007)	-	9,453,458	(5,457,554)	3,995,904
Receivable on Gold Loans	3,534,153,001	(7,164,439)	3,526,988,562	2,519,817,419	(6,409,425)	2,513,407,994
	28,434,004,023	(808,447,036)	27,625,556,987	24,821,320,851	(489,024,888)	24,332,295,963

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

### 28.2 Movement in Provision for Impairment During the Year

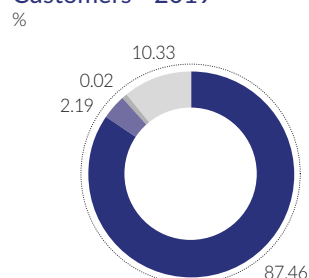
Balance as at the beginning of the year	489,024,888	342,371,697
Net impairment charge /(reversal) for the year	319,422,148	146,653,191
Balance as at the end of the year	808,447,036	489,024,888

#### Loans and Receivables to Other Customers - 2020



- Receivable on Loans and advances
- Receivable on Loans against fixed deposits
- Receivable on Micro Finance Loans
- Receivable on Gold Loans

#### Loans and Receivables to Other Customers - 2019



- Receivable on Loans and advances
- Receivable on Loans against fixed deposits
- Receivable on Micro Finance Loans
- Receivable on Gold Loans

## 28.3 Movement in allowance for expected credit losses (stage transition)

As at 31st March	2020				2019			
	Stage 1: 12- Month ECL	Stage 2: Life Time ECL not- credit impaired	Stage 3: Lifetime ECL credit impaired	Total ECL	Stage 1: 12- Month ECL	Stage 2: Life Time ECL not- credit impaired	Stage 3: Lifetime ECL credit impaired	Total ECL
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at the beginning of the year	139,422,107	64,805,889	284,796,892	489,024,888	105,262,038	56,322,322	180,787,337	342,371,697
Changes due to loans and receivables recognised in opening balance that have:								
Transferred from 12 Month ECL	(19,260,194)	16,595,798	2,664,396	-	(11,266,344)	9,367,848	1,898,496	-
Transferred from Lifetime ECL not-credit impaired	9,066,656	(16,878,771)	7,812,115	-	11,000,021	(18,909,766)	7,909,745	-
Transferred from Lifetime ECL credit impaired	539,823	790,382	(1,330,205)	-	790,297	7,638,047	(8,428,344)	-
Interest accrued / (reversals) on impaired loans and advances	-	-	37,099,853	37,099,853	-	-	9,903,637	9,903,637
Net remeasurement of loss allowance	29,860,210	85,122,170	167,339,915	282,322,295	33,636,095	10,387,438	92,726,021	136,749,554
Balance as at the end of the year	159,628,602	150,435,468	498,382,966	808,447,036	139,422,107	64,805,889	284,796,892	489,024,888

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

## 29 Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables

29.1	Hire Purchase Receivable	5,260,290	42,010,880
29.2	Lease Rental Receivable	13,488,736,177	14,582,906,026
		13,493,996,467	14,624,916,906

## 29.1 Hire Purchase Receivable

Hire purchase receivables within one year	129,812,386	168,219,841
Hire purchase receivables after one year but before five years	102,824	2,775,382
Hire purchase receivables after five years	-	-
<b>Total Hire Purchase Receivable</b>	<b>129,915,210</b>	<b>170,995,223</b>
Unearned Income	(53,919)	(2,345,612)
<b>Gross Hire Purchase Receivable</b>	<b>129,861,291</b>	<b>168,649,611</b>
Allowance for Impairment	(124,601,001)	(126,638,731)
<b>Net Hire Purchase Receivable</b>	<b>5,260,290</b>	<b>42,010,880</b>

## 29.1.1 Movement in Provision for Impairment During the Year

Balance as at the beginning of the year	126,638,731	130,468,552
Net impairment charge /(reversal) for the year	(2,037,730)	(3,829,821)
Balance as at the end of the year	124,601,001	126,638,731

## NOTES TO THE FINANCIAL STATEMENTS

### 29.1.2 Movement in allowance for expected credit losses (stage transition)

As at 31st March	2020				2019			
	Stage 1: 12- Month ECL	Stage 2: Life Time ECL not- credit impaired	Stage 3: Lifetime ECL credit impaired	Total ECL	Stage 1: 12- Month ECL	Stage 2: Life Time ECL not- credit impaired	Stage 3: Lifetime ECL credit impaired	Total ECL
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at the beginning of the year	59,668	158,393	126,420,670	126,638,731	804,371	253,832	129,410,349	130,468,552
Changes due to Hire Purchase Receivables recognised in opening balance that have:								
Transferred from 12 Month ECL	(2,420)	2,420	-	-	(69,318)	69,318	-	-
Transferred from Lifetime ECL not-credit impaired	4,313	(15,322)	11,009	-	41,147	(64,840)	23,693	-
Transferred from Lifetime ECL credit impaired	-	-	-	-	-	-	-	-
Interest accrued / (reversals) on impaired loans and advances	-	-	(315,698)	(315,698)	-	-	(716,973)	(716,973)
Net remeasurement of loss allowance	(60,703)	(142,337)	(1,518,992)	(1,722,032)	(716,532)	(99,917)	(2,296,399)	(3,112,848)
Balance as at the end of the year	858	3,154	124,596,989	124,601,001	59,668	158,393	126,420,670	126,638,731

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

### 29.2 Lease Rental Receivable

Lease Rental receivable within one year	9,008,778,390	9,007,792,974
Lease Rental receivable after one year but before five years	9,351,411,916	10,921,912,288
Lease Rental receivable after five years	1,934,922	17,889,578
<b>Total Lease Rental receivable</b>	<b>18,362,125,228</b>	<b>19,947,594,840</b>
Unearned Income	(4,078,378,519)	(4,804,021,775)
<b>Gross Lease Rental receivable</b>	<b>14,283,746,709</b>	<b>15,143,573,065</b>
Allowance for Impairment	(795,010,532)	(560,667,039)
<b>Net Lease Rental receivable</b>	<b>13,488,736,177</b>	<b>14,582,906,026</b>

#### 29.2.1 Movement in Provision for Impairment During the Year

Balance as at the beginning of the year	560,667,039	489,571,536
Net impairment charge /(reversal) for the year	234,343,493	71,095,503
Balance as at the end of the year	795,010,532	560,667,039





### 29.2.2 Movement in allowance for expected credit losses (stage transition)

As at 31st March	2020				2019			
	Stage 1: 12- Month ECL	Stage 2: Life Time ECL not- credit impaired	Stage 3: Lifetime ECL credit impaired	Total ECL	Stage 1: 12- Month ECL	Stage 2: Life Time ECL not- credit impaired	Stage 3: Lifetime ECL credit impaired	Total ECL
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at the beginning of the year	101,322,683	76,992,841	382,351,515	560,667,039	99,514,466	62,088,188	327,968,882	489,571,536
Changes due to Lease Rental Receivables recognised in opening balance that have:								
Transferred from 12 Month ECL	(22,614,720)	20,325,670	2,289,050	-	(14,674,294)	13,417,995	1,256,299	-
Transferred from Lifetime ECL not-credit impaired	13,639,797	(22,533,361)	8,893,564	-	17,151,465	(21,773,759)	4,622,294	-
Transferred from Lifetime ECL credit impaired	5,073,720	1,622,096	(6,695,816)	-	2,226,484	220,217	(2,446,701)	-
Interest accrued / (reversals) on impaired loans and advances	-	-	33,341,705	33,341,705	-	-	5,980,645	5,980,645
Net remeasurement of loss allowance	21,892,817	98,668,352	80,440,619	201,001,788	(2,895,438)	23,040,200	44,970,096	65,114,858
Balance as at the end of the year	119,314,297	175,075,598	500,620,637	795,010,532	101,322,683	76,992,841	382,351,515	560,667,039

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

### 30 Financial Investments Measured at Fair Value Through Other Comprehensive Income

Government of Sri Lanka Treasury Bonds (Note 30.1)	-	-
Unquoted Equities - (Note 30.2)	203,800	203,800
	203,800	203,800

#### 30.1 Government of Sri Lanka Treasury Bonds

Balance at the Beginning of the year	-	208,500,000
Movement During the year	-	(208,500,000)
Gain / (Loss) on marked to Market valuation	-	-
Balance at the End of the year	-	-

	No of Ordinary shares	Cost of investment Rs.	Market Value as at 31/03/2020 Rs.	Market Value as at 31/03/2019 Rs.
--	-----------------------------	------------------------------	--	--

#### 30.2 Unquoted Equities

Credit Information Bureau of Sri Lanka	38	3,800	3,800	3,800
Finance House Association	20,000	200,000	200,000	200,000
		203,800	203,800	203,800

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March		2020 Rs.	2019 Rs.
<b>31</b>	<b>Financial Assets at Amortised Cost - Debt and other Financial Instruments</b>		
	Government of Sri Lanka Treasury Bills - Face Value	100,000,000	1,935,872,000
	Less:- Income allocated for future periods	(2,045,042)	(150,155,942)
		97,954,958	1,785,716,058
<b>32</b>	<b>Financial Assets at Amortised Cost - Other Financial Assets</b>		
	Gross Staff Loans (Note 32.1)	17,528,500	16,720,146
	Allowance for Impairment (Note 32.2)	(910,517)	(756,933)
	<b>Net Staff Loans</b>	<b>16,617,983</b>	<b>15,963,213</b>
<b>32.1</b>	<b>Gross Staff Loans</b>		
	Balance at the beginning of the year	16,720,146	17,535,527
	Granted during the year	16,955,000	12,500,500
	Recovered during the year	(16,792,828)	(13,730,216)
	Net change in Prepaid Staff Cost during the year	646,182	414,335
	Balance at the end of the year	17,528,500	16,720,146
<b>32.2</b>	<b>Allowance for Impairment</b>		
	Balance at the beginning of the year	756,933	563,764
	Net Impairment charge during the year	153,584	193,169
	Balance at the end of the year	910,517	756,933



## 33 Property, Plant and Equipment

	Freehold Land	Freehold Building	Building on Leasehold Land	Computer Equipment	Furniture & Fittings	Office Equipment	Freehold Motor Vehicles	Capital WIP	Total 2020	Total 2019
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Cost</b>										
As at 01st April	1,363,467,000	107,500,000	1,950,000	124,772,893	261,636,666	122,223,324	73,563,941	3,970,066	2,059,083,890	1,730,368,902
Additions during the year	-	1,760,096	-	4,140,125	41,103,839	19,390,311	-	82,467,897	148,862,268	205,046,405
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	-	-	(8,037,035)
Surplus on Revaluation of property	-	-	-	-	-	-	-	-	-	176,592,194
Disposals during the year	-	-	-	-	(6,180,911)	(3,842,044)	(280,000)	-	(10,302,955)	(44,886,576)
As at 31st March	1,363,467,000	109,260,096	1,950,000	128,913,018	296,559,594	137,771,591	73,283,941	86,437,963	2,197,643,203	2,059,083,890
<b>Accumulated Depreciation</b>										
As at 01st April	-	-	617,500	67,436,564	158,438,654	80,659,122	32,344,879	-	339,496,719	285,079,201
Depreciation for the year	-	7,189,816	195,000	20,644,208	43,338,786	20,683,050	13,120,570	-	105,171,430	87,556,961
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	-	-	(8,037,035)
Disposals/Transfers during the year	-	-	-	-	(6,166,848)	(3,146,927)	(258,125)	-	(9,571,900)	(25,102,406)
As at 31st March	-	7,189,816	812,500	88,080,772	195,610,592	98,195,245	45,207,324	-	435,096,249	339,496,719
<b>Carrying Amount</b>										
As at 31st March 2020	1,363,467,000	102,070,280	1,137,500	40,832,246	100,949,002	39,576,346	28,076,617	86,437,963	1,762,546,954	
As at 31st March 2019	1,363,467,000	107,500,000	1,332,500	57,336,329	103,198,013	41,564,202	41,219,062	3,970,066		1,719,587,171

**33.1** Based on the assessment of potential impairment carried out internally by the Board of Directors as at 31st March 2020, no provision was required to be made in the Financial statements.

**33.2** Property, Plant & Equipment included fully depreciated assets having a gross amount of Rs. 245,549,699/- as at 31st March 2020 (2018/19 Rs. 184,002,394/-).

**33.3** The company has capitalised Rs. 3,376,210/- (2018/19 - nil) of borrowing costs related to the acquisition of Property, Plant & Equipment during the year at a capitalisation rate of 12.39%.

**33.4** There were no restrictions on the title of the Property, Plant & Equipment as at 31st March 2020.

**33.5** There were no items of Property, Plant & Equipment pledged as security as at 31st March 2020.

**33.6** There were no items of Property, Plant & Equipments retired from the active use as at 31st March 2020.

**33.7** There were no temporary idle items of Property, Plant & Equipment as at 31st March 2020.

## NOTES TO THE FINANCIAL STATEMENTS

- 33.8** The carrying amount of Company's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation is as follows:

As at 31st March	2020			2019		
	Cost Rs.	Accumulated Depreciation Rs.	Net Book Value Rs.	Cost Rs.	Accumulated Depreciation Rs.	Net Book Value Rs.
<b>Class of Asset</b>						
Freehold Land	1,248,088,000	-	1,248,088,000	1,248,088,000	-	1,248,088,000
Freehold Building	54,323,841	11,647,229	42,676,612	54,323,841	8,037,035	46,286,806
	1,302,411,841	11,647,229	1,290,764,612	1,302,411,841	8,037,035	1,294,374,806

- 33.9** Details of freehold properties of the Company are given below.

Freehold land & buildings - Extent and Locations

	Extent (Perches)	Buildings Sq.ft.	Number of Buildings	Revalued amounts Land Rs.	Revalued amounts Buildings Rs.	Net Book Value / Revalued Amount Rs.	Net Book Value before revaluation Rs.
Maharagama Branch	15.2			95,000,000		95,000,000	30,000,000
No. 126-5, Highlevel Road, Maharagama.		12,240	1		55,000,000	55,000,000	11,014,877
Kiribathgoda Branch	10.0			67,500,000		67,500,000	26,319,000
No. 121-D, Gala Junction, Kandy Road, Kiribathgoda		2,626	1		12,500,000	12,500,000	5,877,876
Galle Branch	5.70			69,000,000		69,000,000	66,306,000
No. 128, Main Street , Galle		2,812	1		13,000,000	13,000,000	6,884,110
Chilaw Branch	10.00			17,467,000		17,467,000	17,467,000
No. 84, Kurunegala Road, Chilaw		2,144	1		9,000,000	9,000,000	5,895,732
Land	42.12			1,100,000,000		1,100,000,000	1,095,869,000
Galle Road , Colombo 03							
Embilipitiya Branch	9.77			14,500,000		14,500,000	12,127,000
No. 103, New Town Road, Embilipitiya		3,776	1		18,000,000	18,000,000	16,614,211



Freehold land & buildings - Valuations  
Date of valuation : 31st March 2019

Name of Professional Valuer / Location and address	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	Net Book Value before revaluation of		Revalued amount of		Revaluation gain / (loss) recognised on	
			Land Rs.	Building Rs.	Land Rs.	Building Rs.	Land Rs.	Building Rs.
J M Senanayaka Bandara								
Maharagama Branch	Market Comparable Method							
No. 126-5, Highlevel Road, Maharagama.	- Price per perch for land	Rs. 6,250,000 p.p	30,000,000		95,000,000		65,000,000	
	- Price per sq.ft for building	Rs. 2,600 to Rs. 5,500 p.sq.ft		11,014,877		55,000,000		43,985,123
Kiribathgoda Branch	Market Comparable Method							
No. 121-D, Gala Junction, Kandy Road, Kiribathgoda	- Price per perch for land	Rs. 6,750,000 p.p	26,319,000		67,500,000		41,181,000	
	- Price per sq.ft for building	Rs. 4,500 p.sq.ft		5,877,876		12,500,000		6,622,124
Galle Branch	Market Comparable Method							
No. 128, Main Street , Galle	- Price per perch for land	Rs. 12,000,000 p.p	66,306,000		69,000,000		2,694,000	
	- Price per sq.ft for building	Rs. 4,750 p.sq.ft		6,884,110		13,000,000		6,115,890
Chilaw Branch	Market Comparable Method							
No. 84, Kurunegala Road, Chilaw	- Price per perch for land	Rs. 1,700,000 p.p	17,467,000		17,467,000		-	
	- Price per sq.ft for building	Rs. 4,250 p.sq.ft		5,895,732		9,000,000		3,104,268
Land	Market Comparable Method							
Galle Road, Colombo 03	- Price per perch for land	Rs. 26,250,000 p.p	1,095,869,000		1,100,000,000		4,131,000	
Embilipitiya Branch	Market Comparable Method							
No. 103, New Town Road, Embilipitiya	- Price per perch for land	Rs. 1,475,000 p.p	12,127,000		14,500,000		2,373,000	
	- Price per sq.ft for building	Rs. 4,750 p.sq.ft		16,614,211		18,000,000		1,385,789

## NOTES TO THE FINANCIAL STATEMENTS

### Valuation techniques and sensitivity of the fair value measurement of the freehold land and buildings of the Company

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

Valuation technique	Significant unobservable valuation inputs (ranges of each property are given in the table above)	Sensitivity of the fair value measurement to inputs
<b>Market comparable method</b>		Estimated fair value would increase/ (decrease) if;
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for land	Price per perch would increase/ (decrease)
	Price per square foot for building	Price per square foot would increase/ (decrease)

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

### 34 Right-of-use Lease Assets

Right-of-use Assets (Note 34.1)	369,692,861	-
	369,692,861	-

### 34.1 Right-of-use Assets

<b>Cost</b>		
Effect of adoption of SLFRS 16 as at 01st April 2019	392,794,031	-
Opening Balance of Advance Payments for the Right-of-use Assets as at 01st April 2019	25,569,115	-
Rent Payable Under LKAS 17 as at 01st April 2019	(19,942,163)	-
Adjusted balance as at beginning of the year	398,420,983	-
Additions during the year	67,239,798	-
Balance as at the end of the year	465,660,781	-
<b>Accumulated Depreciation</b>		
Balance as at the beginning of the year	-	-
Charge for the year	95,967,920	-
Balance as at the end of the year	95,967,920	-
<b>Carrying Amount</b>		
As at 31st March 2020	369,692,861	
As at 31st March 2019		-





As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

35

**Intangible Assets**

Computer Software (Note 35.1)	17,663,649	19,647,533
	17,663,649	19,647,533

35.1

**Computer Software**

<b>Cost</b>		
Balance as at the beginning of the year	38,630,408	27,856,951
Additions during the year	5,559,099	10,773,457
Balance as at the end of the year	44,189,507	38,630,408
<b>Accumulated Amortisation</b>		
Balance as at the beginning of the year	18,982,875	13,288,138
Charge for the year	7,542,983	5,694,737
Balance as at the end of the year	26,525,858	18,982,875
<b>Carrying Amount</b>		
As at 31st March 2020	17,663,649	
As at 31st March 2019		19,647,533

36

**Other Assets**

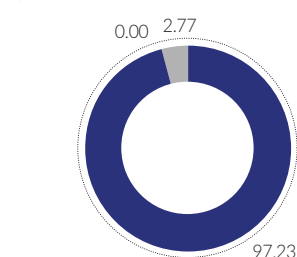
Refundable Deposits	34,339,565	22,496,611
Taxes Recoverable	44,664,091	89,811,357
Prepaid Staff Cost	921,418	1,567,600
Advance Payments	13,939,599	27,954,115
Vehicle stock	3,915,000	4,945,000
Insurance Claim Receivable	-	172,400
Other Debtors	88,355,641	34,476,564
	186,135,314	181,423,647

37

**Financial Liabilities at Amortised Cost - Deposits due to Customers**

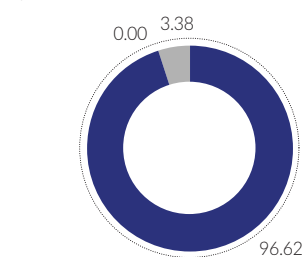
Fixed Deposits	28,432,577,213	24,576,243,827
Savings Deposits	39,572	136,394
Certificate of Deposits	811,296,113	859,877,443
	29,243,912,898	25,436,257,664

**Financial Liabilities at Amortised Cost - Deposits due to Customers - 2020**  
%



- Fixed Deposits
- Savings Deposits
- Certificate of Deposits

**Financial Liabilities at Amortised Cost - Deposits due to Customers - 2019**  
%



- Fixed Deposits
- Savings Deposits
- Certificate of Deposits

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March 2020	1 to 90 days	91 to 365 days	More than 365 days	Total
	Rs.	Rs.	Rs.	Rs.

### 37.1 Analysis of Deposits due to Customers by Maturity Date

Fixed Deposits	9,858,999,108	10,976,409,947	7,597,168,158	28,432,577,213
Savings Deposits	39,572	-	-	39,572
Certificate of Deposits	329,803,856	481,492,257	-	811,296,113
	10,188,842,536	11,457,902,204	7,597,168,158	29,243,912,898

As at 31st March 2019	1 to 90 days	91 to 365 days	More than 365 days	Total
	Rs.	Rs.	Rs.	Rs.
Fixed Deposits	8,802,352,900	12,659,347,563	3,114,543,364	24,576,243,827
Savings Deposits	136,394	-	-	136,394
Certificate of Deposits	538,601,602	311,110,963	10,164,878	859,877,443
	9,341,090,896	12,970,458,526	3,124,708,242	25,436,257,664

As at 31st March	2020	2019
	Rs.	Rs.

### 38 Financial Liabilities at Amortised Cost - Interest bearing Borrowings

Institutional Borrowings (Note 38.1)	11,986,266,834	12,497,221,353
Commercial Papers	51,528,702	-
	12,037,795,536	12,497,221,353

## 38.1 Institutional Borrowings

	As at 01/04/2019 Rs.	Facility Obtained Rs.	Interest Recognised Rs.	Repayments		As at 31/03/2020 Rs.	Tenure of Loan	Security Offered
				Capital Rs.	Interest Rs.			
Bank of Ceylon	1,333,985,537	1,984,205,728	294,495,202	1,312,499,973	291,248,905	2,008,937,589	4 Years	Mortgage Bond over Receivables
PABC Bank	529,256,565	-	6,745,599	511,768,171	24,233,993	-	4 Years	Mortgage Bond over Receivables
Seylan Bank	2,512,245,419	4,949,266,617	210,844,388	5,325,592,000	216,185,390	2,130,579,034	1 & 4 Years	Mortgage Bond over Receivables
Cargills Bank	47,498,732	-	1,611,082	47,357,379	1,752,435	-	4 Years	Mortgage Bond over Receivables
NDB Bank	100,435,616	400,000,000	2,874,247	500,000,000	3,309,863	-	3 Months	Mortgage Bond over Receivables
Union Bank	150,500,035	-	203,905	15,000,000	253,940	-	2 Years	Mortgage Bond over Receivables
Hatton National Bank	4,198,481,129	2,031,238,224	547,341,530	1,113,012,608	363,769,665	5,300,278,610	5 Years	Mortgage Bond over Receivables
DFCC Bank	405,559,303	-	44,669,481	114,583,333	41,783,856	293,861,595	4 Years	Mortgage Bond over Receivables
NSB Bank	1,871,501,987	-	214,501,379	400,000,000	216,646,848	1,469,356,518	5 Years	Mortgage Bond over Receivables
Sampath Bank	1,483,207,030	-	116,700,490	700,000,000	116,654,032	783,253,488	5 Years	Mortgage Bond over Receivables
	12,497,221,353	9,364,710,569	1,439,987,303	10,039,813,464	1,275,838,927	11,986,266,834		

\* Facility obtained is reported net of transaction cost.

As at 31st March	2020 Rs.	2019 Rs.
<b>Subordinated Term Debts</b>		
Balance as at beginning of the year	1,031,100,274	1,550,967,094
Movement during the year	(1,031,100,274)	(519,866,820)
Balance as at end of the year	-	1,031,100,274

**39.1** In 2015 Company issued 10,000,000 Rated , Guaranteed (Capital and Two Interest Installments) , Subordinated , Redeemable Debentures at the Value of Rs.100/- each accumulated to Rs.1,000,000,000/- with maturity of five years. The debentures were quoted on the Colombo Stock Exchange. The debentures were redeemed on respective maturity date.

Debenture Category	Interest Payment Frequency Rs.	Allotment Date Rs.	Maturity date Rs.	Effective Annual yield % at 31st March 2020 Rs.	Amortised Cost at 31st March 2020 Rs.	Amortised Cost at 31st March 2019 Rs.
2015/2020 - 10.25% p.a.	Semi-annually	31-Mar-15	31-Mar-20	10.51%	-	1,031,100,274
					-	1,031,100,274

The Company has not had any defaults of principal or interest or other breaches with respect to any subordinated liability during the year ended 31st March 2020.

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

### 40 Lease Creditors

Balance as at 01st April 2019	392,794,031	-
Additions	58,149,781	-
Interest Expense	52,118,538	-
Payments	(100,543,378)	-
Balance as at end of the year	402,518,972	-

### 41 Current Tax Liabilities

Balance as at Beginning of the Year	509,696,461	364,888,378
Income Tax Provision on Current Year Profits	715,202,704	765,170,522
(Over) / under provision in respect of previous year	(27,381,273)	(44,841,580)
Paid and Set off During the Year	(973,519,870)	(575,520,859)
Balance as at end of the Year	223,998,022	509,696,461

### 42 Deferred Tax Liabilities

Deferred Tax Liabilities ( Note 42.3 )	260,945,390	343,733,661
Deferred Tax Assets ( Note 42.4 )	(73,779,797)	(73,028,603)
Net Deferred Tax Liabilities (Note 42.1 )	187,165,593	270,705,058

#### 42.1 Recognised Deferred Tax Assets & Liabilities

Deferred tax assets and liabilities are attributable to the following originations of temporary differences;

As at 31st March	2020 Rs.	2019 Rs.
<b>Taxable / (Deductible) Temporary Differences</b>		
Property, Plant & Equipment	94,462,423	112,859,802
Lease capital Balance	589,678,827	862,658,071
Legal Termination receivables	132,427,566	136,723,344
Revaluation Surplus on Freehold Land	115,379,000	115,379,000
<b>Taxable Temporary Differences</b>	<b>931,947,816</b>	<b>1,227,620,217</b>
Retirement Benefit Obligation	(102,642,242)	(69,131,811)
Unclaimed Impairment provision	(128,527,809)	(191,684,620)
Right-of-use Lease asset	(32,329,220)	-
<b>Total Taxable Temporary Differences (net)</b>	<b>668,448,545</b>	<b>966,803,786</b>
Applicable Tax Rate	28%	28%
<b>Net Deferred Tax Liabilities / (Assets)</b>	<b>187,165,593</b>	<b>270,705,058</b>

#### 42.2 Deferred Tax Expense

<b>Origination of Deferred tax</b>		
Liability ( Note 42.3 )	(82,788,271)	(41,803,626)
Asset ( Note 42.4 )	(751,194)	(8,446,919)
	(83,539,465)	(50,250,545)
<b>Total expense charged / (reversed) to Income Statement</b>	<b>(79,130,194)</b>	<b>(100,419,038)</b>
<b>Total expense charged / (reversed) to OCI</b>	<b>(4,409,273)</b>	<b>50,168,495</b>



As at 31st March	2020		2019	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.

#### 42.3 Deferred Tax Liabilities

Balance as at beginning of the year	1,227,620,217	343,733,661	1,376,918,877	385,537,287
Originating / (reversing) during the year	(295,672,396)	(82,788,271)	(149,298,660)	(41,803,626)
Balance as at end of the year	931,947,821	260,945,390	1,227,620,217	343,733,661

#### 42.4 Deferred Tax Assets

Balance as at beginning of the year	260,816,435	73,028,603	57,213,311	16,019,726
Originating / (reversing) to Retained Earnings (Deferred Tax on SLFRS 9 Transitional Adjustments)	-	-	173,435,558	48,561,958
Originating / (reversing) during the year	2,682,840	751,194	30,167,566	8,446,919
Balance as at end of the year	263,499,275	73,779,797	260,816,435	73,028,603

#### The Potential Impact on the Deferred Tax from the substantively Enacted Inland Revenue Act

As per the Notice to tax payers and withholding agents on "Implementation of Proposed Changes to the Inland Revenue Act No. 24 of 2017" dated February 12, 2020 issued by the Department of Inland Revenue, Income Tax rates of Corporates has been revised to 24% from 28% effective from 01st January 2020 pending formal amendments to be made to the Inland Revenue Act. Accordingly it was not considered to be substantially enacted as at reporting date.

The Company continued to apply the Income Tax rate of 28% in calculating Deferred Tax Assets / Liabilities as at 31st March 2020 as the legislature has not been substantially enacted at the reporting date.

The potential balances on the deferred tax had the Company applied the proposed rate (i.e 24%) as above shown below:

	Rs.
<b>Deferred Tax Asset</b>	
Balance as at 01st April 2019	73,028,603
Deferred tax provision recognised in Income Statement	(13,568,153)
Deferred tax provision recognised in OCI	3,779,377
Balance as at 31st March 2020	63,239,827
<b>Deferred Tax Liability</b>	
Balance as at 01st April 2019	343,733,661
Deferred tax provision recognised in Income Statement	(120,066,184)
Deferred tax provision recognised in OCI	-
Balance as at 31st March 2020	223,667,477

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March		2020 Rs.	2019 Rs.
<b>43</b>	<b>Other Liabilities</b>		
	Other Provisions & Payables (Note 43.1)	1,367,403,738	340,669,774
	Accrued Expenses	75,215,378	70,496,051
		1,442,619,116	411,165,825
<b>43.1</b>	<b>Other Provisions &amp; Payables</b>		
	RMV Payable	6,112,873	10,150,654
	Insurance Payable	89,461,917	103,535,697
	Stamp Duty Payable	5,611,547	16,800,160
	Social Development Fund	3,207,474	5,514,159
	Debenture Redemption Control Account (Note 43.1.1)	1,051,320,589	-
	Other Payables	211,689,338	204,669,104
		1,367,403,738	340,669,774
<b>43.1.1</b>	<b>Debenture Redemption Control Account</b>		
	Debenture Capital	1,000,000,000	-
	Debenture accrued interest	51,320,589	-
		1,051,320,589	-
<b>44</b>	<b>Retirement Benefit Obligations</b>		
<b>44.1</b>	<b>Retirement Benefit Liability Recognised in Statement of Financial Position</b>		
	Balance as at 1st April	69,131,811	57,213,310
	Amounts Recognised in Income Statement	24,117,387	17,489,545
	Amounts Recognised in OCI	15,747,404	(2,581,001)
	Payments during the Year	(6,354,360)	(2,990,043)
	Balance as at 31st March	102,642,242	69,131,811
<b>44.2</b>	<b>Amounts Recognised in Income Statement</b>		
	Service cost	16,167,229	11,482,148
	Net Interest on defined benefit obligation	7,950,158	6,007,397
		24,117,387	17,489,545
<b>44.3</b>	<b>Amounts Recognised in OCI</b>		
	Remeasurement of retirement benefit obligation arising from changes in assumptions	10,760,051	(8,043,931)
	Remeasurement of retirement benefit obligation arising from experience adjustments	4,987,353	5,462,930
		15,747,404	(2,581,001)
<b>44.4</b>	<b>Defined Benefit Obligation Reconciliation</b>		
	Benefit obligation at end of prior year	69,131,811	57,213,310
	Company service cost	16,167,229	11,482,148
	Interest cost	7,950,158	6,007,397
	Payments made during the year	(6,354,360)	(2,990,043)
	Remeasurement of retirement benefit obligation arising from changes in assumptions	10,760,051	(8,043,931)
	Remeasurement of retirement benefit obligation arising from experience adjustments	4,987,353	5,462,930
	Benefit obligation at end of year	102,642,242	69,131,811



**44.4.1** An actuarial valuation of the employee benefit liability as at 31st March 2020 was carried out by Mr. Piyal S Goonetilleke, FIA, of Messers. Piyal S Goonetilleke and Associates, a firm of professional actuaries.

**44.4.2** The valuation has been done using the "Projected Unit Credit Method", which is recommended in the Sri Lanka Accounting Standard - LKAS 19 "Employee Benefits".

As at 31st March	2020	2019
<b>44.5 Assumptions</b>		
Discount Rate	10.50%	11.50%
Salary increment	10.00%	10.00%
<b>Staff Turnover</b>		
20 years	15.00%	15.00%
25 years	15.00%	15.00%
30 years	9.00%	9.00%
35 years	6.00%	6.00%
40 years	1.00%	1.00%
45 years	1.00%	1.00%
50 years	1.00%	1.00%
<b>Mortality - GA 1983 mortality Table</b>		
Retirement age	55 Years	55 Years

#### 44.6 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table illustrates the impact of the possible changes in the discount rate and salary increment rates on the gratuity valuation of the Company as at 31st March 2020.

As at 31st March	Sensitivity effect on Statement of Financial Position (Benefit Obligation) Rs.
1% increase in discount rate	(10,760,051)
1% decrease in discount rate	12,819,627
1% increase in salary increment rate	12,527,210
1% decrease in salary increment rate	(10,724,461)



## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	2020 Rs.	2019 Rs.
<b>45 Stated Capital</b>		
Ordinary Shares ( Note 45.1 )	1,325,918,000	1,325,918,000
No. of shares ( Note 45.2 )	58,863,350	58,863,350

<b>45.1 Movement of Stated Capital</b>		
At the Beginning of the Year	1,325,918,000	287,153,000
Right Issue of Shares during the Year	-	1,038,765,000
As at the End of the Year	1,325,918,000	1,325,918,000

<b>45.2 Movement of no. of Shares</b>		
At the Beginning of the Year	58,863,350	41,550,600
Right Issue of Shares during the Year	-	17,312,750
As at the End of the Year	58,863,350	58,863,350

<b>46 Statutory Reserve Fund</b>		
Statutory Reserve Fund (Note 46.1)	1,208,563,889	957,881,867
	1,208,563,889	957,881,867

### 46.1 Statutory Reserve Fund

Statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b)(ii) of Central Bank Direction No. 1 of 2003.

As at 31st March	2020 Rs.	2019 Rs.
At the Beginning of the Year	957,881,867	732,136,173
Transfers during the Year*	250,682,022	225,745,694
As at the End of the Year	1,208,563,889	957,881,867

\* 20% net profit after tax

<b>47 Other Reserves</b>		
Revaluation Reserve ( Note 47.1 )	127,146,380	127,146,380
General Reserve ( Note 47.2 )	7,500,000	7,500,000
	134,646,380	134,646,380

### 47.1 Revaluation Reserve

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings, as at the date of revaluation.

As at 31st March	2020 Rs.	2019 Rs.
At the Beginning of the Year	127,146,380	-
Surplus on Revaluation of Freehold Land & Buildings	-	176,592,194
Deferred tax effect on revaluation Surplus on Freehold Land and Buildings	-	(49,445,814)
As at the End of the Year	127,146,380	127,146,380



## 47.2 General Reserve

General reserve comprises the amounts appropriated by the Board of Directors as a General Reserve.

As at 31st March	2020 Rs.	2019 Rs.
General Reserve	7,500,000	7,500,000
	7,500,000	7,500,000

## 48 Retained Earnings

At the Beginning of the Year	3,052,506,942	2,274,320,715
Impact of adopting SLFRS 9	-	(124,873,602)
Balance as at 01st April - Adjusted	3,052,506,942	2,149,447,113
Total Comprehensive Income		
Profit for the Year	1,253,410,112	1,128,728,472
Other Comprehensive Income	(11,338,131)	1,858,320
Statutory Reserve Transfer	(250,682,022)	(225,745,694)
Transaction Cost of Right Issue of Ordinary Shares	-	(1,876,867)
Dividends	(235,453,400)	-
Unclaimed Dividend Adjustments	440,076	95,598
At the End of the Year	3,808,883,577	3,052,506,942

## 49 Related Party Disclosures

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per the Sri Lanka Accounting Standard - LKAS 24 "Related Party Disclosures".

### 49.1 Parent and Ultimate Controlling Party

In the opinion of Directors, the Company's immediate and ultimate parent undertaking and controlling party is Vallibel Investments (Private) Limited.

### 49.2 Key Management Personnel (KMP)

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

#### KMP of the Company

The Board of Directors (including executive and non-executive Directors) and selected key employees who meet the above criteria have been classified as KMP of the Company.

#### 49.2.1 Transactions with KMP

For the Year Ended 31st March	2020 Rs.	2019 Rs.
49.2.1.1 Compensation of KMP		
Short term employment benefits	130,453,182	87,681,786
Director fees and expenses	6,458,360	6,958,637
Post employment benefits	-	-
	136,911,542	94,640,423

## NOTES TO THE FINANCIAL STATEMENTS

### 49.2.2 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFM)

CFM of a KMP are those family members who may be expected to influence or be influenced by that KMP in their dealings with the entity. They may include KMP's domestic partner and children of the KMPs domestic partner and dependants of the KMPs domestic partner. CFM are related parties of the Company.

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

#### 49.2.2.1 Statement of Financial Position

Liabilities		
Financial Liabilities at Amortised Cost - Deposits due to Customers	838,455,137	253,025,453
	838,455,137	253,025,453

For the year ended 31st March	2020 Rs.	2019 Rs.
-------------------------------	-------------	-------------

#### 49.2.2.2 Statement of Profit or Loss and Other Comprehensive Income

Interest Expense	63,548,033	60,243,731
Compensation to KMP	136,911,542	94,640,423
	200,459,575	154,884,154

### 49.2.3 Transactions, Arrangements and Agreements involving Entities which are controlled and / or significantly influenced by the KMP or their CFM.

#### 49.2.3.1 Statement of Financial Position

As at 31st March	2020 Rs.	2019 Rs.	Amount Received / (Paid)	
			2019/20 Rs.	2018/19 Rs.
<b>Assets</b>				
Cash and Cash Equivalents	1,215,171,973	13,364,692	(1,201,807,281)	34,286,557
Placements with Banks and Other Finance Companies	1,098,948,755	888,175,908	(210,772,847)	446,163,537
Reverse Repurchase Agreements	662,429,096	230,000,000	(432,429,096)	(230,000,000)
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	-	532,817	532,817	530,830
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	1,082,637	1,586,189	503,553	352,486
Other Assets	75,000	-	(75,000)	-
	2,977,707,461	1,133,659,606	(1,844,047,854)	251,333,410
<b>Liabilities</b>				
Bank Overdrafts	15,046,596	137,840,335	(122,793,739)	(214,764,739)
Financial Liabilities at Amortised Cost - Deposits due to Customers	3,157,473,843	1,432,649,884	1,724,823,959	(208,274,414)
Financial Liabilities at Amortised Cost - Interest bearing Borrowings	-	529,256,565	(529,256,565)	(319,171,418)
Subordinated Term Debts	-	-	-	(250,000,000)
	3,172,520,439	2,099,746,784	1,072,773,655	(992,210,571)



For the Year Ended 31st March	2020 Rs.	2019 Rs.
-------------------------------	-------------	-------------

#### 49.2.3.2 Statement of Profit or Loss and Other Comprehensive Income

Interest Income	144,138,039	147,655,783
Interest Expense	238,508,541	293,994,654
Net Gain / (Loss) from Trading	(384,462)	(352,486)
Other Operating Income	960,000	815,830

#### 49.2.4. Terms and conditions on the transactions entered by the Directors of the Company

From time to time directors of the Company, or their related entities, may transact with the Company. These transactions are on the same terms and conditions as those entered into by other customers.

#### 49.3 As per CSE Listing Rule 7.6 (XVI), Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower.

Name of the Related Party	Relationship	Terms of the Transaction	Date	2020 Rs.	Rationale for entering Transaction
Pan Asia Banking Corporation PLC	Affiliate	Investment in Money Market Savings Account for interest rate of 7% to 10.5%	01-04-2019 to 31-03-2020	1,205,964,872	To invest the excess funds
Pan Asia Banking Corporation PLC	Affiliate	Investment in Reverse Repurchase Agreements for interest rate of 8.4% & 8.42% for 1 Year Maturity	03-01-2020 & 09-01-2020	662,429,096	To invest the excess funds
Summer Season Limited	Affiliate	Fixed Deposit taken for interest rate of 9.38% for 3 Months Maturity	07-11-2019	1,073,531,032	To invest the excess funds

#### 49.4 As per CSE Listing Rules 9.3.2, Disclosures on Related Party Transactions

There were no non-recurrent related party transactions which exceeds 10% of equity or 5% of total assets of the Company, whichever is lower. The aggregate value of recurrent related party transactions (other than the exempted transactions) entered into by the Company during the year has not exceeded 10% of the gross income of the Company.

## 50 Contingent Liabilities and Commitments

### 50.1 Capital Commitments

Capital expenditure for construction of new head office complex approved by the Board of Directors for which provision has not been made in these Financial Statements amounted to approximately.

As at 31st March	2020 Rs.	2019 Rs.
Approved and contracted for	29,036,246	-
	29,036,246	-

### 50.2 Future Monthly Commitments on Operating Leases

The company leases number of office buildings under operating leases. The leases typically run for a period of 10 years with an option to renew the lease after that date.

As at 31st March	2020 Rs.	2019 Rs.
Less than one year	-	113,457,243
Between one and five years	-	323,714,333
More than five years	-	218,319,546
	-	655,491,122

## NOTES TO THE FINANCIAL STATEMENTS

### 50.3 Litigations against the Company

Litigation is a common occurrence in the industry due to the nature of the business undertaken.

The Company has formal controls and policies in place for managing legal claims. Once professional advice has been obtained and the amount of loss is reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. The Company confirms that there is no case filed against the Company which is not disclosed which would have a material Impact on the financial position of the Company.

As at 31st March	2020 Rs.	2019 Rs.
Cases pending against the Company	5,713,700	5,729,106
	5,713,700	5,729,106

- 1 Action filed by a customer to obtain a stay order preventing sale of seized vehicle - Case no. DHP 1098/17 (Pending proceedings)
- 2 Action filed by a third party claiming the mortgaged bond which was signed in company's favor was forged - Case no. L566/15 (Pending proceedings)

The company's legal professionals are of the opinion that the Company will be able to defend against these cases. Therefore no provision is made for contingent liabilities in the financial statements.

### 51 Assets Pledged

The following assets have been pledged as securities against the long-term and short-term borrowings that have been disclosed under the Note 25.2 & 38 to the Financial Statements.

Funding institute	Nature of Assets	Nature of Liability	Value of Assets Pledged (Rs.)	Included Under
Bank of Ceylon	Lending Portfolio	Long -term Borrowings	4,098,232,680	Gross Receivable
Pan Asia Banking Corporation PLC	Lending Portfolio	Overdraft	391,285,560	Gross Receivable
Seylan Bank	Lending Portfolio	Long-term Borrowings	2,578,000,632	Gross Receivable
Seylan Bank	Lending Portfolio	Overdraft	315,285,652	Gross Receivable
Union Bank	Lending Portfolio	Overdraft	31,485,980	Gross Receivable
Hatton National Bank	Lending Portfolio	Long-term Borrowings	6,996,367,767	Gross Receivable
DFCC Bank	Lending Portfolio	Long-term Borrowings	384,958,689	Gross Receivable
NSB Bank	Lending Portfolio	Long-term Borrowings	1,968,937,735	Gross Receivable
Sampath Bank	Lending Portfolio	Long-term Borrowings	1,065,224,744	Gross Receivable
Sampath Bank	Lending Portfolio	Long-term Borrowings	692,386,950	Gross Receivable

In the ordinary course of business the Company enters into transaction that result in the transfer of financial assets to third parties. The information above sets out the extent of such transfers and retained interest in transferred assets.

The Company has transferred future receivables of lending portfolio, but has retained substantially all of the credit risk associated with the transferred assets. Due to the retention of substantially all the risk and rewards on these assets, the Company continues to recognise these assets within Lending portfolio.

## 52 Segment Reporting

The Company has four reportable segments, as described below, which are the Company's strategic business lines. The strategic business lines offer different products and services, and are managed and monitored separately based on the Company's management and internal reporting structure. For each of the strategic business line, the Company Management reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- ▶ Finance Lease
- ▶ Hire Purchase
- ▶ Loans and Advances
- ▶ Investments

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue, as included in the internal management reports that are reviewed by the Company Management. Segment revenue is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

### 52.1 Business Segments

For the year ended 31 March	Finance Lease		Hire Purchase		Loans & Advances		Investments		Unallocated		Total	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Income From												
External Operations												
Interest	3,193,017	3,096,425	3,000	23,948	5,254,145	4,315,739	462,035	451,910	-	-	8,912,197	7,888,022
Fee and Commission Income	-	-	-	-	-	-	-	-	350,337	361,072	350,337	361,072
Dividends	-	-	-	-	-	-	211	78	-	-	211	78
Other	-	-	-	-	-	-	107,414	61,802	325,148	413,556	432,562	475,358
Gross Income	3,193,017	3,096,425	3,000	23,948	5,254,145	4,315,739	569,660	513,790	675,485	774,628	9,695,307	8,724,530
Profit Before Income Tax	-	-	-	-	-	-	-	-	-	-	1,862,101	1,748,638
Income Tax Expense	-	-	-	-	-	-	-	-	-	-	(608,691)	(619,910)
Profit After Tax											1,253,410	1,128,728
Other Information												
As at 31 March												
Segment Assets	13,488,736	14,582,906	5,260	42,011	27,625,557	24,332,296	5,831,353	5,184,730	4,472,943	3,517,583	51,423,849	47,659,526
Segment Liabilities	11,789,522	12,908,899	4,598	37,188	24,145,485	21,539,132	5,096,760	4,589,562	3,909,473	3,113,791	44,945,837	42,188,572
Net Assets	1,699,214	1,674,007	662	4,823	3,480,072	2,793,164	734,593	595,168	563,470	403,792	6,478,012	5,470,954

# NOTES TO THE FINANCIAL STATEMENTS

## 53 Financial Risk Management

### (A) Introduction and Overview

The Company has exposure to following risks from financial instruments:

- ▶ Credit Risk
- ▶ Liquidity Risk
- ▶ Market Risk
- ▶ Operational Risk

#### (i) Risk Management Framework

The Board of Directors possess overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated this responsibility to two sub committees of the Board.

The Audit Committee is responsible for monitoring and reviewing risk management policies and procedures and reviewing the adequacy of risk management framework in relation to the risks faced by the company. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Audit Committee presents vital matters to the Board whenever required and seeks for review and approval of the Board.

The Board has established the Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring risk management policies and procedures in specified risk areas. With the cooperation of the management, the committees make decisions on behalf of the Board. Senior Management is responsible for implementing the risk management framework by identifying risks and managing those risks with appropriate risk mitigation strategies. Monthly risk review reports are submitted by the respective Deputy General Manager who supervises each major category of risk.

### (B) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For risk management reporting purposes the Company considers and consolidates all elements of credit risk exposure (such as individual obligations or default risk and sector risk).

#### (i) Settlement risk

The Company's activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transaction, the Company mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

#### (ii) Management of credit risk

The Board of Directors has delegated responsibility for the overseeing of credit risk to its Company Credit Committee. A separate Company Credit department, reporting to the Company Credit Committee is responsible for management of the Company's credit risk, including:

- ▶ Formulating credit policies in consultation with business lines, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- ▶ Establishing the authorisation structure for the approval and renewal of credit facilities: Authorisation limits are allocated to business line Credit Officers. Larger facilities require approval by the Board of Directors as appropriate.
- ▶ Reviewing and assessing credit risk.
- ▶ Company's Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business line concerned. Renewals and reviews of facilities are subject to the same review process.
- ▶ Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances) , and by issuer and market liquidity.
- ▶ Developing and maintaining the Company's processes for measuring ECL.
- ▶ Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

Regular audits of business units and Company Credit processes are undertaken by Internal Audit.



**(C) Liquidity Risk**

Liquidity risk is that which the Company will encounter in terms of difficulties in meeting obligations associated with its financial liabilities which are settled by delivering cash or other financial assets.

**Management of liquidity risk**

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Finance Division receives information from other business lines regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Finance Division then maintains a portfolio of short-term liquid assets, largely made up of cash and cash equivalents, fixed and calls deposits and short term government securities, to ensure that sufficient liquidity maintained within the Company as a whole. All liquidity policies and procedures are subject to review and approval by Integrated Risk Management Committee. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to Integrated Risk Management Committee. The Company relies on deposits from customers and borrowing liabilities as its primary sources of funding. While the Company's borrowing liabilities have maturities of over one year, deposits from customers generally have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

**(D) Market Risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Management of market risk**

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The ALCO is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

**(E) Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls is to address operational risk assigned to senior management within each business line. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- ▶ Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- ▶ Requirements for the reconciliation and monitoring of transactions.
- ▶ Compliance with regulatory and other legal requirements.
- ▶ Documentation of controls and procedures.
- ▶ Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- ▶ Requirements for the reporting of operational losses and proposed remedial actions.
- ▶ Development of contingency plans.
- ▶ Training and professional development.
- ▶ Risk mitigation, including insurance where it is effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business line to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

**(F) Significant Impact (including the potential impact) of Covid -19 on Financial Risk Management**

Note 55 describes the Significant Impact (including the potential impact) of Covid -19 on Financial Risk Management of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

### Financial Risk Review of the Company

This note presents information about the Company's exposure to financial risks and the Company's management of capital.

	Page
<b>A. Credit Risk</b>	
i Credit Quality Analysis	239
ii Amounts arising from ECL	240
iii Concentration of Credit Risk	243
<b>B. Liquidity Risk</b>	
i Exposure to Liquidity Risk	244
ii Maturity analysis for financial assets and financial liabilities	245
<b>C . Market Risk</b>	
i Exposure to Market Risk - Trading and non trading portfolios	246
ii Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL)	247
iii Equity based investment Portfolio risk Analysis	247
<b>D. Operational Risk</b>	
i Regulatory capital Adequacy	248



## A. Credit Risk

### A. i Credit Quality Analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, financial assets measured at FVTPL, Financial Investments Measured at Fair Value Through Other Comprehensive Income.

With the adoption of SLFRS 9 (01st April 2018) - "Financial Instruments" the Company manages credit quality based on three stage approach.

**Stage 1** - 12 Month Expected Credit Losses

**Stage 2** - Life Time Expected Credit Losses - Not Credit Impaired

**Stage 3** - Life Time Expected Credit Losses - Credit Impaired

The following table shows the classification of Financial Assets based on the three stage approach.

As at 31st March 2020	12 Month Expected Credit Losses  Rs.	Life Time Expected Credit Losses - Not Credit Impaired  Rs.	Life Time Expected Credit Losses - Credit Impaired  Rs.	Unclassified  Rs.	Total  Rs.
Cash and Cash Equivalents	2,046,506,255	-	-	-	2,046,506,255
Placements with Banks and Other Finance Companies	2,576,969,851	-	-	-	2,576,969,851
Less : ECL Allowance					(8,071,689)
Reverse Repurchase Agreements	2,079,841,356	-	-	-	2,079,841,356
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	1,084,454,685	-	-	-	1,084,454,685
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	23,599,124,188	3,837,537,011	997,342,824	-	28,434,004,023
Less : ECL Allowance					(808,447,036)
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	10,431,329,350	2,964,086,059	1,018,192,591	-	14,413,608,000
Less : ECL Allowance					(919,611,533)
Financial Investments Measured at Fair Value Through Other Comprehensive Income	203,800	-	-	-	203,800
Financial Assets at Amortised Cost - Debt and other Financial Instruments	97,954,958	-	-	-	97,954,958
Financial Assets at Amortised Cost - Other Financial Assets	-	-	-	16,617,983	16,617,983
	41,916,384,443	6,801,623,070	2,015,535,415	16,617,983	49,014,030,653

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March 2019	12 Month Expected Credit Losses  Rs.	Life Time Expected Credit Losses - Not Credit Impaired  Rs.	Life Time Expected Credit Losses - Credit Impaired  Rs.	Unclassified  Rs.	Total  Rs.
Cash and Cash Equivalents	1,507,932,892	-	-	-	1,507,932,892
Placements with Banks and Other Finance Companies	2,358,370,971	-	-	-	2,358,370,971
Less : ECL Allowance					(2,012,119)
Reverse Repurchase Agreements	230,130,165	-	-	-	230,130,165
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	812,320,782	-	-	-	812,320,782
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	21,670,753,287	2,544,129,409	606,438,155	-	24,821,320,851
Less : ECL Allowance					(489,024,888)
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	12,398,457,619	2,145,059,049	768,706,008	-	15,312,222,676
Less : ECL Allowance					(687,305,770)
Financial Investments Measured at Fair Value Through Other Comprehensive Income	203,800	-	-	-	203,800
Financial Assets at Amortised Cost - Debt and other Financial Instruments	1,785,716,058	-	-	-	1,785,716,058
Financial Assets at Amortised Cost - Other Financial Assets	-	-	-	15,963,213	15,963,213
	40,763,885,574	4,689,188,458	1,375,144,163	15,963,213	45,665,838,631

### A. ii Amounts arising from ECL

This note highlights inputs, assumptions and techniques used for estimating Expected Credit Losses (ECL) as per SLFRS 9 - "Financial Instruments".

#### Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

#### Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the information following data.



- ▶ Payment record – this includes overdue status as well as a range of variables about payment ratios
- ▶ External data from credit reference agencies, including industry-standard credit scores
- ▶ Requests for and granting of forbearance
- ▶ Existing and forecast changes in business, financial and economic conditions
- ▶ Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

#### Generating the term structure of Probability of Default (PD)

Past Due date is a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by type of product and type of underlying security. For some portfolios, information gathered from external credit agencies is also used.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

#### Definition of default

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held) ; or the borrower is past due equal more than 180 days on any material credit obligation to the Company. , In determination of default the Company largely aligns with the regulatory definition of default which is 180 days and above.

#### Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using variety of external actual and forecasted information, the Company formulates a “base case” view of the future direction of relevant economic variables as well as a representative range (Best Case and worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources.

#### ECL allowance

The following tables show reconciliation from the opening to the closing balance of the loss allowance of lending portfolio by class of financial instrument.

#### Movement in Allowance for Expected Credit Losses (Stage Transition)

As at 31st March 2020	Stage 1: 12-Month ECL	Stage 2: Life Time ECL not-credit impaired	Stage 3: Life Time ECL credit impaired	Total ECL
	Rs.	Rs.	Rs.	Rs.
Balance as at the beginning of the year	240,804,458	141,957,123	793,569,078	1,176,330,658
<b>Changes due to Lending Portfolio recognised in opening balance that have:</b>				
Transferred from 12 Month ECL	(41,877,334)	36,923,888	4,953,446	-
Transferred from LifeTime ECL not-credit impaired	22,710,766	(39,427,454)	16,716,688	-
Transferred from LifeTime ECL credit impaired	5,613,543	2,412,478	(8,026,021)	-
Interest accrued / (reversals) on impaired loans and advances	-	-	70,125,860	70,125,860
Net remeasurement of loss allowance	51,692,324	183,648,185	246,261,542	481,602,051
Balance as at the end of the year	278,943,757	325,514,220	1,123,600,593	1,728,058,569

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March 2019	Stage 1: 12-Month ECL	Stage 2: Life Time ECL not-credit impaired	Stage 3: Life Time ECL credit impaired	Total ECL
	Rs.	Rs.	Rs.	Rs.
Balance as at the beginning of the year ( as per SLFRS 9)	205,580,875	118,664,342	638,166,568	962,411,785
<b>Changes due to Lending Portfolio recognised in opening balance that have:</b>				
Transferred from 12 Month ECL	(26,009,956)	22,855,161	3,154,795	-
Transferred from LifeTime ECL not-credit impaired	28,192,633	(40,748,365)	12,555,732	-
Transferred from LifeTime ECL credit impaired	3,016,781	7,858,264	(10,875,045)	-
Interest accrued / (reversals) on impaired loans and advances	-	-	15,167,310	15,167,310
Net remeasurement of loss allowance	30,024,125	33,327,721	135,399,718	198,751,564
Balance as at the end of the year	240,804,458	141,957,123	793,569,078	1,176,330,659

### Stage Transition on Lending Portfolio

The following tables show reconciliations from the opening to the closing balance of the lending portfolio (gross) based on three stage approach.

As at 31st March 2020	Stage 1: 12-Month ECL	Stage 2: Life Time ECL not-credit impaired	Stage 3: Life Time ECL credit impaired	Total ECL
	Rs.	Rs.	Rs.	Rs.
Balance as at the beginning of the year	34,069,210,906	4,689,188,456	1,375,144,165	40,133,543,527
<b>Changes due to Lending Portfolio recognised in opening balance that have:</b>				
Transferred from 12 Month ECL	(4,282,031,162)	3,826,223,057	455,808,105	-
Transferred from LifeTime ECL not-credit impaired	708,974,547	(1,046,906,571)	337,932,024	-
Transferred from LifeTime ECL credit impaired	18,250,319	10,351,074	(28,601,393)	-
Financial Assets that have been derecognised	(14,928,054,495)	(2,626,935,923)	(434,020,438)	(17,989,010,856)
Other Changes in the portfolio	18,444,103,423	1,949,702,975	309,272,954	20,703,079,352
Balance as at the end of the year	34,030,453,538	6,801,623,068	2,015,535,417	42,847,612,023



As at 31st March 2019	Stage 1: 12-Month ECL	Stage 2: Life Time ECL not-credit impaired	Stage 3: Life Time ECL credit impaired	Total ECL
	Rs.	Rs.	Rs.	Rs.
Balance as at the beginning of the year	27,264,787,611	3,445,069,719	912,629,372	31,622,486,702
<b>Changes due to Lending Portfolio recognised in opening balance that have:</b>				
Transferred from 12 Month ECL	(2,300,186,049)	2,055,948,923	244,237,126	-
Transferred from LifeTime ECL not-credit impaired	770,211,822	(987,694,459)	217,482,637	-
Transferred from LifeTime ECL credit impaired	12,271,514	19,335,569	(31,607,083)	-
Financial Assets that have been derecognised	(12,870,044,308)	(1,966,021,812)	(312,059,652)	(15,148,125,772)
Other Changes in the portfolio	21,192,170,316	2,122,550,516	344,461,765	23,659,182,597
Balance as at the end of the year	34,069,210,906	4,689,188,456	1,375,144,165	40,133,543,527

#### A. iii Concentration of Credit Risk

The following tables show the concentration of lending portfolio based on the type of product and geographical region.

##### Product Concentration of the Net Lending Portfolio

As at 31st March	2020		2019	
	Rs.	%	Rs.	%
Hire Purchase Receivable	5,260,290	0.01%	42,010,880	0.11%
Lease Rental Receivable	13,488,736,177	32.80%	14,582,906,026	37.43%
Loans and advances	23,598,665,770	57.39%	21,282,563,425	54.63%
Loans against fixed deposits	499,902,655	1.22%	532,328,640	1.37%
Micro Finance Loans	-	-	3,995,904	0.01%
Gold Loans	3,526,988,562	8.58%	2,513,407,994	6.45%
	41,119,553,454		38,957,212,869	

##### Geographical Concentration of the Gross Lending Portfolio

Province	Lease Rental & Hire Purchase Receivables		Loans and Receivables to Other Customers	
	2020 Rs.	2019 Rs.	2020 Rs.	2019 Rs.
<b>As at 31st March</b>				
Western	8,160,055,747	8,906,598,503	19,470,525,635	17,172,263,302
Southern	1,240,677,877	1,329,114,848	1,879,745,965	1,725,778,332
Sabaragamuwa	1,579,688,031	1,538,347,742	1,741,504,197	1,368,590,327
Central	793,054,495	815,479,674	1,170,515,788	966,564,310
Uva	429,221,597	439,054,301	599,999,123	537,289,223
Eastern	37,413,267	49,038,092	55,934,793	51,140,544
North Western	1,570,305,885	1,516,313,035	2,414,313,831	2,025,976,589
North Central	596,423,447	710,872,795	1,084,815,288	954,743,355
Northern	6,767,654	7,403,686	16,649,402	18,974,869
	14,413,608,000	15,312,222,676	28,434,004,022	24,821,320,851



## NOTES TO THE FINANCIAL STATEMENTS

### B. Liquidity Risk

#### B. i Exposure to Liquidity Risk

Exposure to Liquidity Risk is monitored through the Liquid Asset Ratio (LAR) of the Company.

As at 31st March	2020	2019
<b>Liquid Asset Ratio (LAR)</b>		
Average for the year	14.74%	14.06%
Maximum for the year	19.23%	17.12%
Minimum for the year	11.77%	10.83%

Components of the Company's liquid assets used for the purpose of calculating the Statutory Liquid Asset Ratio as at 31st March is given below.

As at 31st March	2020 Rs.	2019 Rs.
Cash in Hand	168,932,461	168,628,067
Balances in Current Accounts free from lien	1,504,414,850	344,636,696
Deposits in Commercial Banks free from lien	1,920,000,000	1,650,000,000
Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any lien or charge	98,179,396	1,776,156,450
Any Other Approved Securities	2,079,841,356	230,000,000
<b>Total liquid assets</b>	<b>5,771,368,063</b>	<b>4,169,421,213</b>



## B. ii Maturity analysis for financial assets and financial liabilities

An analysis of the interest bearing assets and liabilities employed by the company as at 31st March 2020, based on the remaining period at the Statement of Financial Position date to the respective contractual maturity date is given below;

	Up to 3 months Rs.	3 to 12 months Rs.	1 to 3 years Rs.	3 to 5 years Rs.	More than 5 years Rs.	Total Rs.
<b>Interest Bearing Assets</b>						
Placements with Banks and Other Finance Companies	1,256,615,922	1,311,530,969	751,271	-	-	2,568,898,162
Reverse Repurchase Agreements	-	2,079,841,356	-	-	-	2,079,841,356
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	1,084,454,685	-	-	-	-	1,084,454,685
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	6,739,361,058	7,178,815,762	10,692,188,258	3,000,427,115	14,764,794	27,625,556,987
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	2,321,027,130	3,742,895,491	5,997,975,229	1,429,868,561	2,230,056	13,493,996,467
Financial Investments Measured at Fair Value Through Other Comprehensive Income	203,800	-	-	-	-	203,800
Financial Assets at Amortised Cost - Debt and other Financial Instruments	97,954,958	-	-	-	-	97,954,958
Financial Assets at Amortised Cost - Other Financial Assets	872,777	4,116,401	11,065,572	563,233	-	16,617,983
<b>Total Interest Bearing Assets</b>	<b>11,500,490,330</b>	<b>14,317,199,979</b>	<b>16,701,980,330</b>	<b>4,430,858,909</b>	<b>16,994,850</b>	<b>46,967,524,398</b>
Percentage 2020	24%	30%	37%	9%	0%	
Percentage 2019	20%	34%	35%	9%	0%	
<b>Interest Bearing Liabilities</b>						
Bank Overdrafts	964,529,904	-	-	-	-	964,529,904
Financial Liabilities at Amortised Cost - Deposits due to Customers	10,188,842,536	11,457,902,204	6,330,611,465	1,266,556,693	-	29,243,912,898
Financial Liabilities at Amortised Cost - Interest bearing Borrowings	2,635,336,806	2,548,552,314	6,853,906,419	-	-	12,037,795,539
Lease Creditors	13,525,288	32,831,316	85,783,298	99,156,494	171,222,575	402,518,972
<b>Total Interest Bearing Liabilities</b>	<b>13,802,234,534</b>	<b>14,039,285,834</b>	<b>13,270,301,182</b>	<b>1,365,713,187</b>	<b>171,222,575</b>	<b>42,648,757,312</b>
Percentage 2020	32%	33%	32%	3%	0%	
Percentage 2019	34%	41%	19%	6%	0%	

\* Loans and Receivables to Other Customers and Lease Rental & Hire Purchase Receivables are reported net of impairment.

## NOTES TO THE FINANCIAL STATEMENTS

### C. Market Risk

#### C. i Exposure to Market Risk - Trading and non trading portfolios

	Carrying Amount as at 31st March 2020  Rs.	Market Risk Measurement		Carrying Amount as at 31st March 2019  Rs.	Market Risk Measurement	
		Trading Portfolios	Non -Trading Portfolios		Trading Portfolios	Non -Trading Portfolios
		Rs.	Rs.		Rs.	Rs.
Assets subject to Market Risk						
Cash and Cash Equivalents	2,046,506,255	-	2,046,506,255	1,507,932,892	-	1,507,932,892
Placements with Banks and Other Finance Companies	2,568,898,162	-	2,568,898,162	2,356,358,852	-	2,356,358,852
Reverse Repurchase Agreements	2,079,841,356	-	2,079,841,356	230,130,165	-	230,130,165
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL)	1,084,454,685	1,084,454,685	-	812,320,782	812,320,782	-
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	27,625,556,987	-	27,625,556,987	24,332,295,963	-	24,332,295,963
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	13,493,996,467	-	13,493,996,467	14,624,916,906	-	14,624,916,906
Financial Investments Measured at Fair Value Through Other Comprehensive Income	203,800	-	203,800	203,800	-	203,800
Financial Assets at Amortised Cost - Debt and other Financial Instruments	97,954,958	-	97,954,958	1,785,716,058	-	1,785,716,058
Other Financial Assets	16,617,983	-	16,617,983	15,963,213	-	15,963,213
	49,014,030,653	1,084,454,685	47,929,575,968	45,665,838,631	812,320,782	44,853,517,849
Liabilities subject to Market Risk						
Bank Overdrafts	964,529,904	-	964,529,904	1,566,068,720	-	1,566,068,720
Financial Liabilities at Amortised Cost - Deposits due to Customers	29,243,912,898	-	29,243,912,898	25,436,257,664	-	25,436,257,664
Financial Liabilities at Amortised Cost - Interest bearing Borrowings	12,037,795,536	-	12,037,795,536	12,497,221,353	-	12,497,221,353
Subordinated Term Debts	-	-	-	1,031,100,274	-	1,031,100,274
	42,246,238,338	-	42,246,238,338	40,530,648,011	-	40,530,648,011



As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

**C. ii Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL)**

Rate Sensitive Assets (RSA)	46,967,524,398	44,157,905,739
Rate Sensitive Liabilities (RSL)	42,648,757,312	40,530,648,011
GAP (RSA-RSL)	4,318,767,086	3,627,257,728

**C. iii Equity based investment Portfolio risk Analysis**

The given below Analysis shows the maximum impact of change in the equity prices to the comprehensive income as at 31st March each Financial Year.

	Market Value as at 31st March 2020  Rs.	Lowest Market Value  Rs.	Effect to the Comprehensive Income if the market price drops to the lowest value  Rs.
Bank , Finance & Insurance	1,082,637	931,571	151,066
<b>Total</b>	<b>1,082,637</b>	<b>931,571</b>	<b>151,066</b>

	Market Value as at 31st March 2019  Rs.	Lowest Market Value  Rs.	Effect to the Comprehensive Income if the market price drops to the lowest value  Rs.
Bank , Finance & Insurance	1,586,189	1,573,600	12,589
<b>Total</b>	<b>1,586,189</b>	<b>1,573,600</b>	<b>12,589</b>

## NOTES TO THE FINANCIAL STATEMENTS

### D. Operational Risk

#### Capital Management

The Company is required to manage its capital taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

### D. i Regulatory Capital Adequacy

Capital adequacy is a measure of financial institutions financial strength and stability of a company. This measure has been introduced by Central Bank of Sri Lanka to protect the interest of the various stakeholders of the Company.

The Capital Adequacy Ratio (CAR) is calculated based on the CBSL Finance Business Act Direction No. 3 of 2018.

Commencing from 01st July 2019 the Company needs to maintain a CAR not less than 6.5% (2018/19 - 6%) with minimum Tier 1 capital and a minimum total CAR with 10.5% (2018/19 - 10%) in relation to total Risk Weighted Assets.

As at 31st March	Note	2020 Rs.	2019 Rs.
<b>Computation of Capital Adequacy Ratios</b>			
Tier 1 Capital		6,323,705,175	5,314,410,857
Total Capital	(i)	6,912,811,691	6,020,998,665
Risk Weighted Amount for Credit Risk	(ii)	47,171,826,777	42,757,930,977
Risk Weighted Amount for Operational Risk	(iii)	5,856,136,687	4,989,492,351
Total Risk Weighted Amount		53,027,963,464	47,747,423,328
<b>Core Capital Ratio (TIER 1) (Minimum Requirement 6.5%)</b>			
Core Capital x 100		11.93%	11.13%
Risk Weighted Assets			
<b>Total Risk Weighted Capital Ratio (TIER 11) (Minimum Requirement 10.5%)</b>			
Capital Base x 100		13.04%	12.61%
Risk Weighted Assets			



## (i) Computation of Total Capital

As at 31st March	2020 Rs.	2019 Rs.
<b>Computation of Capital Adequacy Ratios</b>		
Stated capital	1,325,918,000	1,325,918,000
Non-cumulative, Non-redeemable Preference Shares	-	-
Reserve fund	1,208,563,889	957,881,867
Audited retained earnings/(losses)	3,799,928,254	3,043,551,617
(less) Revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	7,500,000	7,500,000
Current year's profit(losses)	-	-
<b>Tier 1 capital</b>	<b>6,341,910,143</b>	<b>5,334,851,484</b>
Goodwill (net)	-	-
Other intangible assets (net)	17,663,649	19,647,533
Other Comprehensive Income losses	-	-
Deferred tax assets (net)	-	-
Shortfall of the cumulative impairment to total provisions and interest in suspense	-	-
50% of investment in banking and financial subsidiary companies	541,319	793,095
50% of investment in other banking and financial institutions	-	-
Shortfall of capital in financial subsidiaries	-	-
<b>Adjustments to Tier 1 capital</b>	<b>18,204,968</b>	<b>20,440,628</b>
<b>Tier I Capital (after adjustments)</b>	<b>6,323,705,175</b>	<b>5,314,410,857</b>
Instruments qualified as Tier 2 capital	-	200,000,000
Revaluation gains	-	-
General provisions/collective impairment allowances	589,647,835	507,380,903
<b>Eligible Tier 2 Capital</b>	<b>589,647,835</b>	<b>707,380,903</b>
50% of investment in banking and financial subsidiary companies	-	-
50% of investment in other banking and financial institutions	541,319	793,095
<b>Total Adjustments to eligible Tier 2 Capital</b>	<b>541,319</b>	<b>793,095</b>
<b>Eligible Tier 2 Capital after adjustments</b>	<b>589,106,516</b>	<b>706,587,808</b>
<b>Total Capital</b>	<b>6,912,811,691</b>	<b>6,020,998,665</b>

## NOTES TO THE FINANCIAL STATEMENTS

### (ii) Computation of Risk Weighted Amount for Credit Risk

Credit Risk under Standardised Approach - Credit Risk Exposures by Asset Classes and Risk Weights

Item	On Balance Sheet Amount	Credit equivalent of Off-balance sheet items	Total				
				0%	2%	20%	
				Rs.	Rs.	Rs.	
Claims on Government and Central Bank of Sri Lanka	97,954,958	-	97,954,958	-	-	-	
Claims on Public Sector Entities	-	-	-	-	-	-	
Claims on Financial institutions	4,441,579,477	-	4,441,579,477	-	-	773,155,508	
Claims on Corporates	1,083,372,049	-	1,083,372,049	-	-	-	
Retail Claims in respect of motor vehicles and machinery	17,586,446,522	-	17,586,446,522	-	-	-	
Claims Secured by Gold	3,493,665,501	-	3,493,665,501	-	-	-	
Retail claims secured by immovable property	857,352,552	-	857,352,552	-	-	-	
Other retail claims	18,222,247,403	-	18,222,247,403	-	-	-	
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	
Non-Performing Assets (NPAs)	1,285,158,450	-	1,285,158,450	-	-	-	
Higher-Risk Categories	-	-	-	-	-	-	
Other claims	2,501,505,342	-	2,501,505,342	-	-	2,915,412	
<b>Total Assets</b>	<b>49,569,282,254</b>	<b>-</b>	<b>49,569,282,255</b>	<b>-</b>	<b>-</b>	<b>776,070,920</b>	

As at 31st March	2020 Rs.	2019 Rs.
------------------	-------------	-------------

Credit Risk under Standardised Approach - Exposures recognized under Credit Risk Mitigation (CRM)

CRM Techniques		
Cash	499,902,655	532,328,640
Government Securities	2,079,841,356	230,130,165
Employee Provident Fund Balances	-	-
Debt securities rated by a recognized ECAI	-	-
Debt securities not rated by a recognized ECAI	-	-
Equities that are included in a main index	-	-
<b>Collateralized transactions</b>	<b>2,579,744,011</b>	<b>762,458,805</b>
On-balance sheet netting	-	-
Guarantees	-	-
<b>Other CRM Techniques</b>	<b>-</b>	<b>-</b>
<b>Total CRM exposure</b>	<b>2,579,744,011</b>	<b>762,458,805</b>





Risk Weight							As at 31st March 2020 Total credit Exposure Amount Rs.	As at 31st March 2019 Total credit Exposure Amount Rs.
	50%	60%	75%	100%	125%	150%		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
56,691,681	-	346,813,932	-	-	-	-	1,176,661,121	663,530,439
-	-	-	1,083,372,049	-	-	-	1,083,372,049	810,734,593
-	-	-	17,586,446,522	-	-	-	17,586,446,522	23,385,913,442
-	-	-	257,701,028	-	-	-	257,701,028	330,707,613
428,676,276	-	-	-	-	-	-	428,676,276	478,249,759
-	-	-	-	22,777,809,254	-	-	22,777,809,254	14,364,172,908
-	-	-	-	-	-	-	-	-
-	-	-	918,692,133	-	549,699,475	-	1,468,391,609	657,514,509
-	-	-	-	-	-	-	-	-
-	-	-	2,389,853,506	-	-	-	2,392,768,918	2,067,107,714
485,367,957	-	346,813,932	22,236,065,238	22,777,809,254	549,699,475	-	47,171,826,777	42,757,930,977

## (iii) Computation of Risk Weighted Amount for Operational Risk

	1st Year	2nd Year	3rd Year	Total	2020 Average	2019 Average
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest Income	5,656,275,580	7,347,168,194	8,322,352,096	21,325,795,870	7,108,598,623	6,247,420,906
Interest Expenses	3,500,249,673	4,524,628,517	4,802,397,247	12,827,275,437	4,275,758,479	3,542,975,815
Non-interest income	1,144,688,326	1,414,174,370	1,463,242,171	4,022,104,867	1,340,701,622	675,387,720
Less : Realized Profits/losses from the Sale of Securities	29,546,195	61,801,827	107,414,302	198,762,324	66,254,108	45,741,089
Less : Extraordinary/Irregular Item of Income/expenses	5,352,809	18,188,144	434,980	23,975,933	7,991,978	11,770,477
Gross Income	3,265,815,229	4,156,724,076	4,875,347,738	12,297,887,043	4,099,295,681	3,326,328,234
Capital Charges for Operational Risk @* 15%					614,894,352	498,949,235
Risk-Weighted Amount for operational Risk under the Basic Indicator Approach					5,856,136,687	4,989,492,351
Required total capital ratio based on the Assets					10.5%	10.0%

## NOTES TO THE FINANCIAL STATEMENTS

### 54 Events Occurring After the Reporting Period

- 54.1 Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in the Financial Statements.

### 55 The impact of Covid - 19 on the Business / Operations/ Risk Management and Financial Reporting of the Company

In consideration of the island-wide curfew imposed by the Government on 20th March 2020, the Company enacted 'work from home' measures for all employees ensuring their safety and well-being in the period of uncertainty. However, the subsequent declaration by the Government that Licensed Finance Companies (LFCs) are an essential service providers resulted in the Company re-commencing business operations in both curfew and non-curfew areas limited to critical functions to ensure uninterrupted services to our customers. Once curfew was lifted in the Country the Company recommenced normal business operations but strictly instructed and monitored the adherence to social distancing guidelines and established other precautionary measures to safeguard workplace health and safety.

The Central Bank of Sri Lanka (CBSL) issued directions and guidelines for financial institutions to offer concessions on financial obligations to individual customers and private business operations as a result of the adverse short-term impact on their sources of income. The Company at once adhered to these directions and guidelines and has taken the appropriate measures to offer affected customers relief measures.

Maintaining a strong liquidity position during this uncertain period remains a key priority for the Company. The Company's current liquidity position built over the last few years is a source of financial strength, while company has also taken all necessary measures to ensure continuation of confirmed credit lines with banking institutions.

The Company has also enacted a process to review costs to implement cost savings measures in the coming months, while maintaining efficiencies and productivity without disadvantaging the stakeholders.

The Company is confident of the resilience of people and resources to withstand the impacts arising from this crisis as currently foreseen. However, the exact impact on the business in the foreseeable future is still to be realised given the volatility and unexpected developments caused by Covid-19 pandemic globally. Company will continue to monitor the impacts to business operations and stakeholders and will proactively take measures to ensure business continues with minimal interruptions as far as possible in these times.

Following notes describe the impact of Covid - 19 on the key financial statement captions of the Company.

#### **Impairment Provisioning as per ECL methodology for Financial Assets at Amortised Cost - Loans and Receivables to Other Customers / Lease Rental and Hire Purchase Receivables / Placements with Banks and Other Finance Companies**

ECL measurements need to incorporate forward-looking reasonable and supportable information available without undue cost or effort at the reporting date (SLFRS 9.5.5.17). Accordingly, SLFRS 9 requires the application of judgement and both requires and allows entities to adjust their approach to determining ECLs in different circumstances. A number of assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold in the current environment due to Covid - 19. To assess SICR, SLFRS 9 requires that entities assess changes in the risk of a default occurring over the expected life of a financial instrument. Entities are required to develop estimates based on the best available information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, consideration need to be given both to the effects of Covid - 19 and the significant government support measures being undertaken.

The extension of payment holidays granted to borrowers in stressed/ specific industries under the Government approved Relief Schemes shall not automatically result in all those instruments being considered to have suffered a Significant Increase in Credit Risk (SICR). Consideration also need to be given on whether the concessions under moratoriums could enable certain borrowers to resume regular payments in the foreseeable future (whom otherwise would have fallen into financial difficulty), such that significant increase in credit risk would not occur over expected remaining lives of the receivables.

Due to the insufficiency of relevant and accurate information, uncertainty relating to customers repayment ability, resource constraints and various government relief measures as a result of the outbreak, the company decided to apply certain temporary practical expedients in the application of practical expedients issued by CA Sri Lanka.



#### **Probability of Default (PDs) and Loss Given Default (LGDs) and Economic Factor Adjustment (EFA) and resulting modelling**

The Company has not made changes to the existing model hence captured the probability of default (PDs) due to Covid - 19 as at 31st March 2020. The company has continued to calculate the Loss Given Default (LGDs) based on the deteriorated cash flows during the lock down period. Economic Factor Adjustment (EFA) was based on the most recently published external information which factored the impact of Covid - 19.

#### **Cash flow assumptions for recovery period for computation of individual significant loans**

The Company has re-assessed and adjusted certain cash flows to reflect the different ways in which the COVID-19 outbreak affects to the ECL impairment.

#### **Staging of the loans**

The Company continued the same staging that exist as at 29th February 2020 which allowed using under the practical expedient of SLFRS 9 due to the insufficiency of updated information. Currently Company is in the process of assessing the risk and the resulting adjustments; monitor customer payment patterns and reflect in the staging and assess the staggering of the cash flows due to moratorium.

#### **Objective evidence triggers due to Covid - 19**

The company has not considered the objective evidence triggers as at 31st March 2020 which allowed using under the practical expedient of SLFRS 9 due to insufficiency of updated information.

Company plans to consider objective evidence triggers when the information becomes available.

#### **Interest Income recognition for Financial Assets at Amortised Cost - Loans and Receivables to Other Customers / Lease Rental and Hire Purchase Receivables**

Based on the Debt Moratoriums as per Circular No's: 4 and 5 of 2020 issued by Monetary Board, Central Bank of Sri Lanka extension of payment holidays granted to borrowers in stressed/ specific industries.

For not credit impaired receivables, interest has to be accrued throughout the period (during the moratorium and extended tenure) applying the original Effective Interest Rate (EIR) in accordance with SLFRS 9.5.4.1 and SLFRS 9.5.4.2 applied to the gross carrying amount of the financial assets. Accordingly, the modification gain or loss shall be charged to profit or loss immediately (SLFRS 9.5.4.3 and SLFRS 9.B5.5.27). This is on the basis that the modification is not substantial. If there is a substantial modification, that would result in derecognition of the financial asset consequently a new financial asset would be recognised and the EIR would be restated based on the pre modification carrying value and the revised cash flows.

For credit impaired receivables, interest revenue shall be accrued in the financial statements for the credit impaired assets, by applying the original EIR on the net carrying value, after adjusting for Expected Credit Loss (ECL).

Currently company has accounted the interest revenue based on the SLFRS 9 and in the process of finalising the customer debt relief applications in order to identify whether the modification of terms are substantial or not.

#### **Fair Valuation of Financial Assets Measured at Fair Value through Profit or Loss (FVTPL) & Financial Investments Measured at Fair Value through Other Comprehensive Income (FVTOCI)**

The company has continued to value the FVTPL & FVTOCI securities based on the same valuation technique used in prior financial year and not used the temporary practical expedient which allowed to change the valuation technique subject to not to exceed the market value reported as at 31st December 2019.

#### **Interest Expense on Financial Liabilities at Amortised Cost - Deposits due to Customers / Interest bearing Borrowings**

Due to the impact of the Covid-19 pandemic, there were revisions to interest rates and these rates may need to be reconsidered. However there was no significant impact from interest rate volatility for the financial year ended 31st March 2020.

#### **Impairment of Property Plant Equipment**

The Company does not foresee any indications of Impairment as at the reporting date due to the Covid-19 pandemic and each business unit functions under the respective business continuity plans as per the Company's risk management strategy, allowing operations to function through alternate working arrangements, whilst strictly adhering to and supporting government directives. The management has taken necessary steps to safeguard the assets to ensure its future economic value would not diminish.

# INDEPENDENT ASSURANCE REPORT TO VALLIBEL FINANCE PLC



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
Internet : [www.kpmg.com/lk](http://www.kpmg.com/lk)

We have been engaged by the directors of Vallibel Finance PLC ("the Company") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 March 2020. The Sustainability Indicators are included in Vallibel Finance PLC's Integrated Annual Report for the year ended 31 March 2020 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report Page
Financial Highlights	8

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
Non-Financial Highlights	9
Information provided on following capitals	
Human Capital	52 - 61
Financial Capital	62 - 71
Manufactured Capital	72 - 77
Intellectual Capital	78 - 82
Social and Relationship Capital	84 - 99
Natural Capital	100 - 103

## Our Conclusions

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

## Reasonable Assurance Sustainability Indicators

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 March 2020 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## Limited Assurance Sustainability Indicators

Based on the limited assurance procedures performed and evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 March 2020, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## Management's Responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with

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 FCA  
A.M.R.P. Alahakoon ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel ACA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA  
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA



the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

### Our Responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

### Reasonable assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

### Limited assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- ▶ interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- ▶ enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- ▶ enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- ▶ enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- ▶ comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- ▶ reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in

# INDEPENDENT ASSURANCE REPORT TO VALLIBEL FINANCE PLC



line with our overall knowledge of, and experience with, the sustainability performance of the Company;

- ▶ reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

## Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

## Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.

A handwritten signature in black ink, appearing to read 'KPMG', with a horizontal line underneath it.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

2nd June 2020



# GRI CONTENT INDEX

GRI Standard/Disclosure	Page No.	Report Commentary Title
<b>GRI 102 : General Disclosures 2016</b>		
<b>Organizational profile</b>		
102 - 1 Name of the organization	277	Corporate Information
102 - 2 Activities, brands, products and services	87	Social and Relationship Capital - Offering a Diversified Product Portfolio
102 - 3 Location of headquarters	277	Corporate Information
102 - 4 Location of operations	274-275,277	Corporate Information, Branch Network
102 - 5 Ownership and legal form	277	Corporate Information
102 - 6 Markets served	75,105	Manufacturing Capital - Geographical Distribution of the Branch Network, Performance of Business Segments - Our Product Portfolio
102 - 7 Scale of the organization	8-9	Financial and Non Financial Highlights
102 - 8 Information on employees and other workers	52-61	Human Capital
102 - 9 Supply chain	93-94	Social and Relationship Capital - Creating Value for Business Partners and Suppliers
102 - 10 Significant changes to the organization and supply chain	75,5	Manufacturing Capital - Geographical Distribution of the Branch Network, Our Integrated Report - Reporting Changes
102 - 11 Precautionary principle or approach	5	Our integrated Report - Precautionary Approach
102 - 12 External initiatives	5	Our Integrated Report
102 - 13 Membership of associations	277	Corporate Information
<b>Strategy</b>		
102 - 14 Statement from senior decision maker	14	Acting Chairman's Message
102 - 15 Key impacts, risks & opportunities	32-35	Our Approach to Sustainability
<b>Ethics and integrity</b>		
102 - 16 Values, principles, norms and standards of behavior	78-82	Intellectual Capital
<b>Governance</b>		
102 - 18 Governance structure	113	Corporate Governance Report
102 - 22 Composition of the highest governance body and its committees	113	Corporate Governance Report
<b>Stakeholders engagement</b>		
102 - 40 List of stakeholder groups	45	Stakeholder Engagement
102 - 41 Collective bargaining agreements	60	Human Capital - Employee Management Relations
102 - 42 Identifying and selecting stakeholders	45	Stakeholder Engagement
102 - 43 Approach to stakeholder engagement	44-47	Stakeholder Engagement
102 - 44 Key topics and concerns raised	44-47	Stakeholder Engagement
<b>Reporting practices</b>		
102 - 45 Entities included in the consolidated financial statements	182	Notes to the Financial Statements - Reporting Entity
102 - 46 Defining report content and topic boundary	5	Our Integrated Report
102 - 47 Material topics	48	Materiality Analysis
102 - 48 Restatement of information	5	Our Integrated Report
102 - 49 Changes in reporting	5	Our Integrated Report
102 - 50 Reporting period	5	Our Integrated Report
102 - 51 Date of most recent report	5	Our Integrated Report



## GRI CONTENT INDEX

GRI Standard/Disclosure	Page No.	Report Commentary Title
102 - 52 Reporting cycle	5	Our Integrated Report
102 - 53 Contact point for questions regarding Report	5	Our Integrated Report
102 - 54 Claims of reporting in accordance with GRI Standards	5	Our Integrated Report
102 - 55 GRI context index	257-259	GRI Content Index
102 - 56 External assurance	254-256	Independent Assurance Report
GRI 103: Management Approach	54,63,73,79, 85,101	Management Approach
<b>GRI 200: Economic</b>		
<b>GRI 201: Economic performance 2016</b>		
201 -1 Direct economic value generated and distributed	70	Financial Capital - Value created to Stakeholders
201 -3 Defined benefit plan obligations and other retirement plans	58,197-198	Human Capital - Remuneration & Benefits, Notes to the Financial statements -Employee Benefits
<b>GRI 202: Market presence 2016</b>		
202 -2 Senior Management Hired From The Local Community	55	Human Capital - Recruitment and On-boarding
<b>GRI 203: Indirect economic impact 2016</b>		
203 -1 Infrastructure investments and services supported	95-99	Social and Relationship Capital – Creating Value for the Community
203 -2 Significant indirect economic impacts	85-86	Social and Relationship Capital – Management Approach
<b>GRI 204: Procurement practices 2016</b>		
204 -1 Proportion of spending on local suppliers	93-94	Social and Relationship Capital - Creating Value for Business Partners and Suppliers
<b>GRI 205: Anti corruption 2016</b>		
205 -3 Confirmed incidents of corruption and actions taken	79	Intellectual Capital - Management Approach
<b>GRI 206: Anti-competitive behavior 2016</b>		
206 -1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	79	Intellectual Capital - Management Approach
<b>GRI 300: Environmental</b>		
<b>GRI 302: Energy 2016</b>		
302 -1 Energy consumption within the organization	102	Natural Capital - Energy Consumption
<b>GRI 303: Water and effluent 2018</b>		
303 -1 Interactions with water as a shared resource	101	Natural Capital - Water Conservation
303 -5 Water consumption	102	Natural Capital - Water Conservation
<b>GRI 306: Effluents and waste 2016</b>		
306 -5 Water bodies affected by water discharges and/or runoff	103	Natural Capital - Waste Management
<b>GRI 307: Environmental compliance 2016</b>		
307 -1 Non-compliance with environmental laws and regulations	103	Natural Capital - Environmental Compliance
<b>GRI 400: Social</b>		
<b>GRI 401: Employment 2016</b>		
401 -1 New employee hires and employee turnover	56-57	Human Capital - Recruitment and On-boarding, Employee Attrition



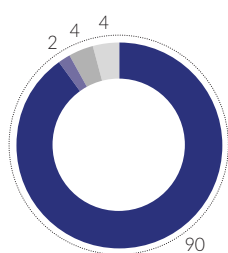
GRI Standard/Disclosure		Page No.	Report Commentary Title
401 -2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	58-60	Human Capital - Remuneration and Benefits
401 -3	Parental leave	59	Human Capital - Remuneration and Benefits
<b>GRI 402: Labour/Management relations 2016</b>			
402 -1	Minimum notice periods regarding operational changes	60	Human Capital - Employee-Management Relations
<b>GRI 403: Occupational health and safety 2018</b>			
403 -9	Work-related injuries	60	Human Capital - Safety, Health and Well-being
<b>GRI 404: Training and education 2016</b>			
404 -1	Average hours of training per year per employee	57	Human Capital - Training and Development
404 -2	Programs for upgrading employee skills and transition assistance programs	58	Human Capital - Training and Development
<b>GRI 405: Diversity and equal opportunity 2016</b>			
405 -1	Diversity of governance bodies and employees	53,112-117	Human Capital - Overview, Corporate Governance Report
<b>GRI 406: Non discrimination 2016</b>			
406 -1	Incidents of discrimination and corrective actions taken	54	Human Capital - Human Rights
<b>GRI 407: Freedom of association and collective bargaining 2016</b>			
407 -1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	60	Human Capital - Employee-Management Relations
<b>GRI 408: Child labor 2016</b>			
408-1	Operations and suppliers at significant risk for incidents of child labor	54	Human Capital - Human Rights
<b>GRI 409: Force or compulsory labor 2016</b>			
409 -1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	54	Human Capital - Human Rights
<b>GRI 413: Local communities 2016</b>			
413 -1	Operations with local community engagement, impact assessments, and development programs	95-99	Social and Relationship Capital – Creating Value for the Community
413 -2	Operations with significant actual and potential negative impacts on local communities	95-99	Social and Relationship Capital – Creating Value for the Community
<b>GRI 416: Customer health and safety 2016</b>			
416 -2	Incidents of non-compliance concerning the health and safety impacts of products and services	87	Social and Relationship Capital - Offering a Diversified Product Portfolio
<b>GRI 417: Marketing and labeling 2016</b>			
417 -1	Requirements for product and service information and labeling	87	Social and Relationship Capital - Offering a Diversified Product Portfolio
<b>GRI 418: Customer privacy 2016</b>			
418 -1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	77	Manufacturing Capital - Augmenting Information Technology

# SOURCES AND UTILISATION OF INCOME

For the year ended 31 March	2020		2019	
	Rs.	%	Rs.	%
<b>SOURCES OF INCOME</b>				
Loans and Advances	8,702,590,499	89.76	7,726,246,439	88.56
Government Securities	209,605,297	2.16	161,775,926	1.85
Commission Income	350,337,255	3.61	361,072,091	4.14
Other Income	432,773,046	4.47	475,435,886	5.45
<b>Total</b>	<b>9,695,306,097</b>	<b>100.00</b>	<b>8,724,530,342</b>	<b>100.00</b>
<b>UTILISATION OF INCOME</b>				
<b>To Employees</b>				
Personnel Expenses	1,053,241,776	10.86	906,841,898	10.39
<b>To Suppliers</b>				
Interest Paid	4,854,515,785	50.07	4,524,628,517	51.86
Other Expenses	745,122,212	7.69	719,089,378	8.24
Depreciation & Amortisation	112,714,413	1.16	93,251,698	1.07
Impairment charge for Loans & other losses	487,815,203	5.03	195,100,737	2.24
<b>To Government</b>				
Taxes on Financial Services	579,795,359	5.98	536,979,738	6.15
Income Tax	608,691,237	6.28	619,909,904	7.11
<b>To Shareholders</b>				
Dividends	235,453,400	2.43	-	-
Retained Profit	1,017,956,712	10.50	1,128,728,472	12.94
<b>Total</b>	<b>9,695,306,097</b>	<b>100.00</b>	<b>8,724,530,342</b>	<b>100.00</b>

Sources of Income - 2020

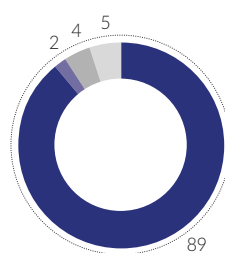
%



- Loans and Advances
- Government Securities
- Commission Income
- Other Income

Sources of Income - 2019

%



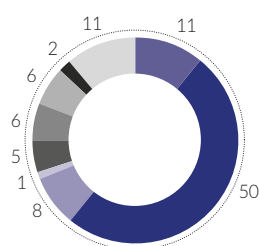
- Loans and Advances
- Government Securities
- Commission Income
- Other Income



	2018		2017		2016	
	Rs.	%	Rs.	%	Rs.	%
	6,086,063,723	87.83	4,464,179,980	87.28	3,165,917,337	91.28
	170,916,386	2.47	133,080,264	2.60	78,869,404	2.27
	248,286,443	3.58	189,052,650	3.70	109,128,266	3.15
	423,934,501	6.12	328,381,588	6.42	114,361,894	3.30
	6,929,201,053	100.00	5,114,694,482	100.00	3,468,276,901	100.00
	732,719,605	10.57	549,309,630	10.74	436,060,020	12.57
	3,500,249,672	50.51	2,604,049,257	50.91	1,558,667,730	44.94
	622,191,141	8.98	542,895,518	10.61	436,836,950	12.60
	74,788,004	1.08	60,927,563	1.19	54,794,468	1.58
	104,858,877	1.51	33,041,325	0.65	70,182,156	2.02
	356,549,591	5.15	229,689,842	4.49	128,112,003	3.69
	519,206,769	7.49	368,622,373	7.21	270,359,053	7.80
	269,859,231	3.90	103,876,500	2.03	83,101,200	2.40
	748,778,163	10.81	622,282,474	12.17	430,163,321	12.40
	6,929,201,053	100.00	5,114,694,482	100.00	3,468,276,901	100.00

## Utilisation of Income - 2020

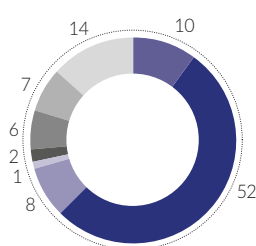
%



- Personnel Expenses
- Interest Paid
- Other Expenses
- Depreciation & Amortisation
- Impairment charge for Loans & other losses
- Taxes on Financial Services
- Income Tax
- Dividends
- Retained Profit

## Utilisation of Income - 2019

%



- Personnel Expenses
- Interest Paid
- Other Expenses
- Depreciation & Amortisation
- Impairment charge for Loans & other losses
- Taxes on Financial Services
- Income Tax
- Dividends
- Retained Profit

# INFORMATION ON ORDINARY SHARES

## Stock Exchange Listing

Vallibel Finance PLC is a Public Quoted Company, the ordinary shares of which were listed on the main board of the Colombo Stock Exchange on 4th May 2010.

## Shareholder Base

The total numbers of shareholders as at 31st March 2020 were 2,150.

## Distribution of Shareholding

Shares As at 31st March	2020				2019			
	No of Shareholders	%	No of Shares	%	No of Shareholders	%	No of Shares	%
1 - 1,000	1,636	76.09%	424,847	0.72%	1,673	75.36%	433,759	0.74%
1,001 - 10,000	397	18.47%	1,331,893	2.26%	419	18.87%	1,365,056	2.32%
10,001 - 100,000	88	4.09%	2,720,379	4.62%	100	4.50%	3,014,301	5.12%
100,001 - 1,000,000	23	1.07%	3,918,316	6.66%	22	0.99%	4,482,761	7.62%
Over 1,000,000	6	0.28%	50,467,915	85.74%	6	0.28%	49,567,473	84.20%
	2,150	100.00%	58,863,350	100.00%	2,220	100.00%	58,863,350	100.00%

## Categories of Shareholders

Type of Investor As at 31st March	2020			2019		
	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
Local Individuals	2,037	25,069,321	42.59%	2,093	25,511,245	43.34%
Local Institutions	101	31,459,900	53.44%	113	31,600,646	53.68%
Foreign Individuals	11	305,220	0.52%	13	317,439	0.54%
Foreign Institutions	1	2,028,909	3.45%	1	1,434,020	2.44%
	2,150	58,863,350	100.00%	2,220	58,863,350	100.00%

## Public holding

The percentage of shares held by the public being 21.082% comprising of 2,142 shareholders as at 31st March 2020.

The Float adjusted market capitalisation - Rs. 665,163,618.40

The Float adjusted market capitalisation of the Company falls under Option 5 of rule 7.13.1 (a) of the listing rules of the Colombo Stock Exchange and the company has complied with the minimum public holding requirement applicable under the said option.



## 20 Major Shareholders of the Company

Shareholders As at 31st March	2020		2019	
	No of Shares	%	No of Shares	%
Vallibel Investments (Pvt) Limited	30,277,000	51.436%	30,277,000	51.436%
K.D.D.Perera	12,616,266	21.433%	12,616,266	21.433%
K.D.A.Perera	2,133,240	3.624%	1,926,396	3.273%
R.F.T.Perera	2,100,000	3.568%	2,001,291	3.400%
Pershing LLC S/A Averbach Grauson & Co.	2,028,909	3.447%	1,434,020	2.436%
S.B.Rangamuwa	1,312,500	2.230%	1,312,500	2.230%
S.Abishek	628,711	1.068%	741,050	1.259%
B.A.R.Dissanayake	284,041	0.483%	284,041	0.483%
A.S.Marapana	215,955	0.367%	206,850	0.351%
A.Ragupathy	205,708	0.349%	205,708	0.349%
K.I.A.Hewage	200,000	0.340%	200,000	0.340%
H.Beruwelage	187,300	0.318%	187,300	0.318%
A.Sithampalam	186,690	0.317%	186,690	0.317%
J.B. Cocoshell (Pvt) Ltd	182,261	0.310%	Nil	Nil
S.L.R.R.Premathilaka & A.R.N.Perera	167,337	0.284%	157,337	0.267%
K.A.S.R.Nissanka	152,669	0.259%	152,880	0.260%
W.M.A.B.Walisundara	147,900	0.251%	147,851	0.251%
N.Balasingam	134,900	0.229%	134,900	0.229%
U.F.Strunk & M.G.De Albuquerque Leinenbach	125,992	0.214%	125,992	0.214%
K.D.H.Perera	122,612	0.208%	122,612	0.208%
	53,409,991	90.736%	52,420,684	89.055%
Others	5,453,359	9.264%	6,442,666	10.945%
<b>Total</b>	<b>58,863,350</b>	<b>100.00%</b>	<b>58,863,350</b>	<b>100.00%</b>

Market Prices		Quarter Ended				Year Ended	
		30.06.2019	30.09.2019	31.12.2019	31.03.2020	31.03.2020	31.03.2019
Highest	Rs.	73.10	71.80	79.00	74.90	79.00	72.50
Lowest	Rs.	64.00	65.00	66.00	50.00	50.00	60.00
Closing	Rs.	64.50	66.30	72.50	53.60	53.60	65.70

## Utilisation of funds raised via Capital Market

The funds raised via Capital Market have been utilized for the respective objectives mentioned in the prospectus / circulars.

# INFORMATION ON LISTED DEBENTURES

## Market Values of Listed Debentures

Debentures 2014/2019 *	Highest		Lowest		Period End	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Fixed - 14.75%	N/A	100.00	N/A	100.00	N/A	100.00
Fixed - 15.00%	N/A	N/T	N/A	N/T	N/A	N/T
Fixed - 15.50%	N/A	100.50	N/A	97.50	N/A	100.00

Debentures 2015/2020 **	Highest		Lowest		Period End	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Fixed - 10.25%	99.00	99.28	99.00	99.28	99.00	99.28

## Interest Rates

Debentures 2014/2019	2019/20		2018/19	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed - 14.75%	N/A	N/A	14.75%	15.59%
Fixed - 15.00%	N/A	N/A	15.00%	15.56%
Fixed - 15.50%	N/A	N/A	15.50%	15.50%

Debentures 2015/2020	2019/20		2018/19	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed - 10.25%	10.25%	10.51%	10.25%	10.51%

## Interest Rates of Comparable Government Securities - Gross Rates

	2019/20	2018/19
5 Year Treasury Bond	9.27%	11.04%

## Interest Yield and Yield to Maturity

Debentures 2014/2019	Fixed - 14.75%		Fixed - 15.00%		Fixed - 15.50%	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Interest Yield	N/A	14.75%	N/A	15.00%	N/A	15.50%
Yield to Maturity of last trade	N/A	14.29%	N/A	N/T	N/A	13.48%





Debentures 2015/2020	Fixed - 10.25%	
	2019/20	2018/19
Interest Yield	10.35%	10.32%
Yield to Maturity of last trade	14.51%	10.92%

\* Debentures 2014/2019 - Rs. 500 Mn redeemed on the respective maturity date.

\*\* Debentures 2015/2020 - Rs. 1,000 Mn redeemed on the respective maturity date.

\*\*\*N/A - Not Applicable and N/T - Not Traded

### Ratios

	2019/20	2018/19
Debt to Equity Ratio (%)	186%	247%
Interest Cover (Times)	1.50	1.51
Liquid Asset Ratio (%)	18.97%	15.25%

### Rating by ICRA Lanka Limited

Issuer Rating of [SL] BBB (stable) , Reaffirmed

Guaranteed Subordinate Redeemable Debentures rating of [SL] AA - (SO) (stable) , Reaffirmed

### Utilisation of Funds Raised Via Capital Market

The funds raised via Capital Market have been utilized for the respective objective mentioned in the prospectus / circular.

# TEN YEAR PERFORMANCE

## Based on Financial Statements prepared under SLFRS

For the year ended 31st March	2020 Rs.	2019 Rs.
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Gross Income	9,695,306,097	8,724,530,342
Interest Income	8,912,195,796	7,888,022,365
Interest Expense	4,854,515,785	4,524,628,517
Net Interest Income	4,057,680,011	3,363,393,848
Net Fee and Commission Income	350,337,255	361,072,091
Other Operating Income	432,773,047	475,435,886
Operating Expenses and provisions	2,398,893,604	2,256,162,712
Profit Before Taxation	2,441,896,708	2,285,618,114
Provision for Taxation	1,188,486,596	1,156,889,642
<b>Net Profit</b>	<b>1,253,410,112</b>	<b>1,128,728,472</b>

As at 31st March	2020 Rs.	2019 Rs.
<b>Assets</b>		
Cash and Cash Equivalents	2,046,506,255	1,507,932,892
Placements with Bank's and Other Finance Companies	2,568,898,162	2,356,358,852
Reverse Repurchase Agreements	2,079,841,356	230,130,165
Financial Assets Measured at Fair Value Through Profit or Loss (FVTPL) / Held for Trading	1,084,454,685	812,320,782
Assets Held for Sale	-	-
Loans and Receivables to Finance Companies	-	-
Financial Assets at Amortised Cost - Loans and Receivables to Other Customers	27,625,556,987	24,332,295,963
Financial Assets at Amortised Cost - Lease Rental and Hire Purchase Receivables	13,493,996,467	14,624,916,906
Financial Investments Measured at Fair Value Through Other Comprehensive Income / Available for Sale	203,800	203,800
Financial Assets at Amortised Cost - Debt and other Financial Instruments / Financial Investments - Held to Maturity	97,954,958	1,785,716,058
Financial Assets at Amortised Cost - Other Financial Assets	16,617,983	15,963,213
Property, Plant and Equipment	1,762,546,954	1,719,587,171
Right-of-use Lease Assets	369,692,861	-
Intangible Assets	17,663,649	19,647,533
Deferred Tax Assets	73,779,797	73,028,603
Other Assets	186,135,314	181,423,647
<b>Total Assets</b>	<b>51,423,849,228</b>	<b>47,659,525,585</b>



	2018 Rs.	2017 Rs.	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
	6,929,201,053	5,114,694,482	3,468,276,901	2,896,187,378	2,570,624,353	1,879,396,483	1,210,633,975
	6,256,980,109	4,597,260,244	3,244,786,741	2,799,745,875	2,451,800,812	1,791,914,232	1,111,638,186
	3,500,249,672	2,604,049,257	1,558,667,730	1,344,337,892	1,340,464,712	1,008,844,798	536,824,726
	2,756,730,437	1,993,210,987	1,686,119,011	1,455,407,983	1,111,336,100	783,069,434	574,813,460
	248,286,443	189,052,650	109,128,266	50,314,825	43,082,243	31,255,381	21,941,300
	423,934,501	328,381,588	114,361,894	46,243,968	75,741,298	56,226,870	77,054,489
	1,534,557,627	1,186,174,036	997,873,594	918,906,755	741,149,517	402,623,499	285,785,791
	1,894,393,754	1,324,471,189	911,735,577	632,942,731	489,010,124	467,928,186	388,023,458
	875,756,360	598,312,215	398,471,056	260,156,129	185,099,891	173,395,744	156,847,326
	1,018,637,394	726,158,974	513,264,521	372,786,602	303,910,233	294,532,442	231,176,132

	2018 Rs.	2017 Rs.	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
	1,021,651,531	806,206,582	519,315,084	357,722,928	311,612,928	239,915,519	79,321,134
	2,076,192,145	2,243,112,840	1,312,169,859	1,768,499,428	1,146,244,786	698,087,988	210,974,451
	630,286,027	810,190,562	1,679,716,852	1,353,477,948	112,017,262	-	-
	1,938,675	1,761,300	4,067,378	4,822,336	5,101,684	14,329,011	12,283,156
	23,919,000	-	-	-	-	-	-
	-	-	-	-	-	16,472,400	16,472,400
	18,073,714,310	12,466,944,145	7,251,676,658	3,307,495,086	1,149,653,055	631,715,458	305,257,922
	12,753,940,053	12,311,135,772	11,228,228,344	9,261,379,875	8,788,528,303	7,152,325,616	5,518,414,888
	208,703,800	510,085,388	104,658,351	120,529,779	113,965,232	203,800	203,800
	1,920,722,472	1,019,286,080	300,794,154	296,296,416	612,634,968	281,718,777	251,392,472
	16,971,763	20,827,738	15,968,593	11,806,411	7,912,643	6,343,169	17,656,274
	1,445,289,701	315,103,615	194,787,387	181,172,558	127,325,987	116,748,120	105,792,958
	-	-	-	-	-	-	-
	14,568,813	10,297,779	4,129,612	4,188,589	4,355,878	5,997,534	-
	16,019,726	8,525,324	37,147,476	66,516,415	33,785,749	2,142,794	1,092,818
	202,358,542	161,618,964	114,516,593	159,599,520	165,575,145	137,949,156	155,102,646
	38,406,276,558	30,685,096,089	22,767,176,341	16,893,507,289	12,578,713,620	9,303,949,343	6,673,964,919

## TEN YEAR PERFORMANCE

As at 31st March	2020 Rs.	2019 Rs.
<b>Liabilities</b>		
Bank Overdrafts	964,529,904	1,566,068,720
Rental Received in Advance	266,875,302	324,196,627
Financial Liabilities at Amortised Cost - Deposits due to Customers	29,243,912,898	25,436,257,664
Financial Liabilities at Amortised Cost - Interest bearing Borrowings	12,037,795,536	12,497,221,353
Subordinated Term Debts	-	1,031,100,274
Lease Creditors	402,518,972	-
Current Tax Liabilities	223,998,022	509,696,461
Deferred Tax Liabilities	260,945,390	343,733,661
Other Liabilities	1,442,619,116	411,165,825
Retirement Benefit Obligations	102,642,242	69,131,811
<b>Total Liabilities</b>	<b>44,945,837,382</b>	<b>42,188,572,396</b>
<b>Shareholders' Funds</b>		
Stated Capital	1,325,918,000	1,325,918,000
Statutory Reserve Fund	1,208,563,889	957,881,867
Revaluation Reserve	127,146,380	127,146,380
Available For Sale Reserve	-	-
General Reserve	7,500,000	7,500,000
Retained Earnings	3,808,883,577	3,052,506,942
<b>Total Shareholders' Funds &amp; Total Liabilities</b>	<b>51,423,849,228</b>	<b>47,659,525,585</b>

For the year ended 31st March	2020	2019
<b>Information on Ordinary Shares</b>		
Earnings per Share (Rs.)	21.29	20.37
Net Assets per Share (Rs.)	110.05	92.94
Interest Cover (Times)	1.50	1.51
Dividend Per Share (Rs.)	4.00	-
Dividend Payout (%)	18.79	-
Market Value Per Share	53.60	65.70
PE Ratio (Times)	2.52	3.23
<b>Ratios (%)</b>		
Return on Shareholders Funds (%)	19.35	20.63
Liquid Assets as a % of Deposits (%)	26.94	26.31
Growth in Income (%)	11.13	25.91
Growth in Interest Expenses (%)	7.29	29.27
Growth in Other Expenses (%)	6.33	47.02
Growth in Profit After Tax (%)	11.05	10.81
Growth in Advances (%)	5.55	26.37
Growth in Deposits (%)	14.97	14.65
Growth on Shareholders' Funds (%)	18.41	65.73



	2018 Rs.	2017 Rs.	2016 Rs.	2015 Rs.	2014 Rs.	2013 Rs.	2012 Rs.
	1,839,144,681	1,487,193,561	1,224,665,038	463,536,788	233,878,618	360,101,982	82,765,639
	308,688,009	243,881,527	208,870,398	170,421,167	136,928,230	164,624,026	76,741,268
	22,186,879,453	17,863,861,472	14,804,037,141	12,162,096,690	9,299,977,850	6,268,210,181	4,024,406,195
	8,011,421,404	6,043,391,985	2,243,116,105	299,522,795	542,516,837	951,201,653	1,399,833,703
	1,550,967,094	1,700,465,782	1,917,563,133	1,859,653,357	898,088,784	399,255,587	232,764,384
	-	-	-	-	-	-	-
	364,888,378	209,076,751	38,687,596	93,290,845	88,294,895	41,938,998	52,416,626
	385,537,287	270,783,875	182,865,531	88,459,437	74,288,962	65,089,176	40,018,009
	400,427,054	279,104,569	190,776,252	220,230,653	111,124,087	109,699,079	76,721,663
	57,213,310	29,716,585	27,669,222	22,125,917	12,872,166	7,652,838	3,902,921
	35,105,166,670	28,127,476,107	20,838,250,416	15,379,337,649	11,397,970,429	8,367,773,520	5,989,570,408
	287,153,000	287,153,000	287,153,000	287,153,000	287,153,000	287,153,000	287,153,000
	732,136,173	528,408,694	383,176,899	280,523,995	333,906,930	237,580,979	130,551,881
	-	-	-	-	-	-	-
	-	(6,834,947)	(8,009,097)	9,257,510	4,054,987	-	-
	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
	2,274,320,715	1,741,393,235	1,259,105,123	929,735,134	548,128,273	403,941,844	259,189,630
	38,406,276,558	30,685,096,089	22,767,176,342	16,893,507,289	12,578,713,619	9,303,949,343	6,673,964,919
	2018	2017	2016	2015	2014	2013	2012
	23.59	17.48	12.35	8.97	7.31	7.09	5.56
	79.45	61.55	46.42	36.44	28.42	22.53	16.47
	1.54	1.51	1.58	1.47	1.36	1.46	1.72
	6.50	2.50	2.00	1.00	1.50	1.00	0.50
	26.51	14.30	16.19	11.15	20.51	14.11	8.99
	67.00	58.50	53.70	45.00	29.70	28.30	38.80
	2.84	3.35	4.35	5.02	4.06	3.99	6.97
	30.86	28.39	26.61	24.62	25.74	31.46	33.78
	26.40	30.17	26.46	32.04	24.69	19.46	13.46
	35.48	47.47	19.75	12.66	36.78	55.24	89.26
	34.42	67.07	15.94	0.29	32.87	87.93	99.15
	29.37	18.87	8.59	23.98	84.08	40.88	106.06
	40.28	41.48	37.68	22.66	3.18	27.41	114.64
	24.42	34.08	47.03	26.47	27.67	33.27	78.82
	24.20	20.67	21.72	30.78	48.37	55.75	50.06
	29.07	32.59	27.39	28.24	26.12	36.79	30.73

## TEN YEAR PERFORMANCE

### Based on Financial Statements prepared under SLAS

For the year ended 31st March	2011 Rs.
<b>Income Statement</b>	
Gross Income	639,660,503
Interest Income	595,382,652
Interest Expenditure	269,555,960
Net Interest Income	325,826,692
Other Operating Income	44,277,851
Operating Expenditure	138,687,765
Profit Before Taxation	231,416,778
Provision For Taxation	123,710,483
<b>Net Profit</b>	<b>107,706,295</b>

As at 31st March	2011 Rs.
<b>Assets</b>	
Liquid Assets	356,060,756
Investments in Dealing Securities	4,668,076
Investments in Other Securities	15,743,800
Advances	3,256,747,669
Other Assets	177,478,281
Property, Plant & Equipment	78,882,526
<b>Total Assets</b>	<b>3,889,581,108</b>
<b>Liabilities</b>	
Bank Overdrafts	49,660,559
Borrowings	449,322,933
Deposits From Customers	2,596,232,472
Other Liabilities	326,229,359
<b>Total Liabilities</b>	<b>3,421,445,323</b>
<b>Shareholders' Funds</b>	
Stated Capital/Share Capital	287,153,000
Reserves	180,982,785
<b>Total Shareholders' Funds &amp; Total Liabilities</b>	<b>3,889,581,108</b>

For the year ended 31 March	2011
<b>Information on Ordinary Shares</b>	
Earnings per Share (Rs.)	2.63
Net Assets per Share (Rs.)	11.27
Interest Cover (Times)	1.86
Dividend per Share (Rs.)	1.00
Dividend Payout (%)	19.29
Market Value Per Share	49.50
PE Ratio (Times)	18.82
<b>Ratios (%)</b>	
Return on Shareholders Fund (%)	23.01
Liquid Assets as a % Of Deposits (%)	13.71
Growth in Income (%)	50.12
Growth in Interest Expenses (%)	15.22
Growth in Other Expenses (%)	63.57
Growth in Profit After Tax (%)	157.14
Growth in Advances (%)	109.86
Growth in Deposits (%)	127.84
Growth on Shareholders' Fund (%)	75.46



# GLOSSARY OF FINANCIAL TERMS

## Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

## Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

## Actuarial Assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variables that will determine the ultimate cost of providing post employment benefits.

## Actuarial Gains and Losses

Actuarial gains and losses comprise the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

## Actuarial Valuation

Fund value determined by computing its normal cost, actuarial accrued liability, actuarial value of its assets, and other relevant costs and values.

## Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

## Amortised Cost

The amount at which a financial asset or liability is measured at initial recognition, minus any repayment of principal, minus any reduction for impairment or uncollectibility and plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and maturity amount.

## Capital Adequacy Ratio (CAR)

The relationship between capital and the risk weighted assets as prescribed by the Central Bank of Sri Lanka developed by modifying International best practices on maintenance of Capital for financial Institutions, to suit the local requirements.

## Cash Equivalents

Short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Cash Generating Unit (CGU)

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

## Collective Impairment Provision

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not been identified at the Reporting date.

## Contingencies

Conditions or situations at the reporting date, the financial effect of which are to be determined by the future events which may or may not occur.

## Contractual Maturity

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the, remaining outstanding principal will be repaid and interest is due to be paid.

## Corporate Governance

The process by which Corporate Institutions are governed. It involves the way in which authority is exercised over the management and the direction of the company, the supervisions of executive roles and the responsibility and accountability towards owners and other parties.

## Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

## Credit Ratings

An evaluation of a corporate's ability to repay its obligations or likelihood of not defaulting, carried out by an independent rating agency.

## Deferred Tax

Sum set aside in the financial statements for income taxation that would become payable / receivable in a financial year other than the current financial year.

## Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

## Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed.

## Derecognition

Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

## Diluted Earnings Per Share

The earnings per share that would result if all dilutive securities were converted into common shares.

## Earnings Per Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

## Effective Income Tax Rate

Provision for taxation divided by the net profit before taxation.



## GLOSSARY OF FINANCIAL TERMS

### Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

### Equity Instrument

Equity Instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

### Expected Credit Losses (ECL)

Expected credit losses are a probability weighted estimate of credit losses over the expected life of the financial instrument.

### 12 Month Expected Credit Losses (12MECL)

The portion of life time expected credit losses that represent the expected credit losses resulting from default events of a financial instrument that are possible within 12 months after the reporting date.

### Exposure At Default (EAD)

Gross carrying amount of financial instruments subject to impairment calculation.

### Exposure

A claim, contingent claim or position which carries a risk of financial loss.

### Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of reporting period and the date when the financial statements are authorised for issue.

### Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Fair Value through Profit or Loss

A financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as fair value through profit or loss.

### Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in other entity.

### Finance Lease

A finance lease is a lease that transfers substantially all the risk and rewards incidental to ownership of an assets. Title may or may not eventually be transferred.

### Forward-Looking Information

Incorporation of macroeconomic scenarios into the impairment calculations.

### Going Concern

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially scale of its operation.

### Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

### Individually Significant Loans

Exposures which are above a certain threshold decided by the Company's management which should be assessed for objective evidence, measurement, and recognition of impairment on an individual basis.

### Individually Significant Loan Impairment Provision

Impairment measured individually for loans that are individually significant to the Company.

### Intangible Asset

An identifiable non-monetary asset without physical substance.

### Interest Cover

Profits before interest and taxes divided by the interest cost. This ratio measures the number of times Interest is covered by the current year's profits before interest and taxes.

### Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily.

### Life Time Expected Credit Loss (LTECL)

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

### Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

### Market Capitalisation

Number of ordinary shares in issue multiplied by market value of a share and indicates total market value of all ordinary shares in issue.

### Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates and other asset prices.

### Net Assets Value per Share

Shareholders' funds divided by the number of ordinary shares in issue.



### Net Interest Income

The difference between the amounts a financial institution earns on assets such as loans and securities and what it incurs on liabilities such as deposits and borrowings.

### Non-Performing Loans

Loans advances and hire purchase / lease finance of which interest or capital is in arrears for six months or more.

### Non-Performing Ratio

Total non-performing loans expressed as a percentage of the total loans and advances.

### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

### Past Due

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

### Price Earnings Ratio (P/E Ratio)

Market price of an ordinary share divided by earnings per share.

### Projected Unit Credit Method

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

### Probability of Default (PD)

PD is an internal estimate for each borrower grade of likelihood that an obligor will default on an obligation.

### Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Related party Transactions

Is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

### Return on Assets (ROA)

Net profit after tax divided by the average assets.

### Return on Equity (ROE)

Profit after tax less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

### Reverse Repurchase Agreement

Transaction involving the purchase of government securities and resale back to the seller at a given price on a specific future date.

### Revaluation Reserve

Revaluation reserves arising from revaluation of properties owned by the company.

### Risk Weighted Assets

Risk weighted assets is the sum of risk weighted asset amount for credit risk and risk weighted asset amount for operational risk.

### Right Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

### Solvency

The availability of cash over the long term to meet financial commitments as they fall due.

### Solely Payments of Principal and Interest Test (SPPI)

Classification decision for non – equity financial assets under SLFRS 9.

### Total Capital

Total capital is the sum of Tier I capital and Tier II capital.

### Transaction costs

Are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

### Value Added

Value of wealth created by providing financial and other related services less the cost of providing such services.

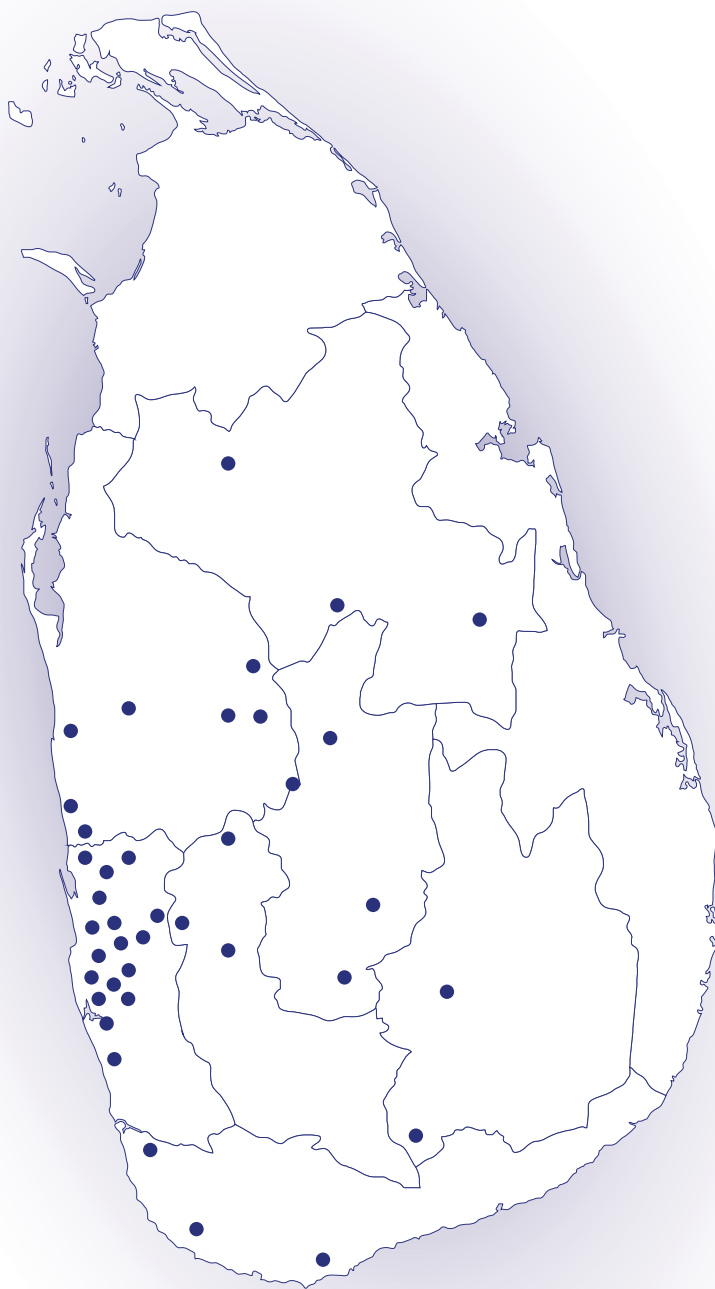
### Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

### Useful Life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

# BRANCH NETWORK



## Branch /Collection Center

Maharagama
Minuwangoda
Kandy
Aluthgama
Ratnapura
Kiribathgoda
Matara
Kurunegala
Negombo
Gampaha
Galle
Chilaw
Kuliyapitiya
Embilipitiya
Moratuwa
Malabe
Panadura
Nugegoda
Bandarawela
Kalutara
Anuradhapura
Kegalle
Rajagiriya
Kaduruwela
Piliyanadala
Warakapola
Wattala
Borella
Mount Lavinia
Balangoda
Uragasmanhandiya
Nuwara Eliya
Hanwella
Wennappuwa
Kurunegala Metro
Dambulla
Bambalapitiya
Avissawella
Narammala
Pelawatta



Address	Telephone	Fax	Contact Person
No. 126/5, High Level Road, Maharagama	011-7487487	011-7487489	Rohan De Silva
No. 28/5A, Kurunegala Road, Minuwangoda	011-7587587	011-7587589	Suren Abeywickrama
No. 161, D.S.Senanayaka Veediya, Kandy	081-7687687	081-7687689	Nissanka Amunugama
No. 375, Galle Road, Aluthgama	034-7687687	034-7687689	Chithraka Hettiarachchi
No. 191, Main Street, Ratnapura	045-7687687	045-7687689	Ranjith Gunarathne
No. 121, Gala Junction, Kandy Road, Kiribathgoda	011-7787787	011-7787789	Dilshan Rathnayake
No. 274/A, Anagarika Dharmapala Mawatha, Matara	041-7687687	041-7687689	Dilak Wanigathunga
No. 395, Colombo Road, Kurunegala	037-7687687	037-7687689	Dushantha De Silva
No. 178, Colombo Road, Negombo	031-7687687	031-7687689	Dinusha Uyangoda
No. 55, Yakkala Road, Gampaha	033-7687687	033-7687689	Ajith Rathnamalala
No. 128, Main Street, Galle	091-7687687	091-7687689	Jagath Mendis
No. 84, Kurunegala Road, Chilaw	032-7687687	032-7687689	Wasantha Senanayake
No. 111, Kurunegala Road, Kuliyapitiya	037-7787787	037-7787789	Chamara Perera
No. 103, New Town Road, Embilipitiya	047-7687687	047-7687689	Janaka Kumara
No. 303/A, Galle Road, Rawathawatta, Moratuwa	011-7807807	011-7807819	Nayana Fernando
No. 824/C, New Kandy Road, Malabe	011-7387387	011-2078671	Priyantha Ratnayaka
No. 293/A, Galle Road, Panadura	038-7687687	038-7687689	Ravindra Kumara
No. 213, High Level Road, Nugegoda	077-7517517	011-7517519	Madhura Jayasekara
No. 197, Badulla Road, Bandarawela	057-7687687	057-7687689	Chaminda Attanayake
No. 302, Galle Road, Kalutara South	034-7387387	034-7387389	Priyantha Silva
No. 521/11, Maithripala Senanayake Mawatha, Anuradhapura	025-7687687	025-7687689	Rangana Rupasinghe
No. 315, Main Street, Kegalle	035-7687687	035-7687689	Priyanka Gamlath
No. 600/A, Nawala Road, Rajagiriya	011-7489489	011-7489489	Dilhan Liyanage
No. 292, Batticaloa Road, Kaduruwela	027-7687687	027-7687689	Sirimal Priyantha
No. 84, Colombo Road, Piliyandala	011-7595595	011-7595599	Saliya Gunasinghe
No. 95, Colombo-Kandy Road, Warakapola	035-7689689	035-7689689	Prabath Dissanayake
No. 520, Negombo Road, Wattala	011-7523523	011-7523529	Gayan Kumarasinghe
No. 58, Castle Street, Borella	011-7876876	011-7876879	Sudheera Sampath
No. 340, Galle Road, Mt. Lavinia	011-7867867	011-7867869	Kumara Thennekumbura
No. 86/C, Barnes Rathwaththa Mawatha, Balangoda	045-7857857	045-7857859	Mahesh Abesingha
No. 52, Main Street, Urugasmanhandiya	091-7796796	091-7796799	Hiranth Dissanayake
No. 78, Kandy Road, Nuwara Eliya	052-7687687	052-7687689	Nilan Siriwardana
No. 133/C, Avissawella Road, Hanwella	036-7687687	036-7687689	Lalantha Fernando
No. 200, Main Street, Wennappuwa	031-7487487	031-7487489	Tephan Sosa
No. 36, Surathissa Mawatha, Kurunegala	037-7889889	037-7517519	Asinil Perera
No. 722A, Anuradhapura Road, Dambulla	066-7687687	066-7687689	Asanka Handagama
No. 45, Baudhaloka Mawatha, Colombo 04	011-7738738	011-7517519	Madushanka Pathirana
No. 19, Colombo Road, Avissawella	036-7867867	036-7867869	Sanjaya Perera
No. 93, Kurunegala Road, Narammala	037-7475475	037-7475479	Nilantha Rathnasiri
No. 730/A, Pannipitiya Road, Pelawatte	011-7724824	011-7724829	Iresh Lakmal

# LIST OF ABBREVIATIONS

<b>AGM</b>	Annual General Meeting
<b>ALCO</b>	Assets and Liabilities Management Committee
<b>ASPI</b>	All Share Price Index
<b>AWDR</b>	Average-Weighted Deposit Rate
<b>AWFDR</b>	Average Weighted Fixed Deposit Rate
<b>AWPLR</b>	Average Weighted Prime Lending Rate
<b>BFI</b>	Banking Finance Insurance
<b>BN</b>	Billion
<b>BOD</b>	Board of Directors
<b>CAR</b>	Capital Adequacy Ratio
<b>CBSL</b>	Central Bank of Sri Lanka
<b>CCPI</b>	Colombo Consumers Price Index
<b>CDS</b>	Central Depository System
<b>CFM</b>	Close Family Members
<b>CGU</b>	Cash Generating Unit
<b>CIL</b>	Crop Insurance Levy
<b>CRM</b>	Customer Relationship Management
<b>CSE</b>	Colombo Stock Exchange
<b>CSR</b>	Corporate Social Responsibility
<b>DBP</b>	Defined Benefit Plan
<b>DGM</b>	Deputy General Manager
<b>DRL</b>	Debt Repayment Levy
<b>EAD</b>	Exposure at Default
<b>ECL</b>	Expected Credit Loss
<b>EIR</b>	Effective Interest Rate
<b>EMDE's</b>	Emerging Market and Developing Economies
<b>EPF</b>	Employees' Provident Fund
<b>EPS</b>	Earnings Per Share
<b>ESC</b>	Economic Service Charge
<b>ETF</b>	Employees' Trust Fund

<b>FVTPL</b>	Fair Value through Profit or Loss
<b>GDP</b>	Gross Domestic Product
<b>HP</b>	Hire Purchase
<b>ICASL</b>	The Institute of Chartered Accountants of Sri Lanka
<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>IFRS</b>	International Financial Reporting Standard
<b>IRMC</b>	Integrated Risk Management Committee
<b>IT</b>	Information Technology
<b>KMP</b>	Key Management Personnel
<b>KPIs</b>	Key Performance Indicators
<b>L &amp; R</b>	Loans and Receivables
<b>LAR</b>	Liquid Asset Ratio
<b>LCB</b>	Licensed Commercial Bank
<b>LFC</b>	Licensed Finance Companies
<b>LGD</b>	Loss Given Default
<b>LKAS</b>	Sri Lanka Accounting Standards
<b>LKR</b>	Sri Lankan Rupees
<b>LTV</b>	Loan to Value
<b>MD</b>	Managing Director
<b>MN</b>	Million
<b>NBFI</b>	Non-Bank Financial Institutions
<b>NBT</b>	Nation Building Tax
<b>NII</b>	Net Interest Income
<b>NIM</b>	Net Interest Margin
<b>NPA</b>	Non-Performing Advances
<b>NPL</b>	Non-Performing Loan
<b>OCI</b>	Other Comprehensive Income
<b>PA</b>	Per Annum
<b>P/E</b>	Price Earnings Ratio
<b>PAT</b>	Profit after Tax
<b>PAYE</b>	Pay As You Earn

<b>PD</b>	Probability of Default
<b>PLC</b>	Public Limited Company
<b>PUC</b>	Projected Unit Credit
<b>ROA</b>	Return On Assets
<b>ROCE</b>	Return on Capital Employed
<b>ROE</b>	Return On Equity
<b>RSA</b>	Rate Sensitive Assets
<b>RSL</b>	Rate Sensitive Liabilities
<b>RWA</b>	Risk Weighted Assets
<b>SBU's</b>	Strategic Business Units
<b>SEC</b>	Securities and Exchange Commission
<b>SLAS</b>	Sri Lanka Accounting Standard
<b>SLFRS</b>	Sri Lanka Financial Reporting Standard
<b>SME</b>	Small and Medium Enterprises
<b>TB</b>	Treasury Bills
<b>VAT</b>	Value Added Tax
<b>WHT</b>	Withholding Tax
<b>WIP</b>	Work In Progress



# CORPORATE INFORMATION

## Corporate Information

### Name of Company

Vallibel Finance PLC

### Legal Form

Public Limited Liability Company  
incorporated in Sri Lanka.

A Finance Company licensed under the  
Finance Business Act No.42 of 2011.

A Registered Finance Leasing  
Establishment in terms of Finance Leasing  
Act No.56 of 2000.

An Approved Credit Agency under the  
Mortgage Act No.6 of 1949 and Trust  
Receipt Ordinance No.12 of 1947.

### Date of Incorporation

5th September 1974

### Company Registration Number

PB 526/PQ

### Board of Directors

Mr. R M Karunaratne - Acting Chairman  
Mr. S B Rangamuwa - Managing Director  
Mr. K D D Perera - Executive Director  
Mr. S S Weerabahu - Executive Director  
Mr. T Murakami  
Mr. K D A Perera  
Mr. A Dadigama  
Mr. J Kumarasinghe

### Registered Office/Head office

No. 310,  
Galle Road  
Colombo 03.

### VAT registration no.

104040950 7000

### Telephone

(+94) 11-2370990

### Facsimile

(+94) 11-4393129

### Website

www.vallibelfinance.com

## Secretaries and Registrars

P W Corporate Secretarial (Pvt) Ltd  
No. 3/17, Kynsey Road  
Colombo 08.  
Telephone: (+94) 11-4640360-3  
Fax: (+94) 11-4740588  
Email: pwcs@pwcs.lk

## External Auditors

KPMG  
No. 32A, Sir Mohamed Macan Marker  
Mawatha  
P.O Box 186  
Colombo 03.  
Telephone: (+94) 11-5426426  
Fax: (+94) 11-2445872

## Internal Auditors

Ernst & Young Advisory Service (Pvt) Ltd  
No.201, De Saram Place  
P.O Box 101  
Colombo 10.  
Telephone: (+94) 11-2463500  
Fax: (+94) 11-2697369

## Bankers

### Bank of Ceylon

Corporate Branch  
No.4, Bank of Ceylon Mawatha  
Colombo 01.

### People's Bank

Headquarters Branch  
No.75, Sir Chittampalam A Gardiner  
Mawatha  
Colombo 02.

### Seylan Bank PLC

Millennium Branch  
90, Galle Road  
Colombo 03.

### Sampath Bank PLC

Headquarters Branch  
No 110, Sir James Peiris Mawatha  
Colombo 02.

### Pan Asia Banking Corporation PLC

Head Office Branch  
No.450, Galle Road  
Colombo 03.

## National Development Bank PLC

Head Office Branch  
No.1825, 40, Nawam Mawatha  
Colombo 02.

## Hatton National Bank PLC

Kollupitiya Branch  
No. 471, Galle Road  
Colombo 03.

## Commercial Bank

Kollupitiya Branch  
No 285, Galle Road  
Colombo 03.

## Cargills Bank

No.696,  
Galle Road  
Colombo 03.

## Union Bank

Head Office Branch  
No. 64, Galle Road  
Colombo 03.

## National Savings Bank

Head Office Branch  
No1732,  
Galle Road,  
Colombo 03.

## DFCC Bank

No 73/5,  
Galle Road,  
Colombo 03.

## Corporate Memberships and Associations

The Finance Houses Association of  
Sri Lanka

Leasing Association of Sri Lanka

The Ombudsman Sri Lanka (Guarantee)  
Limited

The Ceylon Chamber of Commerce

## Subsidiary Company

Vallibel Properties Limited

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Vallibel Finance PLC will be held on 16th July 2020 at 10.00 a.m at the "Eagle on the Edge", Waters Edge, No. 316, Pannipitiya Road, Sri Jayawardenepura Kotte for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of Company and the Statement of Accounts for the year ended 31st March 2020 with the Report of the Auditors thereon.
2. To re-elect Mr. K D A Perera who retires by rotation in terms of Articles 87 and 88 of the Articles of Association, as a Director.
3. To re-appoint the retiring Auditors Messrs KPMG, Chartered Accountants as the Company's Auditors and to authorize the Directors to determine their remuneration.
4. To authorize the Directors to determine donations for the year ending 31st March 2021 and upto the date of the next Annual General Meeting.

By Order of the Board  
**VALLIBEL FINANCE PLC**



P W Corporate Secretarial (Pvt) Ltd  
Secretaries

2nd June 2020  
Colombo

## Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote on behalf of him/her.
2. A proxy need not be a shareholder of the Company.
3. The Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy must be deposited at the Registered Office of the Company; No. 310, Galle Road, Colombo 03, not less than forty seven (47) hours prior to the time appointed for the meeting.





# FORM OF PROXY

I/We\* .....holder of NIC No. ....  
 of .....  
 being a shareholder / shareholders\* of Vallibel Finance PLC hereby appoint .....  
 holder of NIC No. ....of ..... or failing him\*

Mr. R M Karunaratne	or failing him*
Mr. Dhammika Perera	or failing him*
Mr. S B Rangamuwa	or failing him*
Mr. T Murakami	or failing him*
(Alternate Director- Mr. H Ota)	
Mr. K D A Perera	or failing him*
Mr. A Dadigama	or failing him*
Mr. S S Weerabahu	or failing him*
Mr. J Kumarasinghe	

as my/our\* proxy to represent me/us\*, to speak and to vote as indicated hereunder for me/us\* and on my/our\* behalf at the Annual General Meeting of the Company to be held on 16th July 2020 at 10.00 a.m and at every poll which may be taken in consequence of the aforesaid Meeting and at any adjournment thereof.

	For	Against
1. To re-elect Mr. K D A Perera who retires by rotation in terms of Articles 87 and 88 of the Articles of Association, as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-appoint the retiring Auditors Messrs KPMG, Chartered Accountants as the Company's Auditors and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
3. To authorize the Directors to determine donations for the year ending 31st March 2021 and up to the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our\* hand(s) this ..... day of ..... Two Thousand and Twenty

.....  
 Signature of Shareholder(s)

*\*Please delete what is inapplicable.*

## Note:

1. Instructions as to completion appear on the reverse.
2. A Proxy need not be a shareholder of the Company.

## FORM OF PROXY

### Instructions for completion

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and the National Identity Card number and signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company No. 310, Galle Road, Colombo 03, Sri Lanka, forty seven (47) hours prior to the time appointed for the Meeting.
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your Proxy, please insert the relevant details in the space provided (above the names of the Board of Directors) on the Proxy Form.
4. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney must be deposited at the Secretaries' Office (i.e. P W Corporate Secretarial Limited, No 3/17, Kynsey Road, Colombo 08) for registration.
5. If the appointor is a Company / Incorporated body this Form must be executed in accordance with the Articles of Association / Statute.



# STAKEHOLDER FEEDBACK FORM

Your relationship with Vallibel Finance PLC (Please tick 'x' the appropriate box):

Shareholder <input type="checkbox"/>	Employee <input type="checkbox"/>	Government Institutions / Regulators <input type="checkbox"/>
Customer <input type="checkbox"/>	Business Partner/Supplier <input type="checkbox"/>	Society/Community <input type="checkbox"/>

Share your views about the Integrated Annual Report 2019/2020:

Theme and Layout	Content and Scope	Comprehensive and User Friendly
Excellent <input type="checkbox"/>	Excellent <input type="checkbox"/>	Excellent <input type="checkbox"/>
Good <input type="checkbox"/>	Good <input type="checkbox"/>	Good <input type="checkbox"/>
Average <input type="checkbox"/>	Average <input type="checkbox"/>	Average <input type="checkbox"/>
Poor <input type="checkbox"/>	Poor <input type="checkbox"/>	Poor <input type="checkbox"/>

Feedback & any suggestions to improve content:

.....

.....

.....

.....

Any other suggestions, improvements & concerns to be addressed:

.....

.....

.....

.....

Your Name : .....

Contact No. : .....

Email : .....

Permanent Mailing Address: .....

Your Organization & Designation (If Applicable): .....

You can post or Email your feedback to:

Chief Financial Officer  
Vallibel Finance PLC  
No. 310, Galle Road,  
Colombo 03.  
Tel: 011-4393100  
Fax: 011-2713375  
Email: tellus@vallibelfinance.com





## NOTES



Designed & produced by

emagewise

Printed by Gunaratne Offset (Pvt) Ltd.



